

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL COUNCIL FOR CHILDREN'S SERVICES FOR THE YEAR ENDED 30 JUNE 2018**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of the National Council for Children's Services (NCCS) set out on pages 1 to 12, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and notes to the financial statements 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 effects of the matter described in the Basis for Qualified Opinion, the financial statements present fairly, in all material respects, the financial position of National Council for Children's Services as at 30 June 2018, 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 Children Act, 2001.

### **Basis for Qualified Opinion**

#### **1. Property, Plant and Equipment**

The statement of financial position as at 30 June 2018 reflects a balance of Kshs.18,255,250 in respect of property, plant and equipment(PPE). A review of the supporting PPE schedule in Note 10 to the financial statements shows that this amount represents cost value of assets which had not been subjected to depreciation charge in line with the requirements of IPSAS 17. Further, the Council did not disclose its depreciation policy under significant accounting policies in the financial statements as required. In addition, the Council did not have in place a proper fixed assets register but only maintained an assets inventory management register which lacked important details such as the cost and date of acquisition of individual assets.

In the circumstances, it has not been possible to confirm the existence, ownership, accuracy, custody, security and valuation of the property, plant and equipment balance of Kshs.18,225,250 as at 30 June 2018.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Council for Children's Services in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements

applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## 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. I have determined that there are no key audit matters to communicate in my report.

## Other Matters

### 1.0 Budget and Budgetary Performance

#### 1.1 Receipts

The Council had budgeted for receipts totalling Kshs.50,000,000 but actual receipts amounted to Kshs.43,396,365 resulting to a shortfall of Kshs.6,603,635 or 13% as follows:

Receipts	Budget Kshs.	Actual Kshs.	Excess/(Shortfall) Kshs.	Variance %
Government Grants	50,000,000	43,396,365	(6,603,635)	13
<b>Total</b>	<b>50,000,000</b>	<b>43,396,365</b>	<b>(6,603,635)</b>	<b>13</b>

The shortfall of Kshs.6,603,635 was attributed to failure to receive the budgeted amount from the National Treasury.

#### 1.2 Expenditure

The Council had budgeted to spend Kshs.50,000,000 but actual expenditure totalled Kshs.36,364,419 resulting to an under-expenditure of Kshs.13,635,580 or 27% as follows:

Expenditure	Budget Kshs.	Actual Kshs.	Over/(Under) Kshs.	Variance %
Employee costs	680,000	0	(680,000)	100
Repairs and maintenance	10,020,200	9,336,950	(683,250)	7
Contracted services	435,000	434,898	(101)	0
Programs	4,000,000	545,000	(3,455,000)	86
General expenses	34,864,800	26,047,571	(8,817,229)	25
<b>Total</b>	<b>50,000,000</b>	<b>36,364,419</b>	<b>(13,635,580)</b>	<b>27</b>

The under expenditure of Kshs.13,635,580 implies that the goals and objectives of the Council were not achieved as planned and budgeted in the year under review.

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

### **Conclusion**

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 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 are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

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

### **Basis for Conclusion**

#### **1. Lack of Board of Directors**

It was noted that during the year under audit the Council operated without a Board of Directors after expiry of the term of the previous Board in November, 2016. This is contrary to Section 31 of the Children Act, 2001 and also implies that the activities of the management were not subjected to oversight.

#### **2. Human Resource Operations**

A review of the human resource operations showed that the Council did not have a substantive Chief Executive Officer (CEO) as required by Miscellaneous Amendment to the Children Act, (No. 8 of 2001) dated April, 2017. Further, all the staff members were on secondment from the Children's Department of the Ministry for Labour and Social Protection. In addition, the Council did not have the following:

- i. An approved human resource policy and procedures manual;
- ii. Staff grading & establishment; and
- iii. Career guidelines as required by Public Service Commission (PSC) Human Resource Policy Guidelines, 2015.

Failure to appoint a substantive CEO and inadequate staffing within the ranks of the Council as well as lack of approved human resource instruments has a negative impact on the Council's ability to formulate policy direction and performance of its mandate as stipulated in the Children Act, 2001.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and 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 Those Charged with Governance**

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

In preparing the financial statements, management is responsible for assessing the Council's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the Council or to cease operations, or have no realistic alternative but to do so. Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

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

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

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

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 non-compliance. 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 Council's 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 going concern 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 continue as a going concern or 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 continue as a going concern or 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

**Nairobi**

**16 May 2019**