

REPUBLIC OF KENYA



Enhancing Accountability

**THE NATIONAL ASSEMBLY
PAPERS LAID**

REPORT

DATE: 14 OCT 2025

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**TABLED
BY:**

DEPUTY MAJORITY LEADER
HON. OWEN BAYA

**CLERK-AT
THE-TABLE:**

A. SAIBUKO

THE AUDITOR-GENERAL

ON

**PROMOTION OF YOUTH EMPLOYMENT AND
VOCATIONAL TRAINING IN KENYA
(PHASE II) PROJECT LOAN NO. BMZ 2018 65 120**

FOR THE YEAR ENDED

30 JUNE, 2025

**STATE DEPARTMENT FOR TECHNICAL,
VOCATIONAL EDUCATION AND TRAINING**



THE NATIONAL ASSEMBLY

INDIA

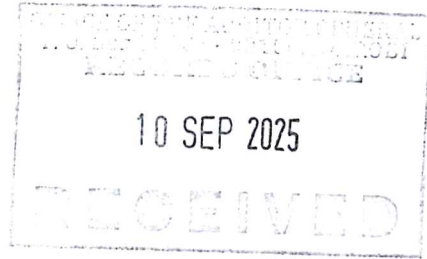
DATE

MEMBER

NAME

...

...



**PROJECT NAME: PROMOTION OF YOUTH EMPLOYMENT AND VOCATIONAL
TRAINING IN KENYA (PHASE II)**

**IMPLEMENTING ENTITY: MINISTRY OF EDUCATION
STATE DEPARTMENT FOR TECHNICAL, VOCATIONAL EDUCATION AND
TRAINING**

PROJECT GRANT/CREDIT NUMBER: BMZ No: 2018 65 120

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

30 JUNE, 2025

**Transitional IPSAS Financial Statements/Prepared in accordance with the Accrual Basis of Accounting
Method under the International Public Sector Accounting Standards (IPSAS)**

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

Table Contents	Page
1. Acronyms and Definition of Terms.....	ii
2. Project Information and Overall Performance.....	iii
3. Statement of Performance against Project's Predetermined Objectives.....	xiii
4. Environmental and Sustainability Reporting.....	xvi
5. Statement of Project Management Responsibilities.....	xviii
6. Report of the Independent Auditor on Financial Statements for Promotion of Youth Employment and Vocational Training in Kenya (Phase II).....	xx
7. Statement of Financial Performance for the Year Ended 30 June, 2025.....	1
8. Statement of Financial Position as at 30 June, 2025.....	2
9. Statement of Changes in Net Assets for the year ended 30 June, 2025.....	3
10. Statement of Cashflow for the year ended 30 June, 2025.....	4
11. Statement of Comparison of Budget and Actual Amounts for the Year ended 30 June, 2025.....	5
12. Notes to the Financial Statements.....	6
13. Annexes.....	20

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

1. Acronyms and Definition of Terms

BoQs	Bill of Quantities
CoE	Centre of Excellence
Comparative FY	Financial year preceding the current financial year.
CSR	Corporate Social Responsibility
GoK	Government of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
ICT	Information and Communication Technology
IFMIS	Integrated Financial Management Information System
IPSAS	International Public Sector Accounting Standards
Ksh	Kenya Shilling
MDAs	Ministries, Departments and Agencies
Msc	Masters of Science
OSHA	Occupational Safety and Health Act
PAC	Public Accounts Committee
PFM	Public Finance Management.
PPE	Property, plant and Equipment
PSASB	Public Sector Accounting Standards Board
PSC	Public Service Commission
SDPW	State Department for Public Works
SDTVET	State Department for Technical, Vocational Education and Training
SMART	Specific, Measurable, Achievable, Realistic and Time-bound
TTI	Technical Training Institute
TVET	Technical, Vocational Education and Training
TVETA	Technical, Vocational Education and Training Authority

2. Project Information and Overall Performance

2.1 Name and registered office

Name

The project's official name is 'Promotion of Youth Employment and Vocational Training in Kenya, (Phase II)'

Objective

Establish Centres of excellence for cooperative training at selected public Technical Vocational Education and Training institutes that shall offer high quality labor market-oriented training to Kenyan youth in specific trades with a strong engagement of surrounding industries for improved employment.

Address

The project headquarters offices are in Nairobi (City), Nairobi County, Kenya.

The address of its registered office is:

Ministry of Education,
State Department of Vocational and Technical Training,
Jogoo House 'B' 8th Floor
P.O. Box 9583-00200
Nairobi, Kenya

Contacts:

The following are the project contacts

P.O. Box: 9583-00200

Telephone: (254) 0203318581

E-mail: pstvet@education.go.ke

Website: www.education.go.ke

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

Project information and overall performance (continued)

2.2 Project Information

Project Start Date:	The project start date is 01.11.2022
Project End Date:	The project end date is 30.06.2027
Project Coordinator:	Ms. Stellamaris Mathuku
Project Development Partner:	The project sponsor is GoK and KfW Development Bank (Germany)

2.3 Project Overview

Line Ministry and State/ County Department	State Department of Technical, Vocational and Education Training (SDTVET)
Project number	Loan BMZ No. 2018 65 120
Strategic goals of the project	The strategic goals of the project are to enhance employability of youth through dual training: (i) Establish centres of excellence in duo training (ii) Enhance participation of industry in training
Summary of Project Strategies for achievement of strategic goals	The project management aims to achieve the goals through the following means: (i) Infrastructure expansion (ii) Enhance training equipment (iii) Capacity building of TVET trainers
Other important background information of the project	The project Phase II Targets <ol style="list-style-type: none"> 1. Kitale National Polytechnic – Agricultural Machinery 2. Ramogi Institute of Applied Technology - Refrigeration 3. Nyamira National Polytechnic(formerly Ekerubo Getai TTI - Solar Energy and Agricultural plant Technician 4. Bumbe Technical Training Institute - Automotive Mechatronics
Areas that the project was formed to intervene	The project was formed to intervene in the following areas: (i) To equip Youth with relevant labour market-oriented skills.

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

	(ii) Increase transition of youth from basic education into Technical and Vocational Education and Training and reduce unemployment (iii) Improve the quality and relevance of Technical and Vocational Education and Training for employable labour
Project duration	Approximately Five Years

Project Information and Overall Performance (Continued)

2.4 Bankers

- (i) The project does not have a separate bank account for its operations. It shares the Development Bank account for the State Department of Vocational and Technical Training at the Central Bank of Kenya.

2.5 Independent Auditor

The project is audited by the
 Auditor-General
 Office of the Auditor General
 Anniversary Towers, University Way
 P.O. Box 30084-00100
 Nairobi, Kenya

2.6 Roles and Responsibilities

Names	Title designation	Key qualification	Responsibilities
Gopa Infra GmbH	Implementing Consultants	International Consultancy	Support Ministry of Education on implementation of all aspects of the project (designs, equipment incubation etc)
Stellamaris Mathuku	Principal Vocational Technical Education Officer	Bachelor of Science Information Technology	Project Coordinator

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

Emmanuel Ngeno	Senior Vocational Technical Education Officer	Bachelor of Science Civil Engineering	Project Technical Officer
Maliyun Hassan	Economist I	Masters (Economics Cooperation and human Development)	Project Monitoring and Evaluation Officer
Joseph Kuria	Assistant Accountant General	Msc Commerce, Certified Public Accountant	Project Accountant
Miriam Chepchumba	Finance Officer I	Bachelor of Business Management	Project Finance Officer
Fred Omondi	Principal Supply Chain Management officer	Masters Supply Chain Management	Project Supply Chain Officer

2.7 Funding summary

The Project is for a duration of five years from 2022 to 2027 with an approved budget of Euros 13,000,000 equivalent to Kshs 1,495,000,000 as highlighted in the table below:

(Exchange rate at 1 EUR= Ksh. 115)

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

Project information and overall performance (continued)

Below is the funding summary:

A. Source of Funds

Source of funds	Development Partner Commitment-		Amount received to date – (30th June, 2025)		Undrawn balance to date	
	<i>Development Partner Currency (Eur)</i>	<i>KShs</i>	<i>Development Partner currency (Eur)</i>	<i>KShs</i>	<i>Development Partner currency (Eur)</i>	<i>KShs</i>
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
LOAN SUMMARY						
KfW - Germany	12,000,000	1,380,000,000	658,644	75,744,076	11,341,356	1,304,255,924
Total Loans	12,000,000	1,380,000,000	658,644	75,744,076	11,341,356	1,304,255,924
Counter Part funds						
Counter Part funds Government of Kenya	200,000	23,000,000	199,916	22,990,369	84	9,631
Total Funding Summary	12,200,000	1,403,000,000	858,560	98,734,445	11,341,440	1,304,265,555

Notes

- i) The total approved budget for the project is Euros 13,000,000 (Exchange rate at 1EUR= 115 Kshs.), however Euros 800,000 is to be financed in kind by the GoK Counterpart funding.

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

Project information and overall performance (continued)

B. Application of Funds

Application of Funds	Amount received to date – (30th June, 2025)		Cumulative Amount paid to date – (30th June, 2025)		Unutilised balance to date (30th June, 2025)	
	<i>Development Partner Currency (Eur)</i>	<i>KShs</i>	<i>Donor Partner currency (Eur)</i>	<i>KShs</i>	<i>Development Partner currency (Eur)</i>	<i>KShs</i>
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
LOAN SUMMARY						
KfW - Germany	658,644	75,744,076	658,644	75,744,076	0	0
Total Loans	658,644	75,744,076	658,644	75,744,076	0	0
Counter Part funds						
Counter Part funds Government of Kenya	199,916	22,990,369	199,916	22,990,369	0	0
Total Funding Summary	858,560	98,734,445	858,560	98,734,445	0	0

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

Project information and overall performance (continued)

2.8 Summary of Overall Project Performance:

- i) The overall budget absorption for the project stood at 71% with a total expenditure of Ksh. 35,584,036 against an approved budget of Ksh. 59,657,474 bringing the cumulative expenditure for the project since inception to Ksh. 98,734,445.

	Budget	Actual	Absorption rate
FY 2024/25	59,657,474	35,584,036	71%
Cumulative Expenditure	1,403,000,000	98,734,445	7.04%

- ii) Physical progress based on outputs and outcomes since project commencement,

Key activities	Output	Progress
Rehabilitation, extension and/or construction of buildings: <ul style="list-style-type: none"> Development of detailed construction and investment plan Tender of construction measures and contract negotiations with construction companies Construction/Rehabilitation measurements for TTIs Construction supervision Commissioning, approval and handover to the partner 	<p>Rehabilitated and constructed Workshops at Bumbe TTI</p> <p>Rehabilitated and constructed Workshops at Kitale National Polytechnic</p> <p>Rehabilitated and constructed Solar Energy, mechanical plant and Agricultural plant Workshops at Nyamira National Polytechnic</p> <p>Rehabilitated and constructed multifunctional Refrigeration and Air-Conditioning AC Workshops at Ramogi Institute of Advanced Technology</p>	<p>Structural drawings and designs received preliminary approval</p> <p>Detailed Structural drawings and designs and BoQs done and awaits final approval after correction from State Department of Public Works</p>
Equipment of the workshop and other buildings: <ul style="list-style-type: none"> Development of detailed investment plan 	<p>Procured technical equipment of the workshops and other rooms</p>	<p>Tenders G01 and G02 for procurement of equipment advertised awaiting evaluation</p>

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

<ul style="list-style-type: none"> • Tender of the equipment and contract negotiations with supply companies • Equipment of workshops • Furnishing of all relevant buildings • Equipment with training and teaching material • Oversight of deliveries and installations • Financial management and verification of invoices 	<p>The staff of the CoEs are trained in the usage and maintenance of the equipment and sustainable operation of the CoE</p>	<p>Pending procurement of equipment</p>
<p>Sustainability and teaching quality (being carried out through the implementing consultant)</p> <ul style="list-style-type: none"> • Training measures for teachers and management personnel to ensure an efficient didactical utilization of the equipment • Developing of a maintenance and servicing concept • Training of school management regarding the development of business plans for the operation of the CoE • Selective support for the coordination and intensification of the cooperation of the private sector with the TTIs • Development of teaching material and an assessment tool as well as material of train the trainers • Public relations/ support to enhance image of vocational training 	<p>Development and implementation of incubation centre concept</p> <p>Strengthened private sector supports to TVET training</p>	<p>Incubation centre concept developed</p> <p>100 students admitted for training</p> <p>Draft Dual training policy developed.</p>

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

iii) The project's absorption rate for each year since commencement is as analysed below.

<i>Financial Year</i>	<i>Overall Absorption Rate against final approved Budget (%)</i>
<i>2024 - 2025</i>	<i>71</i>
<i>2023 - 2024</i>	<i>41</i>
<i>2022 - 2023</i>	<i>114</i>

iv) Some of the implementation challenges realised and the recommended steps to address them is as outlined:

CHALLENGES	RECOMMENDATION
i. Delayed approval of final architectural Mechanical and structural designs	i. Strengthen the collaboration between SDPW and the SDTVET
ii. Lack of budget for MOE officers to monitor the project activities.	ii. Mobilize resources from other budget lines in the state department.

2.9 Summary of Project Compliance:

- i) The project complied with all the laws and regulations in place as is required and thus did not experience any cases of non – compliance in the year under review.
- ii) The project has in place a Project Steering Committee to oversee the implementation of the project by the project coordinating unit and the project consultant, all of whom are guided by a singular objective of ensuring a successful implementation of the project within the set guidelines, laws and regulations governing project implementation in the country

3. Statement of Performance against Project's Predetermined Objectives

Introduction

Section 81(2)(f) /Section 164 (2)(f) of the Public Finance Management Act, 2012, requires that the Accounting Officer include a statement of the national/county government entity's performance against predetermined objectives at the end of each financial year.

The key development objectives of the project's agreement are to:

- a) Construct and/or rehabilitate of four training workshops
- b) Install and operationalize technical equipment for four course programs
- c) Trained staff of TVET institutions in the usage and maintenance of the equipment as well as the sustainable operation of the CoE
- d) Strengthen private sector supports to TVET training delivery
- e) Development and implement an incubation centre concept

Progress on the attainment of strategic development objectives

To implement and cascade the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic, and time-bound (SMART) and converted into development outcomes. Attendant indicators were identified to track progress and performance measurement.

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

Below, we provide the progress on attaining the stated objectives:

Project	Objective	Outcome	Indicator	Performance
Promotion of youth employment and Vocational training in Kenya (Phase II)	To establish Centres of excellence for cooperative training at selected public Technical Vocational Education and Training institutes that shall offer high quality labor market-oriented training to Kenyan youth in specific trades with a strong engagement of surrounding industries for improved employment.	Kenyan youth have successfully completed high-quality labor market-oriented TVET (quality and practice oriented) at one of the newly established CoE for cooperative training.	100 trainees and 60 trainers (TOT) have successfully enrolled for incubation at TVET CoEs: Trainees successfully completed TVET Labour market orientation – in-company training	Pending rehabilitation, construction and procurement of equipment for training to start.
		Constructed and/or rehabilitated of training workshops	Four workshops rehabilitated or constructed	Detailed structural drawings BoQs and designs developed, awaiting approvals by SDPW
		Installed and operationalized technical equipment	Equipment Procured and installed	Awaiting tender evaluation
		Trained staff of TVET institutions in the usage and maintenance of the equipment as well as the sustainable operation of the CoE	Number of trainers and technicians trained on equipment utilization and maintenance	Pending procurement of equipment
		Strengthened private sector supports to TVET training delivery	Increased collaborations between beneficiary TVET institutions and industries	Partnerships between industry and beneficiary institutions to be increased

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

		Developed and implemented incubation center concept	Number of incubation centres and startups	Concept on incubation centre developed
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4. Environmental and Sustainability Reporting

1. Sustainability strategy and profile

The government has provided support for the project by committing resources to the project in terms of human capital and space. To ensure full ownership and appreciation of the project, the trainers, institution managers and the policy makers are part of the governance structure of the implementation of the project.

2. Environmental performance

The state department has a draft policy of greening of TVET. The TVET institutions are integrating green skills into their programs, offering courses in renewable energy, sustainable agriculture, water conservation, and waste management.

The project is contributing towards use of renewable energy using solar power to supplement the grid power supply in the planned training workshops.

3. Employee welfare

The welfare management of the project implementation team under the ministry of education is guided by the following legal and regulatory documents

- Public Service Commission (PSC) Act, 2017 and Regulations: Governs fair and transparent recruitment processes, setting standards for job advertising, interviews, and appointments.
- HR Policies and Procedures Manual (2016): Provides guidelines for recruitment, performance management, employee welfare, and dispute resolution.
- Diversity Policy (2016): Ensures inclusive and fair hiring practices reflective of Kenya's demographic diversity.

The project adheres to the Occupational Safety and Health Act (OSHA) 2007, ensuring a safe working environment. Compliance includes accessible facilities for persons with disabilities and gender-sensitive policies to maintain an inclusive workplace.

4. Marketplace practices-

a) Responsible Supply chain and supplier relations-

The project follows the Public Procurement and Assets Disposal Act of 2015 and KfW procurement guidelines in all the project procurement activities.

Tenders will be advertised in the newspaper, at the ministry of education website and the development partner's website.

b) Responsible ethical practices

All key project implementers have strategically placed corruption boxes, dedicated emails and telephone numbers for reporting corruption cases.

All key project implementers, have posters and signage to indicate corruption free zones. Sensitization is done to staff students and other stakeholders during forums such as staff meetings.

c) Regulatory impact assessment

The implementation of the project has complied with regulations concerning access by communities to resources such as water ways, community paths and roads.

5. Community Engagements

The project has been involved in several CSR activities including:

1. Mentoring of other TVET institutions on dual training.
2. Tree planting in the respective regions to demonstrate the commitment to sustainability and make a positive impact. This impactful project underscores the State Department's unwavering commitment to environmental sustainability, climate change mitigation, and the long-term well-being of Kenyan communities

5. Statement of Project Management Responsibilities

The Principal Secretary for the State Department for Technical, Vocational Education and Training (Phase II) and the Principal Vocational Technical Education Officer are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for the financial year ended on June 30, 2025.

This responsibility includes (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period, (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the project, (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud, (iv) safeguarding the assets of the project, (v) Selecting and applying appropriate accounting policies and (v) Making accounting estimates that are reasonable in the circumstances.

The Principal Secretary for the State Department for Technical, Vocational Education and Training (Phase II) and the Project Coordinator accept responsibility for the Project's financial statements, which have been prepared on the accrual basis method of financial reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

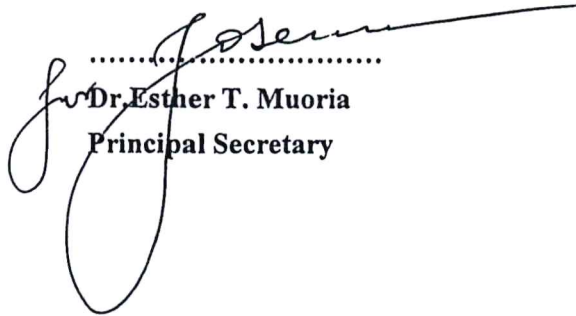
The Principal Secretary for the State Department for Technical, Vocational Education and Training (Phase II) and the Project Coordinator are of the opinion that the Project's financial statements give a true and fair view of the state of the Project's transactions during the financial year ended June 30, 2025, and of the Project's financial position as at that date. The Principal Secretary for the State Department for Technical, Vocational Education and Training and the Project Coordinator further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements and the adequacy of the systems of internal financial control.


The Principal Secretary for the State Department for Technical, Vocational Education and Training and the Project Coordinator confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

Approval of the Project Financial Statements

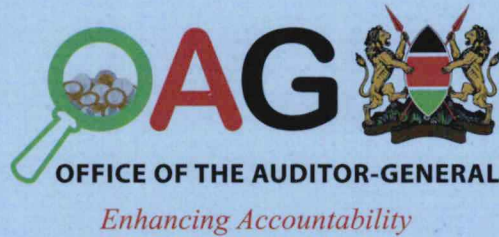
The Project financial statements were approved by the Principal Secretary State Department for Technical, Vocational Education and Training and the Project Coordinator on _____ 2025 and signed by:


.....
Dr. Esther T. Muoria
Principal Secretary


.....
Stellamaris Mathuku
Project Coordinator

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON PROMOTION OF YOUTH EMPLOYMENT AND VOCATIONAL TRAINING IN KENYA (PHASE II) PROJECT LOAN NO. BMZ 2018 65 120 FOR THE YEAR ENDED 30 JUNE, 2025 - STATE DEPARTMENT FOR TECHNICAL, VOCATIONAL EDUCATION AND TRAINING

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.

An Unmodified Opinion is issued when the Auditor-General concludes that 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 aim to address the Auditor-General's statutory roles and responsibilities 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

Opinion

I have audited the accompanying financial statements of Promotion of Youth Employment and Vocational Training in Kenya (Phase II) Project Loan No. BMZ 2018 65 120 - State

Report of the Auditor-General on Promotion of Youth Employment and Vocational Training in Kenya (Phase II) Project Loan No. BMZ 2018 65 120 For The Year Ended 30 June, 2025 - State Department For Technical, Vocational Education and Training

Department For Technical, Vocational Education and Training set out on pages 1 to 21, 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 the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Promotion of Youth Employment and Vocational Training in Kenya (Phase II) Project Loan No. BMZ 2018 65 120 - State Department For Technical, Vocational Education and Training 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 the Loan Financing Agreement No. BMZ 2018 65 120 between Kreditanstalt fur Wiederaufbau (KfW) and the Government of Kenya dated 30 December, 2019 and comply with the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Promotion of Youth Employment and Vocational Training in Kenya (Phase II) Project Loan No. BMZ 2018 65 120 Management in accordance with ISSAI 130 on the 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 opinion.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.50,000,000 and Kshs.35,584,036 respectively, resulting to an under-funding of Kshs.14,415,964 or 29% of the budget.

The under-funding affected the planned activities of the Project and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year Matter

In the audit report of the previous year, an issue was raised under Report on Lawfulness and Effectiveness in use of Public Resources. However, Management had not resolved the issue as at 30 June, 2025.

Other Information

Conclusion

The Management is responsible for the Other Information set out on pages iii to xix which comprise of Project Information and Overall Performance, Statement of Performance Against Project's Predetermined Objectives, Environmental and Sustainability Reporting and Statement of Project Management Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

Basis for Conclusion

In connection with my audit on Project 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, I am required to report that fact. I have nothing to report in this regard.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAIs 3000 and 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, except for the effects of the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management, and overall governance were not effective.

Basis for Conclusion

Lack of Audit Committee and Failure to Assess Effectiveness of the Project

During the year under review, Management did not constitute an Audit Committee to oversight the Project contrary to the Regulation 174(1) Public Finance Management (National Government Regulations), 2015, which requires each national government entity to establish an audit committee. Further, the internal audit unit did not assess effectiveness of the Project as required by Regulation 166 (1) and (2) of the Public Finance Management (National Government Regulations), 2015 which states that, 'the internal audit unit of a National Government entity to assess effectiveness of the Project through an internal performance appraisal commenting on its effectiveness in the annual report to The National Treasury'.

In the circumstances, the Project did not benefit from the oversight role and advise from the Audit Committee and the internal audit function.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The Standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk Management and overall governance were operating effectively in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT OF OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kreditanstalt für Wiederaufbau (KfW), I report based on the audit, that:

- i. 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;

- ii. In my opinion, adequate accounting records have been kept by the Project Management, so far as appears from examination of those records; and,
- iii. The Projects financial statements are in agreement with the accounting records and returns.

Basis for Conclusion

The Kreditanstalt für Wiederaufbau (KfW) requires that I report on the legal or regulatory requirements, or on performance information disclosed. These matters require expressing a separate opinion as to Project's compliance with laws and regulations. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management, and overall governance.

In preparing the financial statements, Management is responsible for assessing the Project's ability to sustain its services, disclosing, as applicable, matters related to the sustainability of services and using the applicable basis of accounting unless Management is aware of the intentions to terminate the Project or to cease operations.

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

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

Those charged with governance are responsible for overseeing the Project's financial reporting process, reviewing the effectiveness of how the 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 for 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 IFPP 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

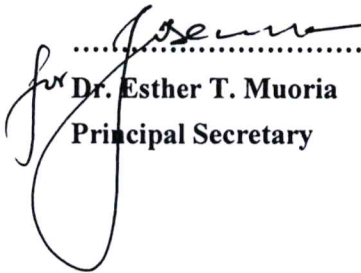
30 September, 2025


**Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025**

7. Statement of Financial Performance for the Year Ended 30 June, 2025.

	Notes	BY: 2024/2025 Kshs
Revenue		
Revenue Transfers	6	35,584,036
Total Revenue		35,584,036
Expenses		
Use of goods and services	7	35,584,036
Total expenses		35,584,036
Surplus/ (deficit) before tax		
Taxation		
Surplus/(deficit) for the period		-
Net Surplus for the period		-

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.


.....
Dr. Esther T. Muoria
Principal Secretary


.....
Stellamaris Mathuku
Project Coordinator

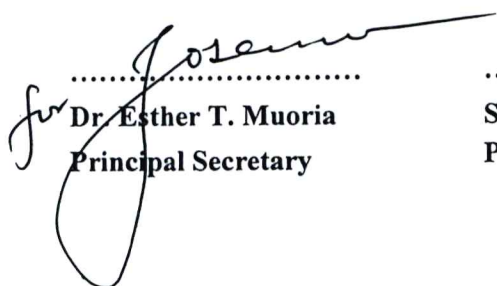

.....
Joseph Kuria
Project Accountant
ICPAK Member No:21552

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025


8. Statement of Financial Position as at 30 June, 2025

	Notes	FY 2024/2025 Kshs
Assets		
Current Assets		
Total Current Assets		-
Non-Current Assets		
Total Non- Current Assets		-
Total Assets		-
Liabilities		
Current Liabilities		
Total Current Liabilities		-
Non-Current Liabilities		
Total Non- Current Liabilities		-
Total Liabilities		-
Net Assets		-
Accumulated Surplus		-
Total Net Assets and Liabilities		-

The financial statements were approved on 09/09/2025 and signed by:



Dr. Esther T. Muoria
 Principal Secretary



Stellamaris Mathuku
 Project Coordinator



Joseph Kuria
 Project Accountant
 ICPAK Member No:21552

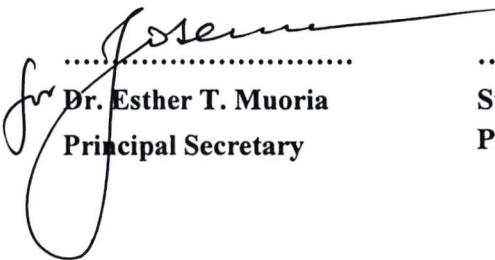
**Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025**

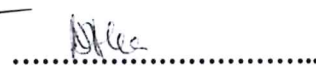
9. Statement of Changes in Net Assets for the year ended 30 June, 2025

Description	Revaluation reserve	Accumulated surplus	Total
As at 30th June, 2024 (Cash Basis)	-	-	-
Revaluation gain	-	-	-
Surplus/(deficit) for the year	-	-	-
Capital/Development grants	-	-	-
Adjustments: (To recognize assets and liabilities)	-	-	-
As At 1st July 1, 2024	-	-	-
Surplus/(deficit) for the year	-	-	-
As At 30th Jun, 2025	-	-	-

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements.

The financial statements were approved on 09/09 2025 and signed by:


.....
Dr. Esther T. Muoria
Principal Secretary


.....
Stellamaris Mathuku
Project Coordinator


.....
Joseph Kuria
Project Accountant
ICPAK Member No:21552

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

10. Statement of Cashflow for the year ended 30 June, 2025

	FY 2024/25	
	Notes	Kshs
Cash flows from operating activities		
Receipts		
Revenue Transfers	6	35,584,036
Total receipts		35,584,036
Payments		
Use of goods and services	7	35,584,036
Total payments		35,584,036
Net cash flows from/(used in) operating activities		-
Cash flows from investing activities		
Net cash flows from/(used in) investing activities		-
Cash flows from financing activities		
Net cash flows from financing Activities		-
Net increase/(decrease) in cash & Cash equivalents		-
Cash and cash equivalents at 1 July 2024		
Cash and cash equivalents at 30 Jun 2025		-

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

11. Statement of Comparison of Budget and Actual Amounts for the Year ended 30 June, 2025

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilization
	Kshs	Kshs	Kshs	Kshs	Kshs	
	a	b	C=(a+b)	d	e=(c-d)	f=d/c*100
Revenue						
Transfers	250,000,000	(200,000,000)	50,000,000	35,584,036	14,415,964	71%
Total Income	250,000,000	(200,000,000)	50,000,000	35,584,036	14,415,964	71%
Expenses						
Use of Goods and Services	100,000,000	(50,000,000)	50,000,000	35,584,036	14,415,964	71%
Certified Works	150,000,000	(150,000,000)	-	-	-	-
Total Expenditure	250,000,000	(200,000,000)	50,000,000	35,584,036	14,415,964	71%
Surplus for the period				-		

Budget notes

- 1 The under absorption for both Revenue Transfers and Use of Goods was low since procurement for construction works was still at the tendering stage leading to lower overall expenditure.*
- 2. The difference between the original and final approved budgets was as a result of budget cuts occasioned by supplementary budgets II & III for FY 2024-2025*

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

12. Notes to the Financial Statements

1. General Information

Promotion of Youth Employment and Vocational Training in Kenya (Phase II) project is established by and derives its authority and accountability from the agreement between the Government of the Federal Republic of Germany and the Government of the Republic of Kenya on financial cooperation, the republic of Kenya, represented by the National Treasury and Planning and KfW. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The project's principal activity is to establish Centres of excellence for cooperative training at selected public Technical Vocational Education and Training institutes that shall offer high quality labour market-oriented training to Kenyan youth in specific trades with a strong engagement of surrounding industries for improved employment.

2. Statement of Compliance and Basis of Preparation

Statement of Compliance

The financial statements have been prepared in accordance with the Public Finance Management Act, 2012 and with the International Public Sector Accounting Standards (IPSAS).

Guiding note during the transition period:

The financial statements have been prepared in accordance with the PFM Act, and International Public Sector Accounting Standards (IPSAS), The entity is a first-time adopter of accrual-basis IPSAS and has elected to apply the transitional provisions provided under IPSAS 33 – First-time Adoption of Accrual Basis IPSASs.

*As such, these financial statements represent the entity's first year of transitional financial reporting. In accordance with IPSAS 33, the entity has taken advantage of the permitted **three-year transitional period**, during which certain assets and liabilities may not be recognized and/or measured in full compliance with accrual IPSAS.*

Specifically, the entity has not yet recognized the following elements of the financial statements:

Property, Plant and Equipment, inventories and Provisions

This is due to challenges in obtaining reliable historical cost data and developing necessary accounting systems and controls. The entity continues to apply previous accounting policies for these elements on a temporary basis, as permitted by IPSAS 33.

The following steps are being taken to achieve full compliance by the end of the transitional period:

- Conducting comprehensive asset verification and valuation exercises*
- Developing asset registers and inventory systems*
- Implementing system upgrades to support accrual accounting*
- Training staff in IPSAS-compliant recognition and measurement principles*

The entity expects to progressively recognize all outstanding elements in accordance with applicable IPSAS and to fully comply with accrual-basis IPSAS by end of third-year from initial adoption

These financial statements were authorized for issue by the accounting officer on 8th August,2025.

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

3. Adoption of New and Revised Standards

i) *New and amended standards and interpretations in issue effective in the year ended 30 June 2025.*

Standard	Effective date and impact:
IPSAS 43	<p><i>Applicable 1st January 2025</i></p> <p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity. The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p>
IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations	<p><i>Applicable 1st January 2025</i></p> <p>The Standard requires,</p> <p>Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> <p>Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p>
IPSAS 45- Property Plant and Equipment	<p><i>Applicable 1st January 2025</i></p> <p>The standard supersedes IPSAS 17 on Property, Plant and Equipment. IPSAS 45 has additional guidance/ new guidance for heritage assets, infrastructure assets and measurement. Heritage assets were previously excluded from the scope of IPSAS 17 in IPSAS 45, heritage assets that satisfy the definition of PPE shall be recognised as assets if they meet the criteria in the standard. IPSAS 45 has an additional application guidance for infrastructure assets, implementation guidance and illustrative examples. The standard has clarified existing principles e.g valuation of land over or under the infrastructure assets, under- maintenance of assets and distinguishing significant parts of infrastructure assets.</p>
IPSAS 46 Measurement	<p><i>Applicable 1st January 2025</i></p>

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

Standard	Effective date and impact:
	<p>The objective of this standard was to improve measurement guidance across IPSAS by:</p> <ul style="list-style-type: none"> i. Providing further detailed guidance on the implementation of commonly used measurement bases and the circumstances under which they should be used. ii. Clarifying transaction costs guidance to enhance consistency across IPSAS; iii. Amending where appropriate guidance across IPSAS related to measurement at recognition, subsequent measurement and measurement related disclosures. <p>The standard also introduces a public sector specific measurement bases called the current operational value.</p>

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2025

Standard	Effective date and impact:
IPSAS 47- Revenue	<p>Applicable 1st January 2026</p> <p>This standard supersedes IPSAS 9- Revenue from exchange transactions, IPSAS 11 Construction contracts and IPSAS 23 Revenue from non- exchange transactions. This standard brings all the guidance of accounting for revenue under one standard. The objective of the standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flow arising from revenue transactions.</p>
IPSAS 48- Transfer Expenses	<p>Applicable 1st January 2026</p> <p>The objective of the standard is to establish the principles that a transfer provider shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenses and cash flow arising from transfer expense transactions. This is a new standard for public sector entities geared to provide guidance to entities that provide transfers on accounting for such transfers.</p>
IPSAS 49- Retirement Benefit Plans	<p>Applicable 1st January 2026</p> <p>The objective is to prescribe the accounting and reporting requirements for the public sector retirement benefit plans which provide retirement to public sector employees</p>

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

Standard	Effective date and impact:
	and other eligible participants. The standard sets the financial statements that should be presented by a retirement benefit plan.
IPSAS 50: Exploration For & Evaluation of Mineral Resources	<i>Applicable 1st January 2027</i> The objective of this Standard is to specify the financial reporting for the exploration for and evaluation of mineral resources. The Standard requires: <ol style="list-style-type: none"> i. Limited improvements to existing accounting practices for exploration and evaluation expenditures. ii. Entities that recognize exploration and evaluation assets to assess such assets for impairment in accordance with this Standard and measure any impairment in accordance with IPSAS 26. iii. Disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognized.

iii) Early adoption of standards

The Entity did not early – adopt any new or amended standards in the financial year under review.

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

4. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, the amount is recorded in the statement of financial position and realised in the statement of financial performance over the useful life of the assets that have been acquired using such funds.

ii) Revenue from exchange transactions

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

b) Budget information

The original budget for FY 2024/2025 was approved on June 2024. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals to conclude the final budget. Accordingly, the entity recorded no additional appropriations on the FY 2024/2025 budget. The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

c) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition or construction of the item of property appropriately according to the acronyms you use in your financial statements plant and equipment.

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

Notes to the financial statements

When significant parts of property, plant and equipment are required to be replaced at intervals, the project recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus, or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

d) Leases

Finance leases are leases that transfer substantially the entire risks and benefits incidental to ownership of the leased item to the project. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The project also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition. Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit. An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Entity will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

e) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is assessed as either finite or indefinite. Intangible assets with an indefinite useful life are assessed for impairment at each reporting date.

f) Research and development costs

The project expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the project can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale.
- Its intention to complete and its ability to use or sell the asset.
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset.

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

Notes to the financial statements

- The ability to measure reliably the expenditure during development.

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete, and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

g) Financial instruments

IPSAS 41 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. *The Promotion of Youth Employment and Vocational Training in Kenya (Phase II) does not have any hedge relationships and therefore the new hedge accounting rules have no impact on the project's financial statements.* A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. At initial recognition, the entity measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Financial assets

Classification

The project classifies its financial assets as subsequently measured at amortised cost, fair value through net assets/ equity, or fair value through surplus and deficit on the basis of both the entity's management model for financial assets and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost when the financial asset is held within a management model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. A financial asset is measured at fair value through net assets/ equity if it is held within the management model whose objective is achieved by both collecting contractual cashflows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset shall be measured at fair value through surplus or deficit unless it is measured at amortized cost or fair value through net assets/ equity unless an entity has made an irrevocable election at initial recognition for particular investments in equity instruments.

Subsequent measurement

Based on the business model and the cash flow characteristics, the project classifies its financial assets into amortized cost or fair value categories for financial instruments. Movements in fair value are presented in either surplus or deficit or through net assets/ equity subject to certain criteria being met.

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

Notes to the financial statements

Amortized cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at fair value through surplus or deficit, are measured at amortized cost. A gain or loss on an instrument that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is de-recognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

Fair value through net assets/ equity

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through net assets/ equity. Movements in the carrying amount are taken through net assets, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in surplus/deficit. Interest income from these financial assets is included in finance income using the effective interest rate method.

Fair value through surplus or deficit

Financial assets that do not meet the criteria for amortized cost or fair value through net assets/ equity are measured at fair value through surplus or deficit. A business model where the entity manages financial assets with the objective of realizing cash flows through solely the sale of the assets would result in a fair value through surplus or deficit model.

Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. Trade and other receivables are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year-end.

Impairment

The project assesses, on a forward-looking basis, the expected credit loss ('ECL') associated with its financial assets carried at amortized cost and fair value through net assets/equity. The entity recognizes a loss allowance for such losses at each reporting date.

Financial liabilities

Classification

The project classifies its liabilities as subsequently measured at amortized cost except for financial liabilities measured through profit or loss.

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

Notes to the financial statements

h) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method.
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity but excluding borrowing costs.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the project.

i) Provisions

Provisions are recognized when the project has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the project expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Promotion of Youth Employment and Vocational Training in Kenya (Phase II) project does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

The Promotion of Youth Employment and Vocational Training in Kenya (Phase II) project does not recognize a contingent asset but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the project in the notes to the financial statements. Contingent assets are assessed continually to ensure that

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

Notes to the financial statements

developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

j) Nature and purpose of reserves

The Promotion of Youth Employment and Vocational Training in Kenya (Phase II) project does not create and maintain reserves in terms of specific requirements.

k) Changes in accounting policies and estimates

The project recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

l) Employee benefits

Retirement benefit plans

The Promotion of Youth Employment and Vocational Training in Kenya (Phase II) project does not provide retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable. Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

m) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the agreed fixed exchange rate as is outlined in the financial agreement. Trade creditors or debtors denominated in foreign currency are reported at the Statement of the financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

Notes to the financial statements

n) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

o) Related parties

The project regards a related party as a person or an entity with the ability to exert control individually or jointly or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors, the Principal and senior managers.

p) Service concession arrangements

The Promotion of Youth Employment and Vocational Training in Kenya (Phase II) project analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the project recognizes that asset when, and only when, it controls or regulates the services. The operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the project also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

q) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

r) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2025.

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

Notes to the financial statements

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Promotion of Youth Employment and Vocational Training in Kenya (Phase II) project's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The project based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the project.
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes.
- The nature of the processes in which the asset is deployed.
- Availability of funding to replace the asset.
- Changes in the market in relation to the asset

Provisions

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

Notes to the financial statements

6. Revenue Transfers

	FY 2024/25
	KShs
Conditional Transfers	
Transfers from KfW Bank (Direct Payments: Loans)	35,584,036
Total Conditional Transfers	35,584,036
Total Transfers for the Period	35,584,036

(The funding was to cater for consultancy services)

a) Details to Revenue Transfers

Name of The Entity Transferring	Amount recognized to Statement of Financial performance. *	Amount deferred under deferred income.	Amount moved to capital fund.	Total Transfers (Current Period)
	KShs	KShs	KShs	KShs
GoK Funding	-			-
KfW Bank	35,584,036			35,584,036
Subtotal	35,584,036	-	-	35,584,036
Total	35,584,036	-	-	35,584,036

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

Notes to the financial statements

7. Use of Goods and Services

Description	FY 2024/25
	Kshs
Other Operating Expenses - Consultancy Services	35,584,036
Total	35,584,036

8. Related Party Disclosures

Nature of related party relationships

Entities and other parties related to the project include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

Government of Kenya

The Government of Kenya is the principal shareholder of the project, holding 100% of the project's equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the project, both domestic and external.

Other related parties include:

- (i) The State department for Technical, Vocational, Education and Training.
- (ii) The National Treasury

9. Events after the Reporting Period

There were no material adjusting and non-adjusting events after the reporting period.

10. Ultimate And Holding Entity

The Project is a Semi-Autonomous Government Agency under the State Department for Technical, Vocational Education and Training. Its ultimate parent is the Government of Kenya.

11. Currency

The financial statements are presented in Kenya Shillings (Kshs) rounded to the nearest Kshs.

13. Annexes

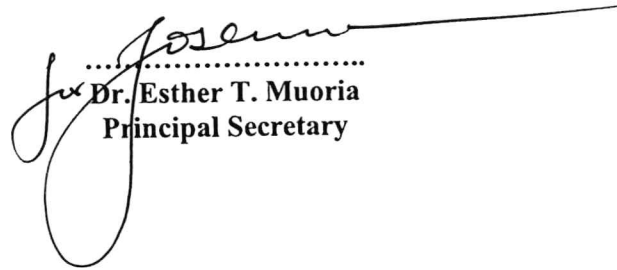
Annex 1: Prior Year Auditor-General's Recommendations

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
413	<p>Budgetary control and performance</p> <p>The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Ksh. 97,000,000 and Ksh. 40,160,040 respectively, resulting in an under-funding of Kshs. 56,839,960 or 59% of the budget. The underfunding affected the planned activities of the project and may have impacted negatively on service delivery to the public.</p> <p>My opinion is not modified in respect of this matter.</p>	<p>The project involves procurement of state-of-the-art equipment and construction of workshops. The focus of implementation in the year 2023/24 was the establishment of needs, development of equipment specifications, structural design and bill of quantities and securing necessary approval.</p> <p>The workshops were to be designed to accommodate the training equipment therefore the design of the workshop and equipment to be procured had to align.</p> <p>Therefore, development of specifications for all equipment, structural design and bill of quantities and their approval had to be completed before commencement of procurement. The payment that could be done at this stage is only for consultancy services.</p> <p>The consultant invoiced the Ministry up to third quarter, the first two quarters were paid. The processing of the third quarter invoice totaling Ksh17,792,018 could not be completed before the end of financial because the process of obtaining tax exemption was not complete.</p>	Not resolved	Scheduled to appear before the National Assembly PAC FY 2025/26

*Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025*

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
415	<p>Delayed Implementation of Project Activities and Slow Absorption</p> <p>The statement of receipts and payments reflects a loan from external development partners of Kshs. 40,160,040 as disclosed in Note 2 to the financial statements. Project under the supervision of the State Department for Vocational, Education and Training had a start date of 01 November,2022 and an end date of 31 October, 2025. The project had a loan budget amount of Kshs. 1,380,000,000 out of which only Kshs. 40,160,040 for consultancy services had been utilized as at 30th June 2024. The project has therefore taken off at a very slow pace considering that many activities financed by the donor and which were budgeted for were not carried out during the year and have been carried over to the following fiscal year.</p>	<p>The project kicked off in 2022 when the implementing consultant was brought on board and started implementation as indicated in the inception report dated May 2023. The project involves procurement of state-of-the-art equipment and construction of workshops. The procurement process starts with the establishment of needs, development of equipment specifications, structural design and bill of quantities and securing necessary approval.</p> <p>The workshops were to be designed to accommodate the training equipment therefore the design of the workshop and equipment to be procured had to align.</p> <p>Therefore, development of specifications for all equipment, structural design and bill of quantities and their approval had to be completed before commencement of procurement. This process took time. The payment that could be done at this stage is only for consultancy services.</p> <p>The department could also not proceed to initiate tendering process without necessary approval of KfW. The tender documents for equipment and construction works are now ready and a no objection by KfW has been obtained</p>	Not resolved	

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025


.....
Dr. Esther T. Muoria
Principal Secretary


.....
Stellamaris Mathuku
Project Coordinator

Promotion of Youth Employment and Vocational Training in Kenya (Phase II)
Annual Report and Financial Statements for the financial year ended 30 June, 2025

Annex 2: Fixed Asset Register

Asset class	Opening Cost (KShs) 2024	*Purchases/Additions in the Year (KShs) 2024/25	**Disposals in the Year (KShs) 2024/25	Closing Cost (KShs) 2025
	(a)	(b)	(c)	(d)= (a)+ (b)-(c)
Office equipment, furniture and fittings	-	-	-	-
ICT Equipment, Software and Other ICT Assets				-
Other Machinery and Equipment				-
Total	-	-	-	-

Annex 3: Other Support Documents

- i) Trial balance
- ii) Direct payment schedule