

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL COUNCIL FOR CHILDREN'S SERVICES FOR THE YEAR ENDED 30 JUNE, 2023**

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## **PREAMBLE**

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

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on the 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 does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Council for Children's Services set out on pages 1 to 18, which comprise the statement of financial position as at 30 June, 2023 and the statement of statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations, which to the best of my knowledge and belief were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material

respects, the financial position of National Council for Children's Services as at 30 June, 2023 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and the Children's Act, 2001.

## **Basis for Qualified Opinion**

### **1. Unauthorized General Expenditure**

The statement of financial performance reflects general expenses amount of Kshs.15,548,557 as disclosed in Note 13 to the financial statements. The amount includes Kshs.3,648,092 incurred on foreign travel but charged on various expenditure items. However, the foreign travel expenditure was not factored in the Council's approved budget for the year under review thereby resulting to unauthorized expenditure.

In the circumstances, the accuracy, completeness and propriety of general expenses of Kshs.3,648,092 could not be confirmed.

### **2. Irregular Board Expenses**

The statement of financial performance reflects remuneration of Board expenses of Kshs.7,749,772. However, the approved budget for the year under review was Kshs.6,100,000 resulting in an over-expenditure of Kshs.1,649,772. There was no approval or supplementary budget for the over-expenditure.

In the circumstances, the accuracy, completeness and regularity of the remuneration of Board expenses of Kshs.7,749,772 could not be confirmed.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the National Council for Children's Services 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 qualified opinion.

## **Emphasis of Matter**

### **Pending Bills**

The statement of financial position reflects trade and other payables balance of Kshs.3,401,401 as of 30 June, 2023 as disclosed in Note 16 to the financial statements. However, Management did not provide a satisfactory explanation for the failure to settle the payables during the year in which they occurred. Failure to clear pending payables in the year to which they relate adversely affects the provisions of the subsequent year to which they constitute a first charge on the budget.

My opinion is not modified in respect of this matter.

## **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, 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 Matters**

In the audit report of the previous year, several issues were raised under the Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management did not disclose some of the issues and progress made in resolving the issues as required under the prescribed reporting template.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution and based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Non-Compliance with the Public Sector Accounting Standards Board Reporting Template**

Review of the annual report and financial statements for the year under review revealed inadequate disclosures and presentation errors. The errors include the absence of corresponding explanatory notes in respect of cash and cash equivalents, employee costs and benefits, comparative amounts, subsequent events and taxes, related party disclosures, trade and other payables, refundable deposits, reconciliation of cash generated from operations, financial risk management and other important disclosures.

Further, the amounts and balances in the financial statements were not rounded off to the nearest shilling and the Chairperson did not sign the Chairperson's statement and the Statement of Director's Responsibilities as required. In addition, the Management Discussion and Analysis did not provide detailed discussions on the operations and financial performance of the Council including major achievements.

In the circumstances, the presentation of the annual report and financial statements did not conform to the reporting template as prescribed by the Public Sector Accounting Standards Board.

## **2. Failure to Revalue Property, Plant and Equipment**

The statement of financial position reflects property, plant and equipment net book value of Kshs.9,914,616 as disclosed in Note 14 to the financial statements. As previously reported, the assets donated by the State Department for Social Protection at net book value have however, not been revalued contrary to paragraph 27 of IPSAS 17 on property, plant and equipment which requires assets acquired through non exchange transactions be measured at fair value as at the date of acquisition.

In the circumstances, Management was in breach of the requirements of the International Public Sector Accounting Standards.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAI) 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements 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 THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015 and based on the audit procedures performed except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

#### **Basis for Conclusion**

##### **1. Failure to Automate Operations of the Council**

Review of the Council operations shows that the Management is yet to develop and adopt the use of a comprehensive integrated database or Enterprise Resource Planning (ERP) system to support the automation and processes of financial and non-financial operations of the Council. The Council continues to rely on manual records/system, which are inefficient, prone to errors and tedious to maintain.

In the circumstances, the effectiveness of the Council's financial information management and processing systems could not be confirmed.

##### **2. Lack of an Internal Audit Unit**

As previously reported, the Council operated without an Internal Audit Unit contrary to Section 73(1)(a) of the Public Finance Management Act, 2012 which requires every national government entity to ensure compliance with the Act and have appropriate arrangements for conducting internal audit according to the guidelines of the Accounting Standards Board. The Council relied on services of an external auditor from State

Department for Social Protection but the audit reports were not provided for audit verification.

In the circumstances, the lack of internal audit function exposes the entity to weak internal controls and possible poor performance.

### **3. Failure to Appoint Board Chairperson**

As previously reported, the former Chairperson to the Board was appointed on 3 May, 2019 for a period of three (3) years which was to expire on 3 May, 2022. The Chairperson however, resigned on 7 January, 2022 and the Council did not have a Board Chairperson as at 30 June, 2022. However, as at the time of audit in February, 2024, the Board Chairperson had not been appointed.

In the circumstances, the Council has not complied with Section 1.1.1(9) and Section 3.1.1(b) of the Mwongozo on appointment of the Chairperson to the Board.

### **4. Lack of Substantive Office Holders and Policy Documents**

Review of the staff records revealed that the Council had eighteen (18) staff who have been on an acting capacity since 7 March, 2019. This was contrary to The National Treasury Circular number OP/CAB. 9/1A on management of State Corporations, which sets the limit of acting Chief Executive Officer to the maximum of six (6) months. Further, the other staff are on secondment from the parent Ministry of Labour and Social Protection. In addition, the Council lacks an approved Human Resources Policy and Procedure Manuals, staff grading, and establishment and career guidelines as required by the Human Resource Policies and Procedure Manual of Public Service, 2016.

In the circumstances, the effectiveness of the Council's operations and internal controls systems could not be confirmed.

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

### **Responsibilities of Management and the Board of Directors**

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

In preparing the financial statements, Management is responsible for assessing the Council's ability to sustain its services, disclosing as applicable, matters related to

sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to terminate the Council 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 comply with the authorities, which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Council's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal 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. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in

amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Council to cease to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Council to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and where applicable, related safeguards.



**FCPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**18 April, 2024**