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OFFICE OF THE AUDITOR-GENERAL



REPORT

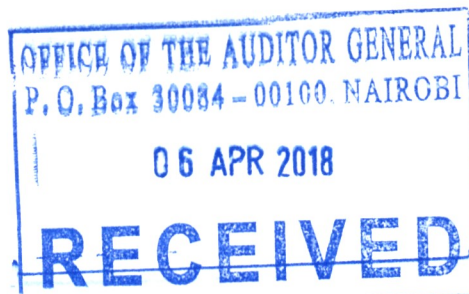
OF

THE AUDITOR-GENERAL

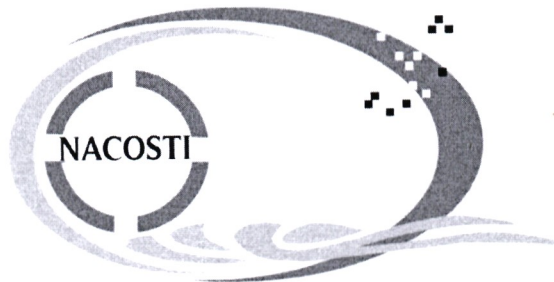
ON

**THE FINANCIAL STATEMENTS OF
NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY AND
INNOVATION**

**FOR THE YEAR ENDED
30 JUNE 2017**



**NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND
INNOVATION**



**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2017**

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

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I. KEY COMMISSION INFORMATION AND MANAGEMENT

(a) Background information

The National Commission for Science Technology and Innovation is established under the Science Technology and Innovation Act of 2013 the Commission commenced on the 24th June 2013, it is the successor to the National Council for Science and Technology (NCST) which was established by the Science and Technology Act, CAP 250 of 1979. The Commission was commenced on 24 June, 2014.

(b) Principal Activities

The objective of the Commission shall be to regulate and assure quality in the Science, Technology and Innovation sector and advice the Government in matters related thereto.

(c) Key Management

The Commission's management is vested on the Board of Commissioners

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30 June 2017 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Director General/CEO PhD, OGW	Dr. Moses K. Rugutt
2.	Director, Technical Services	Dr. Roy Mugiira
3.	Director, Quality Assurance and Accreditation	Dr. Stephen Karimi
4.	Director, Finance and Administration	Ms. Emily M. Ongaga

(e) Fiduciary Oversight Arrangements

The Audit and Risk Management Committee assists the Board in the oversight of the integrity of the financial operations of the Commission, the performance of the Commission's internal audit function and the external auditors and compliance by the Commission with legal and regulatory requirements.

(f) Commission's Headquarters

National Commission for Science, Technology and Innovation
P.O. Box 30623-00100
Nairobi, KENYA

(g) Commission's Contacts

Tel.: +254 20 2241349
+254 20 3310571
E-mail: dg@nacosti.go.ke
Website: www.nacosti.go.ke









(h) Commission's Bankers

1. Kenya Commercial Bank Ltd.
Kipande House Branch
P.O. Box 30012-00100
Nairobi, Kenya
Tel.: +254 20 3340161
2. NIC Bank Ltd.
City Centre Branch
P.O. Box 44599-00100
Nairobi, Kenya
Tel.: +254 20 2888000





(i) Independent Auditors

Auditor- General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084-00100
Nairobi, Kenya
Tel.: +254 20 342330

II. THE BOARD OF THE COMMISSION

	NAME	POSITION	DATE OF APPOINTMENT	DATE OF RETIREMENT
	Prof. Njeri Wamae, MSPH, PhD, IoD (K), EBS Age 61, PhD in Parasitology	The Chairperson	03/04/2014	02/04/2017
	Prof. Collette A. Suda, PhD, FKNAS, EBS Age 61, PhD in social Science	Member	03/04/2014	
	Prof. Elijah Omwenga Age 50, PhD in computer Science	Member	03/04/2014	02/04/2017
	Prof. Eucharika Kenya Age 58, PhD in Applied Entomology	Member	03/04/2014	02/04/2017
	Dr. Titus Lanyasunya Age 51, PhD in Animal Nutrition and Feed Science	Member	03/04/2014	02/04/2017
	Mr. Jerome Ochieng Age 47, MSc Information Technology	Member	14/10/2015	
	Eng. Julius Riungu Age 67, MSc Electrical and Electronics Engineering	Member	03/04/2014	02/04/2017
	Dr. Moses K. Rugutt, PhD, OGW	Director General/CEO	01/12/2014	

III. THE MANAGEMENT TEAM

	Dr. Moses K. Rugutt, PhD, OGW	Director General/CEO
	Dr. Stephen K. Kibiru, PhD	Director, Accreditation and Quality Assurance
	Ms. Emilly M. Ongaga, CPA(K)	Director, Finance and Administration
	Dr. Roy B. Mugiira, PhD	Director, Technical Services

IV. CHAIRMAN'S STATEMENT

The National Commission for Science, Technology and Innovation is established by the Science Technology and Innovation Act of 2013. It is the successor to the National Council for Science and Technology (NCST) which was established by the Science and Technology Act, CAP 250 of 1979. The Commission was commenced on 24 June, 2014.

As a Commission we are committed to the mandate of regulating, assuring quality, promoting, coordinating the conduct of Research, Science, Technology and Innovation and advising both the National and County Governments on policy matters related thereto. We will strive to consistently improve on our mandate despite the challenges ahead of us and are committed to perform better.

We have for the 6th year running held the National Science, Technology and Innovation Week to showcase Kenya's achievements and breakthrough in Science, Technology and Innovation and to appraise and create public awareness on the development and achievement of Science, Technology and Innovation in Kenya.

The Commission, recognizing the important role its workforce plays, has made significant strides to complete the process of transferring staff who are employees of the parent Ministry on secondment terms. The Commission also engages in relevant workshops and training including but not limited to sensitization and team building.

On behalf of the Board of Management I would like to thank the Management Team and the entire Secretariat of the Commission for their cooperation and commitment. I would also like to acknowledge the guidance and support we continue to receive from our parent Ministry.



Director

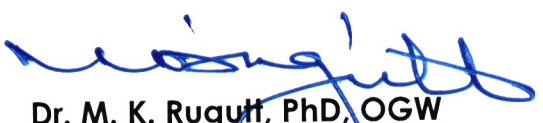
V. REPORT OF THE CHIEF EXECUTIVE OFFICER

The core mandate of the Commission is to regulate, promote, assure quality, coordinate and provide policy advisory to the National and County Governments on all matters related to Research, Science, Technology and Innovation. To effectively deliver on this mandate, the Commission is structured into 3 directorates: Directorate of Technical Services, Directorate of Accreditation and Quality Assurance and the Directorate of Finance & Administration each headed by a Director.

In the 2016/17 Financial Year, the Commission has facilitated the development of policy and strategies in the various thematic areas of Science, Technology and Innovation, registered 8 research institutions and licensed 4,711 research projects. Further, the Commission has secured space at the Konza Technopolis for the establishment of a National Physical Science Research Laboratory. The Commission is committed to the progression of these policies and strategies into implementation programmes in the next medium term.

The Commission has played a key role in the implementation of partnership programmes with development partners and collaborating foreign Governments including the Kenya-DAAD Postgraduate Programme, University Research Chairs Programme, the Kenya-South Africa research partnership, the Square Kilometre Array Radio-astronomy project, the France-Kenya PHP research partnership and the Japanese Society for the Promotion of Science. Further, the Commission is the National Focal Point for the International Atomic Energy Agency, the International Centre for Genetic Engineering and Biotechnology and the Biological Toxins Weapons Convention.

I thank the Ministry of Education and the Board of NACOSTI for the continued support to the implementation of NACOSTI Programmes. I am also indebted to the NACOSTI staff for their dedication and commitment to duty towards this achievement. I look forward to a great and more fruitful 2017/18 Financial Year.



Dr. M. K. Ruguff, PhD, OGW
Director General/CEO

VI. CORPORATE GOVERNANCE STATEMENT

The National Commission for Science, Technology and Innovation (NACOSTI) is the successor to National Council for Science and Technology (NCST) and was established after the commencement of the Science, Technology and Innovation Act, 2013 on 24 June, 2013.

The Commission's Mission is to improve the quality of life of Kenyans by integrating science and technology in social and economic development. It regulates, assures quality, promotes, coordinates and advises on science, technology, innovation and research.

According to the Section 6(1) of the Science, Technology and Innovation Act, 2013, the functions of the Commission include:-

- develop, priorities in scientific, technological and innovation activities in Kenya;
- lead inter-agency efforts to implement sound policies and budgets at national and county levels;
- advise the national and county governments on the science, technology and innovation policy;
- ensure co-ordination and co-operation between the various agencies;
- accredit research institutes and approve all scientific research in Kenya;
- assure relevance and quality of science, technology and innovation programmes;
- advise on science education and innovation at both basic and advanced levels.

The Commission is governed by a Board of nine (9) persons with the Chief Executive Officer as its Secretary. The names of the Chairperson and members of the Board of the National Commission for Science, Technology and Innovation as appointed by the Cabinet Secretary, Ministry of Education, Science and Technology were published through a Kenya Gazette notice of 3rd April, 2014.

The Chairperson during the year ended 30 June 2017 was Prof. Njeri Wamae while Board members were Dr. Titus P. Lanyasunya, Prof. Eucharika U. Kenya, Prof. Elijah I. Omwenga, Prof. Collette A. Suda, Eng. Julius Riungu, Dr. Kamau A. Thugge. At the Board, Dr. Kamau A. Thugge, the Principal Secretary, Treasury is represented by Mr. Jerome Ochieng. The term of service for the Chairperson and the members who were not representing Government Institutions/Offices ended on 3rd April, 2017.

VII. CORPORATE SOCIAL RESPONSIBILITY (CSR)

The National Commission for Science, Technology and Innovation believes in adding value to the Kenyan public and society at large as they are the key stakeholders of our services. During the year under review, the Commission continued to engage in Corporate Social Responsibility (CSR) and related activities. Emphasis was given to activities geared towards environmental sustainability.

During the year under review, the Commission undertook a number of environmental sustainability activities. These activities include domestication of environmental policy at workplace, improved waste management and creating environmental awareness at workplace. The Commission further partnered with the Kenya Forestry Service to plant over 1000 trees in strategic locations along the Southern By-pass road connecting Naivasha road to Mombasa road.

VIII. REPORT OF THE BOARD OF THE COMMISSION

The Commission submits its report together with the audited financial statements for the year ended 30 June, 2016 which show the state of the NACOSTI financial operations

Principal activities

The principal activities of the Commission are to regulate, assure quality, promote, coordinate and advise on science, technology, innovation and research.

Results

The results of the Commission for the year ended 30 June 2017 are set out on page 14.

Board of the Commission

Members of the Board of the Commission who served during the year are as listed in page 4.

Auditors

The Auditor General is responsible for the statutory audit of the Commission in accordance with the Section 81 of the Public Finance Management (PFM) Act, 2012,



Dr. M. K. Rugutt, PhD, OGW
Director General/CEO

IX. STATEMENT OF THE BOARD OF COMMISSION'S RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 require the Board of the Commission to prepare financial statements in respect of that Commission, which give a true and fair view of the state of affairs of the Commission at the end of the financial year and the operating results of the Commission for that period. The Board of Commission is also required to ensure that the Commission keeps proper accounting records which disclose with reasonable accuracy the financial position of the Commission. The Board of the Commission is also responsible for safeguarding the assets of the Commission.

The Board of the Commission is responsible for the preparation and presentation of the Commission's financial statements, which give a true and fair view of the state of affairs of the Commission for and as at the end of the financial year (period) ended on June 30, 2017. 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 entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Commission; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Board of the Commission accept responsibility for the Commission's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the Public Finance Management Act, 2012 and the State Corporations Act. The Board of the Commission is of the opinion that Commission's financial statements give a true and fair view of the state of transactions during the financial year ended June 30, 2017, and of the Commission's financial position as at that date. The Board of the Commission further confirm the completeness of the accounting records maintained for the Commission, which have been relied upon in the preparation of the Commission's financial statements as well as the adequacy of the systems of internal financial control.

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Nothing has come to the attention of the Board of the Commission to indicate that the National Commission for Science Technology and Innovation will not remain a going concern for at least the next twelve months from the date of this statement.



Dr. M. K. Rugutt, PhD, OGW
Director General/CEO

Date: 15/3/2018

REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Commission for Science, Technology and Innovation set out on pages 14 to 28, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, the statement of changes in net assets, statement of cash flow 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 Commission for Science, Technology and Innovation as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Standards (Accrual Basis), and comply with the Science, Technology and Innovation Act, 2013.

In addition, as required by Article 229(6) of the Constitution, except for the matter described in the Basis for Qualified Opinion section of my report, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Inventories

As previously reported, the inventories balance of Kshs.9,897,572 as at 30 June 2017 includes stock of partitioning materials worth Kshs.5,746,188 removed from the Commission's offices at Emperor Plaza Building way back in 1997 to the Ministry of Public Works which have not been accounted for as at the date of this report. According to information available, the materials disappeared from the Ministry's godown in Industrial Area where they had been kept apparently for safe custody.

Report of the Auditor-General on the Financial Statements of National Commission for Science, Technology and Innovation for the year ended 30 June 2017

Although the matter has been under investigation by the Criminal Investigations Department over the last seventeen (17) years, the director criminal investigation department indicated on 19 October 2015 that no records could be found to know what really happened as the Police files can not be traced after five years.

In the circumstance, it has not been possible to confirm the carrying value of inventories balance of Kshs.9,897,572 as at 30 June 2017.

2. Work in Progress

As reported in 2015/2016, the Ministry of Higher Education, Science and Technology entered into a contract on behalf of the Commission for the construction of office block, hostel and swimming pool and associated civil works at Kabete at a contract sum of Kshs.990,990,990. The contractor took possession of the site on 2 April 2012 and the work was to be completed in 22.5 months or 90 weeks from the date of site possession. However, the contract duration was extended by 52 weeks up to 22 December 2014 and then later to December 2015 and finally to April 2016. The contractor has requested for a further extension of the contract period till 31 May 2017 so as to ensure the transition of takeover is done smoothly.

Though the Commission moved to the office Block in the month of May 2017, a review of the project status report of 26 April 2016 availed for audit review indicated that total certified work amounted to Kshs.985,402,413 or 99.4% of the contract sum, while the scheduled time had elapsed, an indication that the work was slightly behind schedule and the contractor may have been overpaid.

Further, the contract states that interest on any certificate not paid within thirty days from the date of approval will be calculated at 3% above the Central Bank's average lending rate of the period overdue which was 16% and therefore the interest rate for the year was 19% for all overdue certificates. A review of outstanding payment certificates revealed that interest amounting to Kshs.45,260,335 arising from delay in payment of certified work had accrued as at 30 June 2017. This wasteful expenditure could have been avoided had the parent Ministry settled the bills on time.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Commission for Science, Technology and Innovation 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 qualified 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.

Responsibilities of Management and Those Charged with Governance for those Financial Statements

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 such 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.

In preparing the financial statements, management is responsible for assessing the Commission'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 either intends to liquidate the Commission 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.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. 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 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.

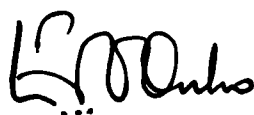
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Commission's 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 Commission's ability to continue 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 Commission cease to continue 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 Commission 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

26 March 2018

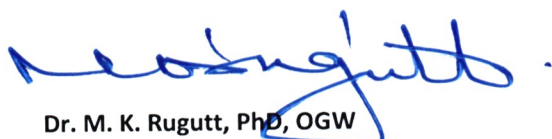
**NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE, 2017**

	Note	2017 Kshs.	2016 Kshs.
Revenue from Non-Exchange Transactions			
Public Contributions and donations	3	280,904,320	632,142,144
Licenses and permits	4	23,564,408	19,254,396
Other Income	5	21,264,514	27,446,605
Total Revenue		325,733,243	678,843,144
Expenses			
Employee Costs	6	148,977,616	125,757,471
Depreciation and Amortization Expense	7	6,779,960	9,394,572
Repairs and Maintenance	8	2,980,817	6,229,533
Contracted Professional Services	9	6,633,905	4,203,951
Donor Supported Projects Cost	10	20,586,584	24,985,374
Administrative Expenses	11	67,405,232	45,938,317
Board Expenses	12	4,795,397	5,982,400
Bank Charges	13	532,765	838,300
Research Cost	14	30,305,574	364,727,583
Audit Fees	15	754,000	754,000
Capitalized Grants	16	-	6,271,808
Total Expenses		289,751,850	595,083,309
Surplus before tax		35,981,393	83,759,835
Surplus for the period		35,981,393	83,759,835

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE, 2017

	Note	2017 Kshs.	2016 Kshs.
Assets			
Current Assets			
Cash and cash equivalents	17	237,476,911	115,410,847
Receivables from non-exchange transactions	18	136,642,133	225,520,583
Inventories	19	9,897,572	10,826,596
Prepayments	20	-	6,343,871
Total Current Assets		384,016,616	358,101,897
Non Current Assets			
Property, Plant and Equipment	21	1,100,721,946	1,106,519,407
Total Assets		1,484,738,562	1,464,621,305
Current Liabilities			
Trade and other payables from exchange transactions	22	78,217,585	132,992,064
Project Deposits	23	18,672,258	7,698,054
Total Current Liabilities		96,889,843	140,690,118
Net Assets			
Revaluation Reserves	24	86,886,293	86,886,293
Revenue Reserves	25	312,874,202	276,892,809
Capital Grants	26	988,088,226	960,152,085
Total Net Assets and Liabilities		1,484,738,564	1,464,621,305

The Financial Statements set out on pages 14 to 27 were signed on behalf of the Board of the Commission by:


Dr. M. K. Rugutt, PhD, OGW
Director General/CEO


Mr. Jerome Ochieng
Member, Board of Commissioners

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE, 2017

	Capital Grant Kshs	Revaluation Reserves Kshs	Revenue Reserves Kshs	TOTAL Kshs
1st July 2015	676,466,907	86,886,293	193,132,974	956,486,174
				-
Additional Capital	283,685,178	-	-	283,685,178
				-
Surplus for the period	-	-	83,759,835	83,759,835
30th June 2016	960,152,085	86,886,293	276,892,809	1,323,931,187
1st July 2016	960,152,085	86,886,293	276,892,809	1,323,931,187
				-
Additional Capital	27,936,141	-	-	27,936,141
				-
Surplus for the period	-	-	35,981,393	35,981,393
30th June 2017	988,088,226	86,886,293	312,874,202	1,387,848,721

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE, 2017

	Note	2017 Kshs.	2016 Kshs.
Cash flow from Operating Activities			
Surplus for the year		35,981,393	83,759,835
Adjustments for items not involving cash movements			
Depreciation	7	6,779,960	9,394,572
Surplus before working capital changes		42,761,353	93,154,407
Working Capital Changes			
Increase in Inventory	19	929,024	5,699,301
Decrease in Prepayments	20	6,343,871	(217,317)
Increase/Decrease in Accounts Receivable	18	88,878,450	(83,979,288)
Increase/Decrease in Accounts Payables	22	(54,774,479)	(135,821,677)
Decrease in Project Deposits	23	10,974,204	3,807,625
Net Cash flow from operating activities		95,112,423	(117,356,949)
Cash flow from Investing Activities			
Capital Grants		27,936,141	283,685,178
Changes in Fixed Assets		(982,499)	(81,071,865)
Increase/Decrease in Cash and Cash Equivalents		122,066,065	85,256,365
Cash and Cash Equivalents - Beginning		115,410,848	30,154,483
Cash and Cash Equivalents - Ending	17	237,476,913	115,410,848

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE, 2017

	Original Budget Kshs	Final Budget	Actual on Comparable Basis Kshs	Performance Difference Kshs
Revenue				
Recurrent Grants	260,904,320	260,904,320	260,904,320	-
Development Grants	28,000,341	28,000,341	27,936,141	64,200
Research Grants	87,984,630	87,984,630	87,984,630	-
Licenses and Permits Fees	24,000,000	24,000,000	23,564,408	435,592
Other Income	-	-	21,264,514	(21,264,514)
Total Income	400,889,291	400,889,291	421,654,014	(20,764,723)
Expenses				
Employee Costs	160,455,000	160,455,000	148,977,616	11,477,384
Repairs and Maintenance	11,662,000	11,662,000	2,980,817	8,681,183
Contracted Professional Services	16,000,000	16,000,000	6,633,905	9,366,095
Administrative Expenses	65,287,320	65,287,320	67,405,232	(2,117,912)
Board Expenses	8,000,000	8,000,000	4,795,397	3,204,603
Bank Charges	1,000,000	1,000,000	532,765	467,235
Research Cost	87,984,630	87,984,630	30,305,574	57,679,056
Audit Fee	754,000	754,000	754,000	-
Development Expenditure	28,000,341	28,000,341	24,774,774	3,225,567
Depreciation Expense	-	-	6,779,960	(6,779,960)
Donor supported Projects Costs	-	-	20,586,584	(20,586,584)
Total Expenses	379,143,291	379,143,291	314,526,624	64,616,667
Surplus	21,746,000	21,746,000	107,127,390	-

XVI. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

1. Statement of compliance and basis of preparation – IPSAS 1

The Commission's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Commission. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

2. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions – IPSAS 23

Recurrent and Development

The Commission recognizes revenues from Recurrent and Development Grants when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

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.

ii) Revenue from non exchange transactions – IPSAS 9

Appropriation in Aid

National Commission for Science, Technology and Innovation recognizes revenue from research permits on cash basis i.e. when money has been paid.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017
(CONT.)**

iii) Budget information – IPSAS 24

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

b) Property, plant and equipment – IPSAS 17

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 of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Commission 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.

c) Depreciation

Depreciation is calculated on reducing balance at the following rates

<u>Assets</u>	<u>Rate</u>
Motor Vehicle	25%
Furniture and fittings	12.50%
Plant, Machinery and Equipment	12.5%
Computers and accessories	30%

It is the Commission's policy to provide for depreciation on assets in the year of acquisition and not to provide for it in the year of disposal

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017
(CONT.)**

d) Research and Development Costs

The Commission expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Commission 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
- 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.

e) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

f) Inventories – IPSAS 12

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017
(CONT.)**

- 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 Commission.

g)) Nature and purpose of reserves

The Commission creates and maintains reserves in terms of specific requirements. The Commission maintains a revenue reserve where the entire surplus for the period is taken.

h)) Foreign currency transactions – IPSAS 4

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Cash and cash equivalent is accounted for using the closing rate at the end on the financial year.

i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held at the Kenya Commercial Bank and The NIC bank for purposes of these financial statements,

j) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017
(CONT.)**

k) 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 Entity 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 Commission. Such changes are reflected in the assumptions when they occur. IPSAS 1.140.

i. 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 Entity
- 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

ii. Provisions

Provisions were raised and management determined an estimate based on the information available. 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.

l) Subsequent events – IPSAS 14

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, 2016.

m) Contingent liability

There were no contingent liabilities in the year.

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION
NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2017 (CONT.)

Note	2017 Kshs.	2016 Kshs.
3 Public Contributions and donations		
Recurrent Grants	260,904,320	258,713,507
Research Grants	-	373,428,637
Other Government Grants	20,000,000	-
	<u>280,904,320</u>	<u>632,142,144</u>
4 Licenses and permits		
Research Permit Fees	23,564,408	19,254,396
5 Other Income		
EU Projects	2,450,435	6,480,818
UNESCO -STEM	-	1,501,290
CTBTO	14,332,149	9,584,962
IDRC	-	9,207,035
Others	4,481,930	672,500
	<u>21,264,514</u>	<u>27,446,605</u>
6 Employee Costs		
Salaries and Allowances	109,405,258	83,795,636
Wages -Casual Employees	3,490,306	3,049,757
Staff Insurance	9,178,702	11,730,933
Domestic Travel	9,553,385	7,326,887
Foreign Travel	7,616,293	7,856,309
Hospitality	9,733,672	11,997,949
	<u>148,977,616</u>	<u>125,757,471</u>
7 Depreciation and Amortization Expense		
Property, Plant and Equipment	6,779,960	9,394,572
8 Repairs and Maintenance		
Computers and Softwares	247,532	-
Building and Stations	-	207,985
Motor Vehicles	2,733,285	5,096,376
Furniture and Equipment	-	925,172
	<u>2,980,817</u>	<u>6,229,533</u>
9 Contracted Professional Services	6,633,905	4,203,951
10 Donor Supported Project Cost		
EU Projects	2,450,435	4,692,087
UNESCO -STEM	-	1,501,290
CTBTO	14,332,149	9,584,962
IDRC	-	9,207,035
Others	3,804,000	-
	<u>20,586,584</u>	<u>24,985,374</u>
11 Administrative Expenses		
Utilities and Supplies	816,899	106,850
Communication Supplies and Services	7,344,135	5,599,820
Printing, Advertising, Information Supplies and Services	4,394,566	4,642,510

	Office and General Supplies	7,121,518	4,687,329
	Fuel, Oil and Lubricants	1,010,000	2,585,775
	Rent and Rates	2,751,200	4,457,148
	Trade Shows and Exhibitions	23,436,666	4,762,166
	Motor Vehicle Insurance	549,008	319,447
	Other Operating Expenses	929,652	2,452,993
	Committee and Conferences	13,839,876	13,290,961
	Cleaning Materials and Services	66,325	54,000
	Computer Supplies and Accessories	876,154	827,804
	Training Expenses	4,269,233	2,151,514
		67,405,232	45,938,317
12	Board Expenses		
	Sitting Allowance	3,020,000	3,990,000
	Lunch Allowance	116,000	180,000
	Accommodation	764,200	563,400
	Transport	112,197	205,000
	Airtime	63,000	84,000
	Honoraria	720,000	960,000
		4,795,397	5,982,400
13	Bank Charges	532,765	838,300
14	Research Cost	30,305,574	364,727,583
	The expenditure on support for research reduced in the year as this mandate is being handed over to National Research Fund		
15	Audit Fees	754,000	754,000
16	Capitalized Grants		
	Part of recurrent grants were used to acquire the following assets and hence capitalized		
	Furniture and fittings	-	863,200
	Plant and equipment	-	453,000
	Computers	-	4,955,608
		-	6,271,808
17	Cash and cash equivalents		
	Kenya Commercial Bank	215,862,697	105,701,317
	NIC Bank	21,529,735	9,522,884
	Cash on Hand	84,480	186,646
		237,476,911	115,410,847
18	Receivables from non-exchange transactions		
	Grants Receivable	136,642,133	224,667,846
	S. K. Karimi	-	852,737
		136,642,133	225,520,583
19	Inventories		
	Partitioning materials	5,746,188	5,746,188
	Consumable stores	4,151,384	5,080,409
		9,897,572	10,826,597

20	Prepayments		
	Embassy of Berlin (DAAD Students)	-	6,066,800
	Chancery Wright Insurance Ltd	-	277,071
		-	6,343,871
21	Property Plant and Equipment		
	Fixed Assets Schedule as in Note 27		
22	Trade and other payables from Exchange Transactions		
	Kenya Post & Telecommunication	477,160	477,160
	Kenya Power & Lighting Co.	24,778	24,778
	Provision for Audit Fees	754,000	754,000
	Ministry of Public Works	1,000,000	1,000,000
	Milicons Ltd - WIP	38,421,635	63,196,408
	Withholding Tax on Contractor's Certificates	-	5,795,336
	Student Grants payable	14,597,687	47,887,898
	Gratuity Payable	7,394,281	3,451,038
	Pension Payable	3,409,698	-
	Others	12,138,346	10,405,446
		78,217,585	132,992,064
23	Project Deposits		
	Included in the closing bank balance are funds for the following projects		
	EU Projects - ERAFRICA	1,883,060	3,803,325
	CTBTO	2,875,462	3,894,730
	IDRC	13,913,737	-
		18,672,258	7,698,054
24	Revaluation Reserves		
	Land valued in February 2011	86,886,293	86,886,293
		86,886,293	86,886,293
25	Revenue Reserves		
	Opening Balance	276,892,809	193,132,974
	Surplus for the year	35,981,393	83,759,835
	Total	312,874,202	276,892,809
26	Capital Grants		
	Opening Balance	960,152,085	676,466,907
	Capital grants for the year	27,936,141	277,413,370
	Capitalized recurrent grants	-	6,271,808
	Total	988,088,226	960,152,085

NATIONAL COMMISSION FOR SCIENCE TECHNOLOGY AND INNOVATION
 NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2017 (CONT.)

Note 27. NON-CURRENT ASSETS MOVEMENT SCHEDULE

FINANCIAL YEAR ENDED 30 JUNE 2016

	Land & Buildings	Furniture & Fittings	Plant & Equipment	Motor Vehicles	Computers	Work in Progress	Total
	0.00%	12.50%	12.50%	25.00%	30.00%	0.00%	
Cost 1 July 2015	86,000,000	46,332,855	9,679,858	39,742,999	19,838,037	911,049,412	1,112,643,161
Additions	-	863,200	900,056	-	4,955,608	74,353,001	81,071,865
Cost 30 June 2016	86,000,000	47,196,055	10,579,914	39,742,999	24,793,645	985,402,413	1,193,715,026
Accum Depreciation 1 July 2015	-	35,282,687	4,385,693	23,941,608	14,191,058	-	77,801,046
Charge for the Year	-	1,489,171	774,278	3,950,348	3,180,776	-	9,394,572
Accum Depreciation 30 June 2016	-	36,771,858	5,159,971	27,891,955	17,371,834	-	87,195,618
Net Book Value 30 June 2016	86,000,000	10,424,197	5,419,943	11,851,044	7,421,811	985,402,413	1,106,519,407
Net Book Value 30 June 2015	86,000,000	11,050,168	5,294,165	15,801,392	5,646,979	911,049,412	1,034,842,115

FINANCIAL YEAR ENDED 30 JUNE 2017

	Land & Buildings	Furniture & Fittings	Plant & Equipment	Motor Vehicles	Computers	Work in Progress	Total
Cost 1 July 2016	86,000,000	47,196,055	10,579,914	39,742,999	24,793,645	985,402,413	1,193,715,026
Disposals	-	-	-	2,992,757	-	-	2,992,757
Additions	-	-	1,260,000	-	669,426	-	1,929,426
Cost 30 June 2017	86,000,000	47,196,055	11,839,914	36,750,242	25,463,071	985,402,413	1,192,651,695
Accum Depreciation 1 July 2016	-	36,771,858	5,159,971	27,891,955	17,371,834	-	87,195,618
Accum Depreciation on Disposals	-	-	-	2,045,830	-	-	2,045,830
Charge for the Year	-	1,303,025	834,993	2,214,572	2,427,371	-	6,779,960
Accum Depreciation 30 June 2017	-	38,074,883	5,994,964	28,060,697	19,799,205	-	91,929,748
Net Book Value 30 June 2017	86,000,000	9,121,172	5,844,950	8,689,545	5,663,866	985,402,413	1,100,721,946
Net Book Value 30 June 2016	86,000,000	10,424,197	5,419,943	11,851,044	7,421,811	985,402,413	1,106,519,407

XVII. PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS

The following is the summary of issues raised by the External Auditor in the audit report of the last Financial Year and Management comments on how it has been addressed.

Reference No. on the External audit Report	Issue / Observations from Auditor	Management Comments	Focal Point person to resolve the issue	Status:	Timeframe:
NCST/7 7/2012/2 013(8)	Stock Partitioning which disappeared at the ministry of public works go-down in industrial area had not been accounted for	These were old partitioning materials removed from former accommodation space. The loss was reported and the latest response from the Directorate of Criminal Investigations indicates that the police files are untraceable after five years. The case will be difficult to re-open. PIC referred the matter to the Inspectorate of State Corporations.	Gideon Kirui, Manager - Finance & Accounts	To be resolved in the External Audit of the Financial Statements for the year ended 30 June 2017	Next External Audit