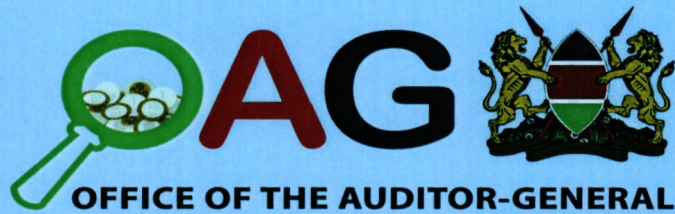



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 THE NATIONAL ASSEMBLY <b>REPORT</b>	
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**THE AUDITOR-GENERAL**

**ON**

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

**FOR THE YEAR ENDED  
30 JUNE, 2021**

OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI  
REGISTRY

12 JUL 2022

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

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
30 JUNE 2021**

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

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## **1. KEY COMMISSION INFORMATION AND MANAGEMENT**

### **(a) Background information**

The National Commission for Science, Technology and Innovation (NACOSTI) was established under the Science, Technology and Innovation Act, 2013 on 24 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 is domiciled in Nairobi County and has three directorates: Directorate of Scheduled Sciences (DSS), Directorate of Research, Accreditation and Quality Assurance (DRAQA) and Directorate of Corporate Services (DCS)

The Commission is governed by a Board which is appointed by the Cabinet Secretary (CS) responsible for matters of science and technology. The first Board of the Commission was appointed on 7th April 2014 and its term ended on 6th April 2017. The second Board was appointed on 6th December 2017 vide Gazette Notice Numbers 11926 for the Chairperson and 11927 for the Members and its term ended on 5<sup>th</sup> December 2020. The Commission is currently awaiting establishment of its third Board.

### **(b) Principal Activities**

The mandate of the Commission is to regulate and assure quality in the science, technology and innovation sector and advise the Government in matters related thereto.

According to Section 6(1) of the Act, the Commission has the following functions:-

- a) Develop, in consultation with stakeholders, the priorities in scientific, technological and innovation activities in Kenya in relation to the economic and social policies of the Government, and the country's international commitments;
- b) Lead inter-agency efforts to implement sound policies and budgets, working in collaboration with the county governments, and organizations involved in science, technology and innovation within and outside Kenya;
- c) Advise the national and county governments on the science, technology and innovation policy, including general planning and assessment of the necessary financial resources;
- d) Liaise with the National Innovation Agency and the National Research Fund to ensure funding and implementation of prioritized research programmes;
- e) Ensure co-ordination and co-operation between the various agencies involved in science, technology and innovation;
- f) Accredite research institutes and approve all scientific research in Kenya;
- g) Assure relevance and quality of science, technology and innovation programmes in research institutes;
- h) Advise on science education and innovation at both basic and advanced levels;
- i) In consultation with the National Research Fund Trustees, sponsor national scientific and academic conferences it considers appropriate
- j) Advise the Government on policies and any issue relating to scientific research systems;
- k) Promote increased awareness, knowledge and information of research system;
- l) Co-ordinate, monitor and evaluate, as appropriate, activities relating to scientific research and technology development;
- m) Promote and encourage private sector involvement in scientific research and innovation and development;
- n) Annually, review the progress in scientific research systems and submit a report of its findings and recommendations to the Cabinet Secretary;
- o) Promote the adoption and application of scientific and technological knowledge and information necessary in attaining national development goals;

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**For the year ended 30 June 2021.**

- p) Develop and enforce codes, guidelines and regulations in accordance with the policy determined under this Act for the governance, management and maintenance of standards and quality in research systems; and
- q) Undertake, or cause to be undertaken, regular inspections, monitoring and evaluation of research institutions to ensure compliance with set standards and guidelines.

**Vision**

NACOSTI envisions “ **A knowledge based economy** ”.

**Mission**

The Commission’s Mission is “**To facilitate quality in the research, science, technology and innovation sector through regulation, promotion and provision of advisory services**”.

**Key Management**

The Commission’s day-to-day management is under the following key organs:

- Board of Directors
- Accounting officer/ CEO
- Management Team

**(c) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2021 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Director General/CEO	<b>Prof. Walter O. Oyawa, PhD</b>
2.	Director Scheduled Sciences	<b>Dr. Roy B. Mugiira, PhD</b> (Exited on 30 <sup>th</sup> January 2021 upon expiry of contract)
3	Director Research Accreditation and Quality Assurance	<b>Dr. Stephen K. Kibiru, PhD</b> (Exited on 22 <sup>nd</sup> February 2021 upon expiry of contract)
4	Director Corporate Services	<b>Ms. Emilly M. Ongaga</b> (Exited on 30 <sup>th</sup> September 2020 upon expiry of contract)
2.	In-charge of Scheduled Sciences w.e.f 1 <sup>st</sup> April 2021	<b>Dr. David Njubi</b>
3.	In-Charge Research Accreditation and Quality Assurance w.e.f 1 <sup>st</sup> April 2021	<b>Mr. Boniface Wanyama</b>
4.	Deputy Director, Finance	<b>Mr. Gideon K. Kirui</b>

## **Fiduciary Oversight Arrangements**

### **Finance and General-Purpose Committee of the Board**

The Committee is responsible for establishing policies, procedures, and controls for financial governance in the Commission. The committee undertakes financial planning, budget approvals, expenditure approvals and review of financial reports

### **Audit and Risk Management Committee**

The 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.

#### **(d) Commission Headquarters**

NACOSTI Headquarters Building  
Off Waiyaki Way, Upper Kabete  
P.O. Box 30623-00100  
Nairobi, KENYA

#### **(e) Commission Contacts**

Tel.: +254 20 2241349  
+254 20 3310571  
E-mail: [dg@nacosti.go.ke](mailto:dg@nacosti.go.ke)  
Website: [www.nacosti.go.ke](http://www.nacosti.go.ke)

#### **(f) Commission Bankers**

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

#### **(g) Independent Auditors**

Auditor-General  
Office of the Auditor-General  
Anniversary Towers, University Way  
P.O. Box 30084  
GPO 00100  
Nairobi, Kenya

#### **(h) Principal Legal Adviser**

The Attorney-General  
State Law Office, Harambee Avenue  
P.O. Box 40112  
City Square 00200  
Nairobi, Kenya

## 2. THE BOARD OF DIRECTORS

### MEMBERS OF THE BOARD



**Prof. Tom Peter Migun Ogada, PhD – Chairman – Retired on 5<sup>th</sup> December 2020**

Prof Tom Peter Migun Ogada, (62 years) was appointed the Chairman of the Board on 6<sup>th</sup> December 2017. He holds a Doctor of Philosophy degree in Chemical Engineering from Hamburg, Germany, an MBA in Strategic Management from Moi University and MSc in Mechanical Engineering from BPI, Minsk, USSR and is a member to Institute of Engineers of Kenya.

Prof. Ogada has over 30 years' experience in Science, Technology and Innovation of which 15 years he has obtained at senior management and leadership positions. He is currently the Executive Director of African Centre for Technology Studies (ACTS) and a former Executive Committee Member (Minister) of Trade, Industrialization, Investment and Cooperatives in Homa Bay County. He served as Managing Director, T&P Innovation and Technology Management Services in the period 2011 – 2013 and as a Managing Director at Kenya Industrial Research and Development Institute (KIRDI) in the period 2006 – 2009. He has served as an acting director Moi University Holdings limited for 3 years and as an Advisor on Technology Transfer, British Council.

Prof. Ogada has participated in the formulation of several policies including Vision 2030, Industrialization Policy, Leather Development Policy, Industrial Cluster Strategy, Incubation Policy and Science, Technology and Innovation Policy. He has also prepared several books and tools on Intellectual Property.

The term of Prof. Ogada as Chairman came to an end on 5<sup>th</sup> December 2020.



**Amb. Simom Nabukwesi - Member**

Amb. Simon Nabukwesi is the Principal Secretary, State Department for University Education and Research, Ministry of Education. He was appointed to the position of Principal Secretary, State Department of University Education and Research with effect from 28th February 2020

Amb. Simon Nabukwesi has a B.Ed, M. Ed. in Education Planning and Management and MA in International Project Management. He is a PhD Candidate in International Project Management. In addition to this, he has a Diploma Level training in Institutional Management at Hiroshima University, Japan and a Pre-university Training at the National Youth Service (1986).

Amb. Simon Nabukwesi has had a successful career as a High School Teacher, as a Deputy Principal and Principal in a span of twenty years (1989-2009). He has also served as Kenya's High Commissioner to Canada and Ambassador Plenipotentiary and Extra-ordinary to Cuba.



**Nicholas Kibiwott Letting', PhD, FCPA (K), FCS (K), MKIM, MIHRM, CIFA, HSC – Member – Retired on 5<sup>th</sup> December 2020**

Dr. Nicholas Letting' (50 years) was appointed a member of the Board on 6<sup>th</sup> December, 2017. Dr. Letting holds a Doctor of Philosophy in Business Administration, MBA and B.Com from University of Nairobi. He also holds two professional qualifications from KASNEB; Certified Public Accountant of Kenya and Certified Public Secretary of Kenya and a member of Institute of Directors, Kenya Institute of Management and Institute of Human Resource Management and Institute of Certified Investments and Financial Analysts.

Dr. Letting has extensive experience in senior management positions in leading organizations in the country. He is currently the Chief Executive Officer of Kenya Accountants and Secretaries National Examinations Board (KASNEB).

The term of Dr. Letting as a Board member came to an end on 5<sup>th</sup> December 2020.



**Rachel Shibalira, MSc, LLB (Hons), Dip (Law) – Member - Retired on 5<sup>th</sup> December 2020**

Ms. Rachel Shibalira (49 years) was appointed a member of the Board on 6<sup>th</sup> December, 2017. Ms. Shibalira holds Msc in Environmental Planning and Management from Kenyatta University, Bachelor of Law from BabaSaheb Ambedkar University and Diploma in Law from Kenya School Law.

Ms. Shibalira is a member of Law Society of Kenya and also International Commission of Jurists. She has represented the Government of Kenya in negotiating international conventions and protocols in the area of environment. She has also worked with several countries in the African region helping them define policies and laws on issues of Science and Technology. She has served nationally as a Chairperson of the Biosafety Appeals Board.

The term of Ms. Shibalira as a Board member came to an end on 5<sup>th</sup> December 2020.



**Prof. Francis Wamakima Muregi, PhD – Member - Retired on 5<sup>th</sup> December 2020**

Prof. Francis Wamakima Muregi (49 years) was appointed a member of the Board on 6<sup>th</sup> December, 2017. He is a PhD holder in medical sciences from Hamamatsu University School of Medicine, a Master of Science, Biochemistry (Biotechnology Option) and BSc. Biochemistry/Chemistry from Kenyatta University.

Prof. Muregi has worked at Kenya Medical Research Institute for more than 10 years. He is currently the Director for Research and Development at Mount Kenya University. He is also serving as a member of the Social and Human Sciences Programme and Expert Committee of Kenya National Commission for UNESCO (KNATCOM).

The term of Prof. Muregi as a Board member came to an end on 5<sup>th</sup> December 2020.



**Jemimah Onsare, PhD - Member**

Dr. Jemimah Onsare (45 years) is a member of the Board by virtue of being the Ag. Chief Executive Officer of National Research Fund (NRF). She has experience in resource mobilization and management of Research Grants and has participated in various programmes within the ST&I sector both at National as well as international level.

Dr. Onsare is experienced in Microbiological Research (Antimicrobials) and has published research articles in international Journals of repute. She holds a PhD (Applied Microbiology – Antimicrobials) and has undertaken an international training Programme Sponsored by SIDA on putting ideas to work, strategies for innovation and led sustainable growth.



**Tonny K. Omwansa, PhD – Member**

Dr. Tonny K. Omwansa is a member of the Board by virtue of being the Chief Executive Officer of Kenya National Innovation Agency (KENIA). He is the co-author of “Money, Real Quick: Kenya’s disruptive mobile money innovation”. He holds a PhD in Information Systems in which he researched on the adoption of mobile financial services at the base of the pyramid in Kenya.

Besides consultancy in technology issues, he has conducted extensive research in mobile transactions in Africa and published various reports including use of airtime transfers, mobile banking, virtual currencies as well as regulation of mobile transactions. His research interests are in the design, adoption and impact of low-cost technologies in developing countries.

His various research assignments have been commissioned by organizations like the GSMA, Bill and Melinda Gates foundation, Rockefeller Foundation and Economic Commission of Africa. He is a recipient of the prestigious Bellagio Fellowship from the Rockefeller Foundation where he worked on the book on mobile money, published in 2012.







**Prof. Walter O Oyawa, PhD - Director General/Chief Executive Officer**

Prof. Walter O. Oyawa, is currently the Director General of the National Commission for Science, Technology & Innovation (NACOSTI), having joined the Commission on 1<sup>st</sup> May 2020. He is a Professor of Civil Engineering, a holder of a PhD in Civil Engineering, and a holder of Executive MBA. He is a Registered Professional Engineer, a Lead Expert-NEMA and a reviewer of several international journals.

Prof. Oyawa has served in various senior leadership/management positions including having been the Principal/CEO of Multimedia University College, Deputy Commission Secretary at the Commission for University Education (CUE), pioneering Ag. Principal of the College of Engineering & Technology at JKUAT, Director of a Research Centre-SMARTEC at JKUAT, Chairman of the Department of Civil Engineering at JKUAT, Board member of several boards, among others. He is endowed with vast experience in research/scholarly work, as evidenced by extensive publications in peer reviewed journals, several awards and research grants, keynote lectures and conference papers, and supervision of numerous postgraduate students. His research interest is in the area of sustainable construction materials and technologies

**3. MANAGEMENT TEAM**

	<b>Prof. Walter O Oyawa, PhD</b>	Director General/Chief Executive Officer
	<b>Dr. Roy B. Mugiira, PhD</b>	Director, Scheduled Sciences – Exited on 31 <sup>st</sup> January 2021 upon end of contract
	<b>Dr. Stephen K. Kibiru, PhD</b>	Director, Research Accreditation and Quality Assurance – Exited on 22 <sup>nd</sup> February 2021 upon end of contract
	<b>Ms. Emilly M. Ongaga, CPA(K), CPS(K)</b>	Director, Corporate Services – Exited on 30 <sup>th</sup> September 2020 upon end of contract
	<b>Dr. David Njubi, PhD</b>	Ag. In-Charge of Scheduled Sciences – Appointed to act from 1 <sup>st</sup> April 2021
	<b>Mr. Boniface Wanyama</b>	Ag. In-Charge of Research Accreditation and Quality Assurance – Appointed to act from 1 <sup>st</sup> April 2021
	<b>Mr. Gideon K. Kirui</b>	Deputy Director, Finance

#### **4. CHAIRMAN'S 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. It regulates, assures quality, promotes, coordinates and advises on science, technology, innovation and research.

During the Financial Year 2020/2021, the Commission continued with implementation of its second Strategic Plan covering the period 2018 – 2022. In this Strategic Plan Period, the Commission's mission is "*To facilitate quality in the research, science, technology and innovation sector through regulation, promotion and provision of advisory services*" and its vision is "*A knowledge based economy*". To support the realization of the mission, four Key Result Areas (KRAs) were identified as Regulation of Research; Knowledge Sharing and Utilization; Advisory Services and Planning for Research, Science and Technology; and Institutional Capacity.

During the same period, the Commission also oversaw the implementation of the National Research Priorities which will guide the Country's research focus over the next five years. These priorities are linked to the Government's Big 4 programs of Food and Nutrition Security; Affordable Housing; Manufacturing; and Universal Health Coverage.

During this Financial Year, the Commission, like the rest of the Country faced the challenge presented by the Covid-19 pandemic. The pandemic affected the operations of the Commission as some programs were slowed down and others which involved collaboration with other partners put on hold. The Commission has however put in place ICT supported platforms that ensure continuity of service delivery without necessarily having physical interactions with the clients. The Research Information Management System (RIMS) for example has enabled the researcher to apply for research permits online and the Commission to review the application and issue the permits which the researcher can download through the system. The Commission will continue exploring ways to support the Government's efforts to address the pandemic and also encourage prioritization of research that is linked to Covid-19.

The Commission still faces financial constraints in meeting the costs of its operations. The Government support for its recurrent activities has reduced over the years hence limiting the Commission's ability to effectively undertake its mandate. The Commission has leased out part of the office block in an effort to increase its internally generated income and revamped its resources mobilization efforts through encouraging development of funding proposals by its staff.

On behalf of the Board of the Commission, 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.



**Chairman**

## **5. REPORT OF THE CHIEF EXECUTIVE OFFICER**

During the Financial Year 2020/2021, the Commission's programs and activities were geared towards achieving its objective which is to regulate and assure quality in the science, technology and innovation sector and advise the Government in matters related thereto.

The Commission continued with the implementation of its five-year Strategic Plan which has the following six strategic objectives:

1. To regulate the conduct of research;
2. To facilitate acquisition, sharing and utilization of knowledge on research, science and technology;
3. To provide advisory services for the development of research, science and technology;
4. To promote the integration of RST into National planning and budgeting processes;
5. To enhance co-ordination and co-operation within the Science, Technology and Innovation Sector; and
6. To Strengthen Institutional Capacity.

The Commission also continued to implement ISO 9001:2015 Quality Management System that guides quality and standardization of the operational procedures. It also installed an Enterprise Resource Planning (ERP) System to further enhanced automation of its processes.

In addition to programs funded through the GoK budgetary grants and its internally generated revenue, the Commission collaborated with development partners and collaborating foreign Governments in implementing collaborative research programs. These included the University Research Chairs Programme, the Square Kilometre Array Radio-astronomy project and the Comprehensive Test Ban Treaty Organization (CTBTO) Project. Further, the Commission is the National Focal Point for AFRA of 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, in particular the State Department for University Education and Research, and the Board of NACOSTI for the continued support for the implementation of NACOSTI Programmes. I am also indebted to the NACOSTI staff for their dedication and commitment to duty towards this achievement.



**Prof. Walter O. Oyawa, PhD.**  
**Director General/CEO**

## **6. STATEMENT OF NACOSTI's PERFORMANCE AGAINST PREDETERMINED OBJECTIVES**

Section 81 Subsection 2 (f) of the Public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of the national government Commission's performance against predetermined objectives.

During the FY 2020/2021, the Commission continued with the programs as set out in its Strategic Plan which covers the period from 2018 to 2022. The Strategic Plan gave focus to four (4) Key Results Areas (KRA) each backed by specific strategic objectives. These Key result Areas and strategic objectives are as follows:

### **KRA 1: Regulation of Research**

- 1) To ensure relevance and quality of research
- 2) To enhance co-ordination and co-operation of research and development

### **KRA 2: Advisory Services for Research, Science and Technology**

- 1) To advise on research, science and technology programmes
- 2) To mainstream research, science and technology into planning processes

### **KRA 3: Knowledge Management**

- 1) To facilitate acquisition and sharing of knowledge on research, science and technology
- 2) To facilitate utilization of knowledge on research, science and technology

### **KRA 4: Institutional Capacity**

- 1) To Strengthen Institutional Capacity
- 2) To improve mobilization and prudent utilization of resources

The Commission undertook the following activities towards realisation of the above Strategic Objectives:

### **Research Licensing, Monitoring and Evaluation**

All persons intending to undertake research in the country shall apply to the Commission for the grant of a License in accordance with the Science, Technology and Innovation Act, 2013. The Science, Technology and Innovation (Research Licensing) Regulations, 2014 forms the basis for consideration of applications for grant of Research Licenses and related activities. This is undertaken through:

- i. Authorization of research as per the Science, Technology and Innovation Act, 2013
- ii. Development and maintenance of a research, science and technology knowledge management system
- iii. Increasing awareness on regulatory requirements
- iv. Monitoring activities of Licensees to ensure compliance

### **Regulation of Research and Development activities**

Regulation in the Research and Development (R&D) activities is important for the country to increase sector contribution to national development. Regulation ensures relevance and quality in research and development (R&D).

This is undertaken through:

- i. Registration and accreditation of research institutions in Kenya
- ii. Accreditation of Institutional Ethics Review Committees in universities, research institutions and hospitals (IERCs).
- iii. Developing regulations and guidelines for registration and accreditation of research institutions
- iv. Ensuring relevance and quality of research undertaken in research institution.
- v. Reviewing the progress in scientific research in Kenya

### **Science, Technology and Innovation Policy Advice**

Policy advice is important given that ST&I is one of the enablers of the Kenya Vision 2030. In this regard, the Commission has a responsibility to ensure that growth of the ST&I sector is pegged on sound policies that will result in a multiplier effect on the other sectors.

This is undertaken through:

- i. Developing/reviewing sectoral policies on ST&I
- ii. Providing advice on the emerging technologies/issues
- iii. The Commission is currently leading the review of the draft ST&I policy to incorporate all other draft policies in ST&I in line with African Union Science Technology and Innovation Strategy for Africa and more recently the East Africa Science Technology Commission. The review will also develop a roadmap of ST&I for the Sustainable Development Goals (SDGs).

### **Promotion and Socialization Of Science, Technology And Innovation**

The purpose is to increase awareness and mainstream ST&I in all sectors of the economy.

One of the functions NACOSTI is to set National Priorities for Research, Science, Technology and Innovation in consultation with relevant stakeholders. In fulfilment of this requirement, NACOSTI, working in close consultation with various sector leaders and stakeholders, developed the National Research Priorities for the period 2018 – 2022. The priorities were launched in May 2019 and are cast against the Government Big 4 Agenda. An implementation framework for the National Research Priorities is proposed that brings together Principal Secretaries of relevant State Departments under the leadership of the Principal Secretary for University Education and Research.

The Commission strived to meet the targets set out for the Financial Year but the following key constraints limited its performance in some areas:

- Limited allocation for GoK grants
- Budget cut in the FY 2020-2021
- Gross understaffing
- Covid-19 pandemic

## **7. CORPORATE GOVERNANCE STATEMENT**

The objectives of NACOSTI are stipulated in the Science Technology and Innovation act, 2013. The Mission of the Commission is to improve the quality of life of Kenyans by integrating science and technology in social and economic developments. It regulates, assures quality, promotes, coordinates and advises on science, technology, innovation and research. To fulfil its mandate, the Chairperson and members of the board assume the ultimate responsibility to ensure that the Commission is accountable to the public, that the Commission follows relevant rules and regulations and meets the highest standards of corporate governance. The Management exercises due care in ensuring that the Commission's affairs are carried out in the best interest of the Government and the Public.

### **Responsibilities**

The Commission is governed by a Board of nine (9) members with the Chief Executive Officer as its Secretary. The Chairperson and three independent members of the Board of the National Commission for Science, Technology and Innovation are appointed by the Cabinet Secretary, Ministry of Education upon recommendation by a selection panel. In addition, a representative of the Cabinet Secretary, the National Treasury; the Principal Secretary, Ministry of Education, State Department for University Education and Research; a representative of KEPSA; the Chief Executive Officer, National Research Fund; and the Chief Executive Officer, Kenya National Innovation Agency are also members of the Board. The members of the board and the management poses a range of requisite qualifications and experience to manage the Commission and work in provision of Chapter 6 if the Constitution.

Roles and Responsibilities of the members of the Board include but not limited to the following:

- i) Formulating and approval of Commissions Vision, Mission and Core Values, strategy and work plans;
- ii) Approval of the annual budget and financial statements;
- iii) Approval of operational policies and manuals

The Chairperson is responsible for the overall Commissions leadership and effectiveness; ensures that key tasks of the commission are properly understood by the members and the secretariate; and assumes overall responsibility for all the Commissions decisions, severally with other members.

The Director General of the Commission doubles as the Secretary to the Board and the head of the Commission's secretariate. He is responsible for the overall leadership and day-to-day management of the Commission's operations; efficient and effective management of the Secretariat; performance management, operational controls, ethical conduct and good corporate governance.

The Board established the following three (3) Committees:

- a) Finance and General Purpose Committee
- b) Technical Committee
- c) Audit, Risk Management & Compliance Committee

The functions of these committees are as follows:

- a) Finance and General Purpose Committee
  - i) Review the Commission Budget, capital expenditure, investment strategies and procurement plans.
  - ii) Review and recommend for approval the operating financial results of the Commission.
  - iii) Review and recommend to the Board appropriate Human resources plans, policies, career guidelines and organization structure and their implementation mechanisms.
  - iv) Ensure the Commission conducts its affairs in compliance with applicable laws and regulations.

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- b) Technical Committee
  - i) Overseeing and reviewing the technical programs of the Commission
  - ii) Setting and reviewing the performance targets of the Commission
- c) Audit, Risk Management & Compliance Committee
  - i) Review the Commission's risk management strategies
  - ii) Assist in enhancing internal controls to improve efficiency, transparency and accountability
  - iii) Reviewing audit issues raised by internal and external auditors

**Membership of Board Committees**

No.	Finance and General Purpose Committee	Technical Committee	Audit, Risk Management & Compliance Committee
1.	Ms. Rachel Shibalira - Chair	Prof. Francis W. Muregi – Chair	Dr. Nicholas Letting – Chair
2.	Amb. Simon Nabukwesi	Amb. Simon Nabukwesi	Amb. Simon Nabukwesi
3.	Rep. CS National Treasury	Dr. Jemimah Onsare	Prof. Francis W. Muregi
4.	Dr. Jemimah Onsare	Ms. Rachel Shibalira	Rep. CS National Treasury
5.	Dr. Tony Omwansa	Dr. Nicholas Letting	Rep. KEPSA
6.	Rep. KEPSA	Dr. Tony Omwansa	Head of Internal Audit – Secretary
7.	Prof. Walter O. Oyawa, PhD	Prof. Walter O. Oyawa, PhD	

The Board and its Committees held the following meetings during the Financial Year

Nature of Meeting	Full Board	Finance and General-Purpose Committee	Technical Committee	Audit, Risk Management & Compliance Committee
Scheduled Meetings	5	5	3	0
Special Meetings	1	3	1	0

During the year, the Commission held a total of **18 (Eighteen)** meetings comprising of **6 (Six)** Full board, **8 (Eight)** Finance and General Purpose, **4 (Four)** Technical Committee and **0 (Zero)** Audit, Risk Management & Compliance.

S/NO	Name	Full Board	Finance and General-Purpose Committee	Technical Committee	Audit, Risk Management & Compliance Committee
1.	Prof. Tom Peter Migun Ogada	6	0	0	0
2.	Ms. Rachel Shibalira	6	8	4	0
3.	Amb. Simon Nabukwesi or his Alternate Mr, Jacob Kamwaria	6	7	4	0
4.	Prof. Francis Muregi	6	0	4	0
5.	Dr. Nicholas Letting	5	0	4	0
6.	Dr. Jemimah Onsare	6	7	4	0
7.	Dr. Tonny Omwansa	3	3	3	0
8.	Dr. Salome Guchu	2	3	1	0

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9.	Rep. Inspectorate of State Corporations	4	7	2	0
10.	Prof. Walter Oyawa (DG)	6	8	4	0

The Board that was in charge during the FY 2020/2021 period was the second Board of the Commission which was appointed on 6th December 2017 vide Gazette Notice Number 11926 for the Chairperson and 11927 for the Members. The term of the Board ended on 5<sup>th</sup> December 2020. The Commission is currently waiting for the establishment of its third Board.

**Statement of Compliance and conflict of interest**

To the best of the Commission and the managements knowledge, no person, employee or agent acting on behalf of the Commission, with the knowledge or authority of the Commission or management, committed any offence under the Prevention of Corruption Act or indulged in any unethical behaviour in the conduct of the Commission's business, or been involved in money laundering, or any practice or activity contrary to national laws or international interventions.

**Code of Conduct**

Each member of the Board derives his/her authority and position from a legitimate nomination procedure. However, on becoming a member, he/she becomes bound by the overriding fiduciary duty to act in good faith in pursuit of the best interest of the Commission as a whole. In the discharge of their duties, members operate within the collective framework of a collective Board as guided by Mwongozo Code of Governance for State Corporations.

**Risk Management**

The members of the Board and the management of the Commission are committed to a process of enterprise risk management that guides in the identification of strategic and operational risks through a structured, systematic, proactive and integrated process. This is done through a risk management framework, which enables management to focus in a comprehensive and holistic manner on all risks faced by the Commission. A risk management policy established by the Commission is one of the important steps in ensuring that the management identifies and manages all risks, and further that the members of the Board provide an oversight, as well as policy direction in managing risks.

**Risk management structure and roles**

The risk management structure of the Commission comprises of the audit Committee, the management team, and a risk committee at the secretariate level comprising of representatives from each department. The audit Committee's mandate is to monitor implementation of risk management framework established by the Commission; it also ensures that risk management system implemented by management meets the requirements set out in the policy. The commission has an independent Internal Audit and risk department whose function is to provide independent assurance to the Commission and management through structured audits, reviews, testing and other techniques, carrying our risk-based audits, reporting on effectiveness and efficiency of risk management process as well as reporting on the Commissions compliance with the risk policy. Continuous risk assurance audits were conducted during the year to review the commissions risk status.

## **8. MANAGEMENT DISCUSSION AND ANALYSIS**

### **Operational and Financial Performance**

The main source of funding for the Commission's activities are GoK budgetary support. It also generates some funds internally and has collaborative research projects for which it works with some partners. The Commission had an approved budget of Ksh. 274,765,414.00 comprising of Kshs. 202,841,804.00 from GoK grants and Kshs. 71,923,610.00 from A-I-A. However, during the Financial Year, the Commission received Kshs. 172,841,804.00 from the Government as recurrent grants and a total of Kshs. 78,619,149.00 from A-I-A comprising of Kshs. 30,809,070.00 from collaborative research partners, Kshs. 26,189,106.00 fees charges for research permits and license, Kshs. 19,376,250.00 from rental income and an additional Kshs. 2,244,723.00 from other sources. The total income for the year was therefore Kshs. 251,460,953.00 while the total expenses including non-cash depreciation of Kshs. 8,474,027.00 was kshs. 259,736,989.00 giving a deficit of Kshs. 8,276,036.00

The Commission's revenue was affected by a reduction in the budget allocation by the Exchequer of Ksh. 30,000,000.00 following the supplementary budget review. Internally generated income which is mainly generated from fees charged for research permits and licences also remained below the target because of Covid-19. The number of applications for research permits and licenses has continued to remain low since the emergence of Covid – 19 pandemics majorly affecting the number foreign researchers. In comparison with the previous year, the Commission realized a reduction of total income by Ksh. 19,865,638.00 from Ksh. 271,326,591.00 to Kshs 251,460,953.00

Expenses reduced from by Ksh. 37,749,622.00 from last year's total of Kshs. 297,486,611.00 to Kshs.259,736,989.00. There was a reduction in most categories of expenses due to constraints in funding. Personnel expenses went down due to retirement of some employees whose replacements were yet to be finalized by the end of the year. Provisions were also made for staff gratuity for staff who were on contract terms.

### **Key Projects and investments decisions being implemented/planned**

During the Financial Year, the Commission continued to implement the installation of Enterprise Resource Planning (ERP) System and Research Management Information System (RIMS). The two projects are in the final stages of their implementation and are already in use.

### **Major Risks facing the Commission**

The Commission in its strategic plan 2018-2022 identified and analysed various risks. The Commission further adopted various mitigation measures against the identified risks. In the FY 2020/2021 the Commission continued to implement mitigation measures against the identified and emerging risks.

The major risks identified are as follows:

	Nature of Risk	Description	Risk Rating	Mitigation Measure
1	Human Capital Risk	Inadequate human resource to undertake the Commissions functions	Medium	Recruit more staff to meet the demand for services
2.	Technological Risk	Low level of automation leading to delays in service provision	Medium	Acquire and upgrade technology The commission acquired two systems: ERP and RIMs which are in the final stages of implementation. The systems are in use.

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		Inadequate resources to handle modern information communication platforms	Medium	Purchase of equipment and training of personnel. The Commission has trained staff in the two implemented systems and has done refresher trainings for the same during the year.
3	Legal and Policy Risks	Change of Government policies	Moderate	Adapt to the new policies
4	Financial	Inadequate funding to support Commission's programs. This includes Inadequate GoK Grants and Budget Cuts	High	Resource mobilization. The Commission has developed resource mobilization policy and sensitized selected staff on resource mobilization. There has also been continuous engagement with National Treasury for optimal funding of the Commissions activities

**Emerging Risks**

Covid 19 pandemic affected the operations of the Commission and a number of programs had to be rescheduled. This has posed a risk to the delivery of the Commission's mandate and affected its revenue generation targets

To mitigating the risks posed by COVID-19 pandemic, NACOSTI has utilized its online research permit and research license processing system to continue offering services to researchers. The system has enabled researchers and research institutions to apply for permits and licenses online and NACOSTI staff to review and grant them without necessarily being in the office. In appreciation of the urgency of research related to COVID-19, NACOSTI has been giving priority attention to applications for research permits in this area of research. Where possible email and other online platforms is being utilized in communication with clients and other parties to reduce movement of physical documents which may transmit the Corona Virus.

The Commission has also mitigated the effects of the COVID-19 pandemic by changing the mode of delivery of some of its programs. An example of this is the STEM Mentoring program in which in the past few years, the Commission has supported a Science, Technology, Engineering and Mathematics (STEM) Camp which brings together Secondary School girls in an effort to encourage them to pursue STEM oriented courses. This year however, the Camp could not be held physically because of the COVID-19 Pandemic. Instead, NACOSTI in partnership with UNESCO supported a STEM Mentorship program through KBC radio and Television which involved career choice discussions, life skills mentoring, experience-sharing from practitioners and scholars in the STEM fields. Through this mode, the mentorship program was able to reach a wider spread of students at their homes

**Material Arrears in Statutory/financial Obligations**

The Commission has been constructing its headquarters building as the key development project in the Financial Year. The building was handed over to the Commission in March 2017 and the Commission moved into the offices in June 2017. There were however pending payments due to the Contractor which had arisen due to budget limitations.

In view of the Government directive to settle pending bills, a committee constituted by the Principal Secretary, State Department for University Education and Research in April 2020, was tasked to negotiate with the contractors to waive their claims for interest on delayed payments and accept to

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be paid for actual works done. With the support from this Committee, During the FY 2020/2021, the Commission made efforts to settle Kshs. 47,482,291 which were due to the contractors for works done and who had accepted to waive interest on delayed payments. By the end of FY 2020/2021, the Commission had paid a total of Kshs. 102,979,514 to subcontractors who accepted to waive their interest on delayed payments in the last two financial years. As at the end of the Financial Year, the amount outstanding are claims by the main contractor and some subcontractors who did not accept to waive interest on delayed payments. The amount claimed by the contractors is however at variance with the workings of the Project Supervisors, State Department for Public Works. Whereas the Project Supervisors' indicate the claims total Kshs. 154.961million, the main contractor is claiming Kshs. 362million. The main contractor has declared a dispute on these claims and commenced the process of arbitration.

**Progress on follow up of previous Audit Recommendations**

The summary of issues raised by the external auditor on the Financial Statements of the Previous Year and their current status is as follows:

**i) Inventories:**

This related to stock of partitioning which disappeared at the Ministry of Public Works go-down in industrial area and had not been accounted for.

These were old partitioning materials removed from the Commission's former office space in 1997. The loss was reported to the Police and the latest response from the Directorate of Criminal Investigations indicated that the police files are untraceable after five years and hence the case was difficult to re-open. Parliament's Public Investment Committee (PIC) referred the matter to the Inspectorate of State Corporations, who have since written back to Parliament recommending that this matter should be closed due to challenges in tracing relevant documents. The Commission is waiting for feedback from the Inspectorate of State Corporations and/or Parliament.

**ii) Work in Progress:**

The Auditors observed that completion of NACOSTI Headquarters Building had taken long and continued to attract interests and penalties.

The Commission had responded to the observation by pointing out that the Commission had always tried to minimize this by settling outstanding certificates immediately it received development budget grants. It is however faced with challenges when budget allocations are limited and funds disbursement delays.

In the FY 2020/2021 there were no Capital budget allocation to the Commission.

**Challenges affecting performance**

Upon its establishment, NACOSTI in consultation with State Corporations Advisory Committee (SCAC), developed an organization structure to address its expanded mandate. The approved staff establishment is 172 but currently the Commission has filled only 57 of these positions. The Commission will seek to gradually fill some of the positions in the coming Financial Years.

The Commission has also faced budget constraints as allocations through the Government recurrent and development budget has continued to reduce over the years. This has affected the capability of the Commission to effectively undertake its planned programs.

The Board of the Commission has operated for more than three years without the representative from the National Treasury and from the Kenya Private Sector Alliance (KEPSA). This affects the performance of Board Committees which have to operate a lower number of members.

## **9. ENVIRONMENTAL AND SUSTAINABILITY REPORTING**

NACOSTI endeavours to deliver on its mandate while putting its key stakeholders in the forefront, ensuring timely and quality delivery of its services, and improving operational excellence. Below is an outline of the Commission's policies and activities that promote sustainability.

### **i) Sustainability strategy and profile**

The Commission is committed to implementation of enterprise risk management programs which ensures that risk management is effectively carried out by the top management with appropriate oversight. The implementation of business continuity programmes are continuous and will continue to be enhanced in FY 2021/2022 to ensure the Commissions sustainability. With the Covid-19, the Commission continued to offer services and implementing new model of service delivery thus resulting into effecting resource utilization and cost cutting.

### **ii) Environmental performance**

The Commission initiated programs to ensure that its environmental activities remain sustainable in the long run. This effort is demonstrated by policies relating to disposal of electronic wastes, sharing of printers, just in time replenishment of stores, and printing on both sides of paper. The Commission has also participated in tree planting exercises to contribute to the Government's efforts to increase the national tree coverage.

### **iii) Employee welfare**

The Commission has a clear HR policy, which subscribes to the tenets of public service values and principles in the recruitment of staff, as provided in article 232 of the constitution. The staff are subjected to a fair performance appraisal system whose output, amongst other aspects, is the identification of areas of improvement and training. The Commissions offices are a registered place of work with the ministry of labour and thus is in compliance with Occupational Safety and Health Act of 2007, (OSHA, 2007)

### **iv) Corporate Social Responsibility / Community Engagements**

The Commission has continued to support the Government initiated Internship program to enable new graduates gain work experience through engagement of recent graduates as interns and those still in college in work attachments. During the Financial Year 2020/2021, the Commission availed internship opportunities to seventeen (17) recent graduates in various fields of training and three (3) students who required work-place attachment as part of their University training programs.

**10. REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2021 which show the state of the Commission's affairs.

**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 June 30, 2021 are set out on page 1 to 23.

**Directors**

The members of the Board of Directors who served during the year are shown on page v to page vii.

**Auditors**

The Auditor General is responsible for the statutory audit of the Commission in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board



**Prof. Walter O. Oyawa, PhD.**  
**Director General/CEO**  
Nairobi

## **11. STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of the 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 year. The Directors are also required to ensure that the Commission keeps proper accounting records which disclose with reasonable accuracy the financial position of the Commission. The Directors are also responsible for safeguarding the assets of the Commission.

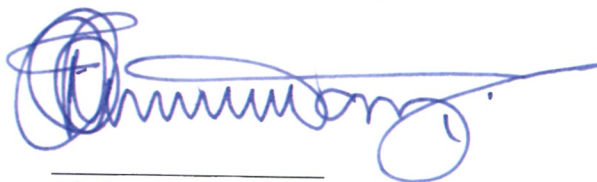
The Directors are responsible for the preparation and presentation of the Commission's financial statements, which give a true and fair view of the state of affairs of the Commission for and as at the end of the financial year ended on June 30, 2021. This responsibility includes: (i) maintaining adequate 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 Commission; (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 Directors 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 PFM Act, 2012 and the State Corporations Act. The Directors are of the opinion that the Commission's financial statements give a true and fair view of the state of the Commission's transactions during the financial year ended June 30, 2021, and of the Commission's financial position as at that date. The Directors 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.

Nothing has come to the attention of the Directors to indicate that the Commission will not remain a going concern for at least the next twelve months from the date of this statement.

### **Approval of the financial statements**

The Commission's financial statements were approved by the Board on 24<sup>th</sup> Sept 2021 and signed on its behalf by:



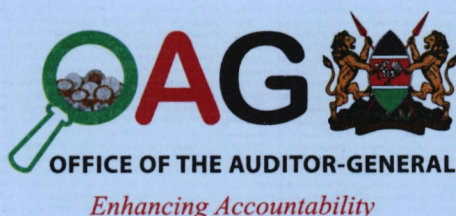
Chairman



Director General/CEO

# REPUBLIC OF KENYA

Telephone: +254-(20) 3214000  
E-mail: 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 NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION FOR THE YEAR ENDED 30 JUNE, 2021**

### 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, gazetted notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- 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, the risk management environment, and the 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 Commission for Science, Technology and Innovation set out on pages 1 to 32, which comprise of the statement of financial position as at 30 June, 2021, and the statement of financial performance, statement of cash flows, statement of changes in net assets, 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 the National Commission for Science, Technology and Innovation as at 30 June, 2021, 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 National Commission for Science, Technology and Innovation's Act, 2013.

## **Basis for Qualified Opinion**

### **1.0 Loss of Inventory**

As previously reported, the statement of financial position reflects an inventories balance of Kshs.12,778,845 which includes stock of partitioning materials worth Kshs.5,746,188 removed from the Commission's offices at Emperor Plaza Building in 1997 and transferred 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 went missing from the Ministry's godown at Industrial Area where they had been kept for safe custody.

Although, the matter has been under investigation by the Directorate of Criminal Investigations (DCI) over the last eighteen (18) years, the Director-DCI had indicated that no records were found to enable the investigations determine what happened as the police files could not be traced after five (5) years. In September, 2015, during their twentieth sitting, the Public Investment Committee deliberated on the issue and observed that the DCI had taken an inordinately long time to conclude investigations. The Committee recommended that the then Chief Executive Officer, the Corporation's officers assigned to supervise the exercise of relocating the stocks and the Ministry of Public Works Officers then in charge of the godown at Industrial Area be held accountable and be surcharged for the loss of the materials. However as at the time of this report no surcharge or recovery of the amount had been instituted.

In the circumstances, it has not been possible to confirm the accuracy of the inventories balance of Kshs.5,746,188 could not be confirmed.

### **2.0 Unsupported Accounts Receivables and Prepayments**

The statement of financial position as at 30 June, 2021 and Note 20 to the financial statements reflects receivables from non-exchange transactions balance of Kshs.145,537,183. Included in this balance is an amount of Kshs.136,642,133 relating to grants expected from the Government in the financial year 2014/2015 which were not received. The amount represents budgeted Exchequer appropriations which ought to have lapsed at the close of that accounting year. In addition, the prepayments on software

licenses of Kshs.3,264,172 have not been supported with documentation to indicate the nature and the periods the prepayments relates to.

In the circumstances, the accuracy of accounts receivables and prepayments balance of Kshs.145,537,183 and Kshs.3,264,172 respectively could not be confirmed.

### **3.0 Unsupported Trade and Other Payables**

#### **3.1 Research Grants Payable**

The statement of financial position as at 30 June, 2022 reflects a balance of Kshs.180,647,184 which, as disclosed in Note 23 to the financial statements, includes research grants payable of Kshs.1,184,223 which has been outstanding from the previous period and whose details of the activities and beneficiaries were not provided for audit review.

Information provided by Management indicated that the amounts related to second tranche payable to Japan Society for Promotion of Science (JSPS) project implementers but being held by the Commission as the implementors are yet to account for the first tranche.

In the circumstance, the accuracy of research grants balance payable of Kshs.1,184,223 could not be confirmed.

#### **3.2 Unsupported Gratuity Payable**

Included in trade and other payables balance of Kshs.180,647,184, as disclosed in Note 23 to the financial statements, is gratuity payable balance of Kshs.1,687,170 which relates to a movement from Kshs.13,726,447 as at 30 June, 2020 to Kshs.1,687,170 as at 30 June, 2021. The payment of Kshs.12,039,277 has not been supported with details of the payments made and the entitlement arising from service rendered during the year.

In the circumstances, the accuracy and completeness of the gratuity payable balance of Kshs.1,687,170 could not be confirmed.

#### **3.3 Long Outstanding Payables**

Included in trade and other payables balance of Kshs.180,647,184, as disclosed in Note 23 to the financial statement, are other payables balance of 3,702,972 which includes long outstanding and unsupported amount of Kshs.1,759,800 with Kshs.282,640 being due to the Kenya Power and Lighting Company, Kshs.477,150 due to the Postal Corporation of Kenya and Kshs.1,000,000 due to the Ministry of Public Works.

In the circumstances, the accuracy and completeness of other payables balance of Kshs.1,759,800 could not be confirmed.

### **4.0 Property Plant and Equipment**

The statement of financial position reflects property, plant and equipment balance of Kshs.1,492,176,249 which, as disclosed on Note 27 to the financial statements, includes work in progress amounting to Kshs.1,341,252,770 which Management explained as

being the Commission's headquarter costs. The Management has not capitalized the costs even though the building was commissioned and already occupied citing the fact there are disputed claims by the contractor relating to additional payments in respect of penalties and interest on delayed payment. Further, the work in progress includes an amount of Kshs.25,659,223 in respect of an Enterprise Resource Planning (ERP) system which the Management indicated to be under defects liability period though its fully operational. The documentation detailing the percentage completion of the ERP project were not provided for audit verification.

In the circumstances, the accuracy and valuation of property, plant and equipment of Kshs1,366,911,993 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Commission for Science, Technology and Innovation Management in accordance with ISSAI 130 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 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**

#### **1.0 Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.274,765,414 and Kshs.251,460,953 respectively resulting to an under-funding of Kshs.23,304,461 or 9% of the budget. The Commissions expenditure was limited to the amount realized. The deficit on income was majorly attributed to reduction in GoK recurrent grants and unrealized AIA due to fall in the number of research applicants on research licenses and permits attributed to the effect of Covid-19 Pandemic. However, there is a need by the Commission to refocus on realistic budgeting on own generated revenue to avoid over budgeting.

#### **2.0 Unresolved Prior Year Issues**

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the Public Account Committee has not deliberated on the issues.

# 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, 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. Delay in Completion of Commission Headquarters**

As previously reported, 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 works were to be completed in 22.5 months or 90 weeks from the date of site possession. However, the contract duration was initially extended by 52 weeks up to 22 December, 2014, then to December, 2015 and finally to April, 2016. The contractor had requested for a further extension of the contract period to 31 May, 2017 so as to ensure a smooth transition.

Though the Commission moved to the office block in the month of May, 2017, review of the project status financial appraisal in the final account report of 19 January, 2020, indicated that total certified work amounted to Kshs.1,297,971,643 therefore, exceeding the contract sum by Kshs.306,980,653 equivalent to 31%, although the work was behind schedule.

Management has attributed the excess amounts to variations due to cost fluctuations above the Bills of Quantity provisions, interest on delayed payment and contractual claims already provided in clause 23.3 of conditions of contract and penalties due to contractual breaches on the part of the Commission. Review of the position in the current year indicates that no change has been made and the Commission may continue to incur penalties on the certified works that remain unpaid.

### **2. Trade and Other Payable from Exchange and Transactions**

As disclosed in Note 22 to the financial statements, the statement of financial position reflects trade and other payables amounting to Kshs.244,994,037 as at 30 June, 2021, which includes an amount of Kshs.220,555,112 in respect of work in progress. Available information indicates that the amount constitutes certified works which have not been paid for as indicated below:

<b>Certificate Number</b>	<b>Certificate Date</b>	<b>Certified Amount (Kshs.)</b>
Certificate No. 23 Balance	06 July, 2017	82,541,230
Certificate No. 25	30 October, 2018	113,239,107
Certificate No. 26 Retention Money Balance	-	24,774,775
<b>Total</b>		<b>220,555,112</b>

Further, the contract states that interest on any certificate not paid for within thirty (30) days from the date for approval will be calculated at 3% above the Central Bank's average lending rate of the period overdue which was 9% and therefore the interest rate for the year was 12% for all overdue certificates. Review of outstanding payment certificates revealed that interest amounting to Kshs.147,659,596 arising from delay in payment of certified work had accrued as at 30 June, 2020. Further, the Ministry of Public Works which is the project overseer estimated an amount of Kshs.38,921,561 as outstanding contractual interest on delayed payment by 31 January, 2020. This wasteful expenditure could have been avoided had the parent Ministry settled the bills on time.

In the circumstances, the value for money in use of public funds for the amount of Kshs.147,659,596 in penalties paid could not be confirmed.

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 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 a Substantive Board of Directors

During the year under review, the term of four (4) Board Members lapsed without reappointment leaving only five (5) members to constitute the Board of Directors.

In the circumstance, the Commission could not effectively carry out its mandate as required.

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 control, 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 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Commission's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to abolish the Commission 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.

The Board of Directors is responsible for overseeing the 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 overall 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 overall 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 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 Commission's ability to continue to sustain 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 to cease to continue to sustain 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.

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

**Nairobi**

**01 September, 2022**

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**13. STATEMENT OF FINANCIAL PERFORMANCE**

	<b>Note</b>	<b>2021</b>	<b>2020</b>
		<b>Kshs.</b>	<b>Kshs.</b>
<b>Revenue from Non-Exchange Transactions</b>			
Public Contributions and donations	5	172,841,804	225,381,804
Licenses and permits	6	26,189,106	23,376,099
Collaborative Research Projects	7	30,809,070	18,400,201
<b>Revenue from Exchange Transactions</b>			
Rental Income	8	19,376,250	-
Other Income	9	2,244,723	4,168,487
<b>Total Revenue</b>		<b>251,460,953</b>	<b>271,326,591</b>
<b>Expenses</b>			
Employee Costs	10	164,140,039	183,231,582
Depreciation and Amortization Expense	11	8,474,027	9,802,390
Repairs and Maintenance	12	4,911,980	3,329,917
Contracted Professional Services	13	5,849,257	5,525,970
Collaborative Projects Cost	14	27,385,768	27,643,785
Administrative Expenses	15	42,975,972	56,565,272
Board Expenses	16	4,434,889	9,849,738
Bank Charges	17	565,058	537,956
Audit Fees	18	1,000,000	1,000,000
<b>Total Expenses</b>		<b>259,736,989</b>	<b>297,486,611</b>
<b>Surplus/(Deficit) before tax</b>		<b>(8,276,036)</b>	<b>(26,160,020)</b>
<b>Surplus/(Deficit) for the period</b>		<b>(8,276,036)</b>	<b>(26,160,020)</b>

14 STATEMENT OF FINANCIAL POSITION

	Note	2021	2020
		Kshs.	Kshs.
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	19	47,358,862	116,323,965
Accounts Receivables and Pre - Payments	20	145,537,183	139,852,098
Inventories	21	12,778,845	13,647,687
<b>Total Current Assets</b>		<b>205,674,890</b>	<b>269,823,749</b>
<b>Non Current Assets</b>			
Property, Plant and Equipment	22	1,492,176,249	1,500,650,277
<b>Total Assets</b>		<b>1,697,851,139</b>	<b>1,770,474,026</b>
<b>Current Liabilities</b>			
Trade and other payables from exchange transactions	23	180,647,184	244,994,037
<b>Total Current Liabilities</b>		<b>180,647,184</b>	<b>244,994,037</b>
<b>Net Assets</b>			
Revaluation Reserves	24	86,886,293	86,886,292
Revenue Reserves	25	292,229,436	300,505,472
Capital Grants	26	1,138,088,226	1,138,088,226
		<b>1,517,203,955</b>	<b>1,525,479,990</b>
<b>Total Net Assets and Liabilities</b>		<b>1,697,851,139</b>	<b>1,770,474,027</b>

The notes set out on pages 6 to 35 form an integral part of these Financial Statements.

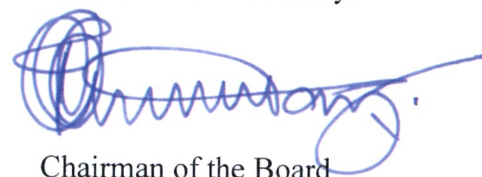
The Financial Statements set out on pages 1 to 5 were signed on behalf of the Board of Directors by:



Accounting Officer  
Prof. Walter O. Oyawa



Head of Finance  
Gideon K. Kirui  
ICPAK Member No 4005



Chairman of the Board

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**15 STATEMENT OF CHANGES IN NET ASSETS**

	Capital Grants	Revaluation Reserves	Revenue Reserves	TOTAL
	Kshs	Kshs	Kshs	Kshs
<b>1st July 2019</b>	<b>1,138,088,226</b>	<b>86,886,292</b>	<b>326,665,492</b>	<b>1,551,640,010</b>
				-
Additional Capital	-	-	-	-
				-
Surplus/(Deficit) for the period	-	-	(26,160,020)	<b>(26,160,020)</b>
<b>30th June 2020</b>	<b>1,138,088,226</b>	<b>86,886,292</b>	<b>300,505,472</b>	<b>1,525,479,990</b>

<b>1st July 2020</b>	<b>1,138,088,226</b>	<b>86,886,292</b>	<b>300,505,472</b>	<b>1,525,479,990</b>
				-
Additional Capital	-	-	-	-
				-
Surplus/(Deficit) for the period	-	-	(8,276,036)	<b>(8,276,036)</b>
<b>30th June 2021</b>	<b>1,138,088,226</b>	<b>86,886,292</b>	<b>292,229,436</b>	<b>1,517,203,954</b>

16. STATEMENT OF CASH FLOWS

	Note	2021	2020
		Kshs.	Kshs.
<b>Cash flow from Operating Activities</b>			
Surplus/(Deficit) for the year		(8,276,036)	(26,160,020)
Adjustments for items not involving cash movements			
Depreciation	11	8,474,027	9,802,390
<b>Surplus before working capital changes</b>		<b>197,991</b>	<b>(16,357,630)</b>
<b>Working Capital Changes</b>			
Decrease/Increase in Inventory	21	868,843	4,452,451
Increase in Accounts Receivables	20	(5,685,085)	(3,209,965)
Decrease/Increase in Accounts Payables	23	(64,346,853)	(59,774,833)
<b>Net Cash flow from operating activities</b>		<b>(68,965,103)</b>	<b>(74,889,977)</b>
<b>Cash flow from Investing Activities</b>			
Capital Grants	26	-	-
Changes in Fixed Assets	27	-	(44,826,480)
<b>Increase/Decrease in Cash and Cash Equivalents</b>		<b>(68,965,103)</b>	<b>(119,716,457)</b>
<b>Cash and Cash Equivalents - Beginning</b>		<b>116,323,965</b>	<b>236,040,422</b>
<b>Cash and Cash Equivalents - Ending</b>	19	<b>47,358,862</b>	<b>116,323,965</b>

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**17. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference	Percentage of Utilization
	Kshs			Kshs	Kshs	
<b>Revenue</b>						
Recurrent Grants	202,841,804		202,841,804	172,841,804	(30,000,000)	85%
Licenses and Permits Fees	43,000,000		43,000,000	26,189,106	(16,810,894)	61%
Rental Income	8,500,000		8,500,000	19,376,250	10,876,250	228%
Collaborative Research Projects	20,423,610	10,385,460	30,809,070	30,809,070	0.45	-
Other Income	-		-	2,244,723	2,244,723	-
<b>Total Income</b>	<b>274,765,414</b>		<b>285,150,874</b>	<b>251,460,953</b>	<b>(33,689,921)</b>	<b>88%</b>
<b>Expenses</b>						
Employee Costs	171,313,676		171,313,676	164,140,039	7,173,637	96%
Repairs and Maintenance	4,350,000		4,350,000	4,911,980	(561,980)	113%
Contracted Professional Services	8,014,800		8,014,800	5,849,257	2,165,543	73%
Administrative Expenses	56,543,328		56,543,328	42,975,972	13,567,356	76%
Board Expenses	9,720,000		9,720,000	4,434,889	5,285,111	46%
Bank Charges	800,000		800,000	565,058	234,942	71%
Audit Fee	1,000,000		1,000,000	1,000,000	-	-
Depreciation Expense	2,600,000		2,600,000	8,474,027	(5,874,027)	326%
Collaborative Projects Cost	20,423,610	10,385,460	30,809,070	27,385,768	3,423,302	89%
<b>Total Expenses</b>	<b>274,765,414</b>		<b>285,150,874</b>	<b>259,736,989</b>	<b>25,413,885</b>	<b>91%</b>
<b>Surplus/(Deficit)</b>	<b>-</b>		<b>-</b>	<b>(8,276,036)</b>		

**Budget notes**

1. GoK recurrent grants reduced by Ksh. 30,000,000.00 in the final quarter of the year due to budget cut following supplementary budget review. This amounted to a 15% reduction in GoK recurrent grants
2. AIA due from research licences and permits realized fell short of the target by 39%. This was due to the fall in the number of research applicants attributed to the effect of Covid-19 Pandemic
3. Rental income target was surpassed by 128% due to early occupancy of the offices while income from collaborative research projects also increased by 51% as more collaborative projects were funded.
4. Various operational expenses reduced due to the budget constraints. However, Collaborative research projects expenses increased due to the increase in revenue hence increase in activities. Repairs and maintenance also increased due to building repairs carried out in readiness for rental of office spaces.

## **18. NOTES TO THE FINANCIAL STATEMENTS**

### **1. General Information**

The Commission is established by and derives its authority and accountability from the STI Act, 2013. The Commission is wholly owned by the Government of Kenya and is domiciled in Kenya. The Commission's principal activity is to promote and to regulate the conduct of research.

### **2. Statement of Compliance and Basis of Preparation**

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the *Commission's* accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5 of these financial statements.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Commission.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

### **3. Adoption of New and Revised Standards**

- i. New and amended standards and interpretations in issue effective in the year ended 30 June 2021.*

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Standard	Impact
Other Improvements to IPSAS	<p><b>Applicable: 1<sup>st</sup> January 2021:</b></p> <p>a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks.</p> <p>b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment. Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved.</p> <p>c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets.</p> <p>d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard.</p> <p><b>The amendment has no impact to the financial statements of the Commission</b></p>

*ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021.*

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	<p><b>Applicable: 1<sup>st</sup> January 2023:</b></p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Commission's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> <li>• Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>• Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Commission's risk management strategies and</li> </ul>

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Standard	Effective date and impact:
	<p>the accounting treatment for instruments held as part of the risk management strategy.</p> <p><b>The Commission has no financial instruments hence the standard will not affect the financial statements of the Commission in a foreseeable future.</b></p>
<p><b>IPSAS 42:</b> Social Benefits</p>	<p><b>Applicable: 1<sup>st</sup> January 2023</b></p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Commission provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p> <p>(a) The nature of such social benefits provided by the Commission;</p> <p>(b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the Commission's financial performance, financial position and cash flows.</p> <p><b>The standard is relevant to the Commission and relevant information will be provided on social benefits in the financial statements from time to time</b></p>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p><b>Applicable: 1st January 2023:</b></p> <p>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p> <p>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</p> <p>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</p> <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p> <p><b>The Commission has no financial instruments hence the standard will not have impact of the financial statements of the Commission in a foreseeable future.</b></p>

*iii. Early adoption of standards*

The Commission did not early – adopt any new or amended standards in year 2020/2021.

#### **4. Summary of Significant Accounting Policies**

##### **a) Revenue recognition**

##### **i) Revenue from non-exchange transactions**

###### **Fees, taxes and fines**

The Commission recognizes revenues from fees, taxes and fines 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, deferred income is recognized instead of revenue. 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 Commission 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 Commission and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

###### **Rendering of services**

The Commission recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

###### **Sale of goods**

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the Commission.

###### **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.

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**ii) Revenue from exchange transactions**

**Dividends**

Dividends or similar distributions must be recognized when the shareholder's or the Commission's right to receive payments is established.

**Rental income**

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

**b) Budget information**

The original budget for FY 2020-2021 was approved by the National Assembly. 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 or deducted from the original budget by the Commission upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Commission did not receive additional appropriations for the 2020-2021 budget but suffered a budget reduction of Ksh. 30M.

The Commission'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 a 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.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section xxx of these financial statements.

**c) Taxes**

**Current income tax**

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Commission operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

**Deferred tax**

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable Commission and the same taxation authority.

***Sales tax***

Expenses and assets are recognized net of the amount of sales tax, except:

- i) When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- ii) When receivables and payables are stated with the amount of sales tax included  
The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

**d) Investment property**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

**e) 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 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.

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

**f) Leases**

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Commission. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if

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lower, at the present value of the future minimum lease payments. The Commission 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 so as 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 Commission 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.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Commission. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

**g) 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.

**h) 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:

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

**i) Financial instruments**

**a) Financial assets**

**Initial recognition and measurement**

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Commission determines the classification of its financial assets at initial recognition.

**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.

**Held-to-maturity.**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Commission has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are 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. The losses arising from impairment are recognized in surplus or deficit.

**Impairment of financial assets**

The Commission assesses at each reporting date whether there is objective evidence that a financial asset or an Commission of financial assets is impaired. A financial asset or a Commission of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Commission of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- i) The debtors or an Commission of debtors are experiencing significant financial difficulty.
- ii) Default or delinquency in interest or principal payments
- iii) The probability that debtors will enter bankruptcy or other financial reorganization.
- iv) Observable data indicates a measurable decrease in estimated future cash flows (e.g., changes in arrears or economic conditions that correlate with defaults)

**b) Financial liabilities**

**Initial recognition and measurement**

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Commission determines the classification of its financial liabilities at initial recognition., All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

**Loans and borrowing**

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process. 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.

**j) 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:

- i) Raw materials: purchase cost using the weighted average cost method.
- ii) 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.

**k) Provisions**

Provisions are recognized when the Commission 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 Commission 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.

**l) Contingent liabilities**

The Commission 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.

**m) Contingent assets**

The Commission 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

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future events not wholly within the control of the Commission in the notes to the financial statements. Contingent assets are assessed continually to ensure that 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.

**n) Nature and purpose of reserves**

The Commission creates and maintains reserves in terms of specific requirements. The following reserves are maintained

- Gratuity provision and
- Depreciation provision

**o) Changes in accounting policies and estimates**

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

**p) Employee benefits**

**Retirement benefit plans**

The Commission provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which the Commission pays fixed contributions into a separate Commission (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.

**q) Foreign currency transactions**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of 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.

**r) Borrowing costs**

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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.

**s) Related parties**

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

**t) Service concession arrangements**

The Commission 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 Commission 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 Commission also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

**u) 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. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**v) Comparative figures**

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

**w) 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, 2021.

### **Significant Judgments and Sources of Estimation Uncertainty**

The preparation of the Commission'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. State all judgements, estimates and assumptions made: e.g

### **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 Commission 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

### **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:

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

### **Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in **Note 23**.

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. The Commission makes provisions for Gratuity payable to contract staff.

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Note	2021 Kshs.	2020 Kshs.
<b>5 Public Contributions and donations</b>		
Recurrent Grants	172,841,804	225,381,804
Other Government Grants		-
	<u>172,841,804</u>	<u>225,381,804</u>
<b>6 Licenses and permits</b>		
Research Permit Fees	26,189,106	23,376,099
<b>7 Collaborative Research Projects Income</b>		
EU Projects	12,278,348	-
CTBTO	17,979,100	10,554,202
IDRC	-	5,492,900
Other Projects	551,622	2,353,099
	<u>30,809,070</u>	<u>18,400,201</u>
<b>8 Rental Income</b>		
Rent Income	15,631,500	-
Service Charge	3,744,750	-
	<u>19,376,250</u>	<u>-</u>
<b>9 Other Income</b>		
Bank Interest/Other Incomes	2,244,723	4,168,487
<b>10 Employee Costs</b>		
Salaries and Allowances	138,376,620	147,093,573
Wages - Contract Staff	129,618	2,403,009
Staff Insurance	9,482,368	9,181,565
Domestic Travel	13,845,210	14,806,205
Foreign Travel	945,469	7,825,937
Hospitality	1,360,754	1,921,293
	<u>164,140,039</u>	<u>183,231,582</u>
<b>11 Depreciation and Amortization Expense</b>		
Property, Plant and Equipment	8,474,027	9,802,390

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**12 Repairs and Maintenance**

Computers and Softwares	1,142,455	750,907
Building and Stations	1,396,501	560,906
Motor Vehicles	2,342,403	1,669,775
Furniture and Equipment	30,621	348,329
	<b>4,911,980</b>	<b>3,329,917</b>

**13 Contracted Professional Services**

Security Services	2,203,745	2,673,200
Cleaning and Garbage Collection	2,866,287	2,802,770
Legal Services	724,367	-
Transport and Relocation Services	54,858	50,000
	<b>5,849,257</b>	<b>5,525,970</b>

**14 Collaborative Research Projects Costs**

EU Projects	2,266,732	4,263,912
CTBTO	16,254,012	17,310,549
IDRC	7,550,480	3,350,727
Others	1,314,544	2,718,597
	<b>27,385,768</b>	<b>27,643,785</b>

**15 Administrative Expenses**

Utilities and Supplies	2,750,465	3,316,867
Communication Supplies and Services	8,301,867	8,807,078
Printing, Advertising, Information Supplies and Services	3,115,858	3,087,865
Office and General Supplies	2,968,440	6,434,240
Fuel, Oil and Lubricants	1,524,000	1,556,714
Rent and Rates	2,634,895	403,625
Trade Shows and Exhibitions	932,000	1,253,313
Motor Vehicle Insurance	500,164	676,034
Other Operating Expenses	63,250	1,191,090
Committee and Conferences	12,159,318	21,471,484
Cleaning Materials and Services	-	-
Computer Supplies and Accessories	3,220,378	4,779,349
Training Expenses	4,805,338	3,587,614
	<b>42,975,972</b>	<b>56,565,272</b>

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<b>16 Board Expenses</b>		
Sitting Allowance	3,036,140	6,320,000
Lunch Allowance	158,000	505,330
Accomodation	746,200	1,254,010
Transport	42,710	726,398
Airtime	36,355	84,000
Honoraria	415,484	960,000
	<b>4,434,889</b>	<b>9,849,738</b>
<b>17 Bank Charges</b>	565,058	537,956
<b>18 Audit Fees</b>	1,000,000	1,000,000
This is NACOSTI's payment to the Office of the Auditor General		
<b>19 Cash and cash equivalents</b>		
Kenya Commercial Bank	24,896,625.15	56,062,606
NCBA Bank	22,307,828	60,049,433
Cash on Hand	154,409	211,926
	<b>47,358,862</b>	<b>116,323,965</b>
<b>20 Accounts Receivables and Prepayments</b>		
Grants Receivable	136,642,133	136,642,133
Prepayments and Other Receivables	5,223,050	3,209,965
Rent Receivable	3,672,000	-
	<b>145,537,183</b>	<b>139,852,098</b>
Grants receivable relates to grants that were to be received from Government in the FY 2014/2015 but was not received by the end of the FY.		
<b>21 Inventories</b>		
Partitioning materials	5,746,188	5,746,188
Consumable stores	7,032,657	7,901,499
	<b>12,778,845</b>	<b>13,647,687</b>
<b>22 Property Plant and Equipment</b>		
Fixed Assets Schedule as in Note 27		

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**23 Trade and other payables**

Provision for Audit Fees	1,000,000	1,000,000
Milicons Ltd - WIP	173,072,820	220,555,112
Research Grants payable	1,184,223	1,184,223
Gratuity Payable	1,687,170	13,726,447
Other Payables	3,702,972	8,528,256
	<b>180,647,184</b>	<b>244,994,037</b>

**24 Revaluation Reserves**

Land valued in February 2011 and motor vehicles revalued in 2016	86,886,293	86,886,293
	<b>86,886,293</b>	<b>86,886,293</b>

**25 Revenue Reserves**

Opening Balance	300,505,472	326,665,492
Surplus/(Deficit) for the year	(8,276,036)	(26,160,020)
<b>Total</b>	<b>292,229,436</b>	<b>300,505,472</b>

**26 Capital Grants**

Opening Balance	1,138,088,226	1,138,088,226
Capital grants for the year		-
<b>Total</b>	<b>1,138,088,226</b>	<b>1,138,088,226</b>

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**27 Property, Plant and Equipment**

**FINANCIAL YEAR ENDED 30 JUNE 2021**

Column1	Land & Buildings	Furniture & Fittings	Plant & Equipment	Motor Vehicles	Computers	W-i-P (Building) & Fittings)	W-in-P (Furniture & Fittings)	W-i-P (ERP System)	Total
Rate	0.00%	12.50%	12.50%	25.00%	30.00%	0.00%	0.00%	0.00%	
Cost 1 July 2020	86,000,000	63,339,026	12,835,394	48,600,122	34,015,521	1,341,252,770	-	25,659,223	1,611,702,056
Disposals	-	-	-	-	-	-	-	-	-
Additions	-	6,691,440	-	-	-	-	-	-	6,691,440
<b>Cost 30 June 2021</b>	<b>86,000,000</b>	<b>70,030,466</b>	<b>12,835,394</b>	<b>48,600,122</b>	<b>34,015,521</b>	<b>1,341,252,770</b>	<b>-</b>	<b>25,659,223</b>	<b>1,618,393,496</b>
Accum Depreciation 1 July 2020	-	44,638,894	8,048,689	37,274,935	27,780,701	-	-	-	117,743,219
Accum Depreciation on Disposals	-	-	-	-	-	-	-	-	-
Charge for the Year	-	3,173,946	598,338	2,831,297	1,870,446	-	-	-	8,474,027
Accum Depreciation 30 June 2021	-	47,812,840	8,647,027	40,106,232	29,651,147	-	-	-	126,217,246
<b>Net Book Value 30 June 2021</b>	<b>86,000,000</b>	<b>22,217,625</b>	<b>4,188,367</b>	<b>8,493,890</b>	<b>4,364,374</b>	<b>1,341,252,770</b>	<b>-</b>	<b>25,659,223</b>	<b>1,492,176,249</b>
<b>Net Book Value 30 June 2020</b>	<b>86,000,000</b>	<b>18,700,132</b>	<b>4,786,705</b>	<b>11,325,187</b>	<b>6,234,820</b>	<b>1,341,252,770</b>	<b>6,691,440</b>	<b>25,659,223</b>	<b>1,500,650,277</b>

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**28 Valuation**

Land was valued by an independent valuer in February 2011.

**29 Cash Generated from Operations**

	<b>Note</b>	<b>2021</b>	<b>2020</b>
		<b>Kshs.</b>	<b>Kshs.</b>
<b>Cash flow from Operating Activities</b>			
Surplus/(Deficit) for the year		(8,276,036)	(26,160,020)
Adjustments for items not involving cash movements			
Depreciation	11	8,474,027	9,802,390
<b>Surplus before working capital changes</b>		<b>197,991</b>	<b>(16,357,630)</b>
<b>Working Capital Changes</b>			
Decrease/Increase in Inventory	21	868,843	4,452,451
Increase in Accounts Receivables	20	(5,685,085)	(3,209,965)
Decrease/Increase in Accounts Payables	23	(64,346,853)	(59,774,833)
<b>Net Cash flow from operating activities</b>		<b>(68,965,103)</b>	<b>(74,889,977)</b>

**30 Financial Risk Management**

The Commission's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Commission's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Commission does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Commission's financial risk management objectives and policies are detailed below:

**i) Credit risk**

The Commission has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments. Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Commission's management based on prior experience and their assessment of the current economic environment.

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**Financial Risk Management**

The carrying amount of financial assets recorded in the financial statements representing the Commission's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	<b>Total amount Kshs</b>	<b>Fully performing Kshs</b>	<b>Past due Kshs</b>	<b>Impaired Kshs</b>
<b>As at 30 June 2021</b>				
Receivables from exchange transactions	0	0	0	0
Receivables from non exchange transactions	145,420,764	8,778,631	136,642,133	0
Bank balances	47,358,862	47,358,862	0	0
<b>Total</b>	<b>192,779,626</b>	<b>56,137,493</b>	<b>136,642,133</b>	<b>0</b>
<b>As at 30 June 2020</b>				
Receivables from exchange transactions	0	0	0	0
Receivables from non exchange transactions	139,852,098	3,209,965	136,642,133	0
Bank balances	116,323,965	116,323,965	0	0
<b>Total</b>	<b>256,176,063</b>	<b>119,553,930</b>	<b>136,642,133</b>	<b>0</b>

Receivables from Non- exchange transactions of Kshs. 136,642,133 relates to grants that was to be received from the Government in the FY 2014/2015 but was not received by the end of the year. The customers under the fully performing category are paying their debts. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the Commission has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The Commission has significant concentration of credit risk on amounts due from the Government of Ksh. 136,642,133.

The board of directors sets the Commission's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

**ii) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Commission's directors, who have built an appropriate liquidity risk management framework for the management of the Commission's short, medium and long-term funding and liquidity management requirements. The Commission manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

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The table below represents cash flows payable by the Commission under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
<b>As at 30 June 2021</b>				
Trade payables	0	0	178,653,634	178,653,634
Current portion of borrowings	0	0	0	0
Provisions	0	0	0	0
Deferred income	0	0	0	0
Employee benefit obligation	1,687,170			1,687,170
<b>Total</b>	<b>1,687,170</b>	<b>0</b>	<b>178,653,634</b>	<b>180,340,016</b>
<b>As at 30 June 2020</b>				
Trade payables	0	0	231,267,590	231,267,590
Current portion of borrowings	0	0	0	0
Provisions	0	0	0	0
Deferred income	0	0	0	0
Employee benefit obligation	13,726,447	0	0	13,726,447
<b>Total</b>	<b>13,726,447</b>	<b>0</b>	<b>231,267,590</b>	<b>244,994,037</b>

**iii) Market risk**

The entity has put in place an internal audit function to assist it in assessing the risk faced by the Commission on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Commission's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The Commission's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies. There has been no change to the Commission's exposure to market risks or the manner in which it manages and measures the risk.

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**a) Foreign currency risk**

The Commission has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The Commission manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments. The carrying amount of the Commission's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

**FY 2021**

	<b>Ksh</b>	<b>Other currencies</b>	<b>Total</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
<b>As at 30 June 2021</b>			
<b>Financial assets</b>			
Investments	0	0	0
Cash	0	22,307,828	<b>22,307,828</b>
Debtors	0	0	0
<b>Total financial assets</b>	<b>0</b>	<b>22,307,828</b>	<b>22,307,828</b>
<b>Financial Liabilities</b>			
Trade and other payables	<b>0</b>	0	<b>0</b>
Borrowings	0	0	0
<b>Total financial liabilities</b>	<b>0</b>	0	<b>0</b>
<b>Net foreign currency asset/(liability)</b>	<b>0</b>	<b>22,307,828</b>	<b>22,307,828</b>

**FY 2020**

	<b>Ksh</b>	<b>Other currencies</b>	<b>Total</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
<b>As at 30 June 2020</b>			
<b>Financial assets</b>			
Investments	0	0	0
Cash	0	60,049,433	<b>60,049,433</b>
Debtors	0	0	0
<b>Total financial assets</b>	<b>0</b>	<b>60,049,433</b>	<b>60,049,433</b>
<b>Financial Liabilities</b>			
Trade and other payables	0	0	0
Borrowings	0	0	0
<b>Total financial liabilities</b>	<b>0</b>	0	<b>0</b>
<b>Net foreign currency asset/(liability)</b>	<b>0</b>	<b>60,049,433</b>	<b>60,049,433</b>

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**Foreign currency sensitivity analysis**

The following table demonstrates the effect on the Commission's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	<b>Change in currency rate</b>	<b>Effect on Profit before tax</b>	<b>Effect on Equity/Net assets</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
<b>2021</b>			
Euro	10%	0	0
USD	10%	2,230,792	2,230,792
<b>2020</b>			
Euro	10%	0	0
USD	10%	6,004,943.26	6,004,943.26

**b) Interest rate risk**

Interest rate risk is the risk that the Commission's financial condition may be adversely affected as a result of changes in interest rate levels. The Commission's interest rate risk arises from bank deposits. This exposes the Commission to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Commission's deposits.

**Management of interest rate risk**

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

**Fair value of financial assets and liabilities**

**a) Financial instruments measured at fair value.**

**Determination of fair value and fair values hierarchy**

IPSAS 30 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the *Commission's* market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The *Commission* considers relevant and observable market prices in its valuations where possible.

Disclosures of fair values of financial instruments not measured at fair value have not been made because the carrying amounts are a reasonable approximation of their fair values.

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**iv) Capital Risk Management**

The objective of the Commission's capital risk management is to safeguard the Commission's ability to continue as a going concern. The Commission capital structure comprises of the following funds:

	<b>2020-2021</b>	<b>2019-2020</b>
	<b>Kshs</b>	<b>Kshs</b>
Revaluation reserve	86886293	86,886,292
Retained earnings	293,430,185	300,505,472
Capital reserve	1,138,088,226	1,138,088,226
<b>Total funds</b>	<b>1,518,404,704</b>	<b>1,525,479,990</b>
Total borrowings	179,340,016	244,994,037
Less: cash and bank balances	(47,368,862)	(116,323,965)
Net debt/(excess cash and cash equivalents)	131,971,154	128,670,072
<b>Gearing</b>	<b>8.7%</b>	<b>8.4%</b>

**31 Related Party Disclosures**

**Nature of related party relationships**

Entities and other parties related to the Commission 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 *Commission*, holding 100% of the *Commission's* equity interest.

**Other related parties include:**

- i) The Parent Ministry;
- ii) County Governments
- iii) Other SCs and SAGAs
- iv) Key management;
- v) Board of directors;

	<b>2020-2021</b>	<b>2019-2020</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Transactions with related parties</b>		
<b>a) Sales to related parties</b>		
Sales of electricity to Govt agencies	-	-
Rent Income from govt. agencies	19,376,250	-
Water sales to Govt. agencies	-	-
Others (Specify) e.g Interest and Bank charges	-	-

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	<b>2020-2021</b>	<b>2019-2020</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Total</b>	<b>19,376,250</b>	<b>-</b>
<b>b) Purchases from related parties</b>	<b>-</b>	<b>-</b>
Purchases of electricity from KPLC	-	-
Purchase of water from govt service providers	-	-
Rent expenses paid to govt agencies	-	-
Training and conference fees paid to govt. agencies	-	-
Others (specify)	-	-
<b>Total</b>	<b>-</b>	<b>-</b>
<b>b) Grants /Transfers from the Government</b>	<b>-</b>	<b>-</b>
Grants from National Govt	172,841,804	225,381,804
Grants from County Government	-	-
Donations in kind	-	-
<b>Total</b>	<b>172,841,804</b>	<b>225,381,804</b>
<b>c) Expenses incurred on behalf of related party</b>	<b>-</b>	<b>-</b>
Payments of salaries and wages for xxx employees	-	-
Payments for goods and services for xxx	-	-
<b>Total</b>	<b>-</b>	<b>-</b>
<b>d) Key management compensation</b>	<b>-</b>	<b>-</b>
Directors' emoluments	4,434,889	9,849,738
Compensation to key management	-	-
<b>Total</b>	<b>4,434,889</b>	<b>9,849,738</b>

### **32 Events after the Reporting Period**

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

### **33 Ultimate And Holding Commission**

The Commission is a State Corporation/ or a Semi- Autonomous Government Agency under the Ministry of Education. Its ultimate parent is the Government of Kenya.

### **34 Currency**

The financial statements are presented in Kenya Shillings (Kshs).

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**APPENDIX**

**APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

<b>Reference No. on the external audit Report</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Status: (Resolved / Not Resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>
NCST/77/2012/2013(8)	<b>Inventories:</b> 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, who have since written back to Parliament recommending that this matter should be closed due to challenges in tracing relevant documents.	The Commission is waiting for feedback from the Inspectorate of State Corporations and/or Parliament.	Next External Audit
	<b>Work in Progress:</b> Completion of NACOSTI Headquarters Building has taken long and is attracting interests and penalties	The Auditors observed that completion of NACOSTI Headquarters Building had taken long and continued to attract interests and penalties.  The Commission had responded to the observation by pointing out that the Commission had always tried to minimize this by settling outstanding certificates immediately it received development budget grants. It is however faced with challenges when budget allocations are limited and funds disbursement delays. During the FY 2019/2020, the Commission has made efforts to settle the amounts due to the contractors for works done. The main contractor is	Payment for works done and pending payments relate to claims only.	Next External Audit

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<b>Reference No. on the external audit Report</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Status: (Resolved / Not Resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>
		however still claiming penalties for delayed payments and other contractual claims which the project supervisors are not in agreement with. The main contractor has declared a dispute on these claims and commenced the process of arbitration.		

**Guidance Notes:**

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the “Issue/Observation” and “management comments”, required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your Commission responsible for implementation of each issue;
- (iv) Indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report to National Treasury.

Director General/C.E.O



Date.....

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**APPENDIX II: PROJECTS IMPLEMENTED BY THE COMMISSION**

Projects implemented by the State Corporation/ SAGA Funded by development partners and/ or the Government.

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1						
2						

**Status of Projects completion**

*(Summarise the status of project completion at the end of each quarter, ie total costs incurred, stage which the project is etc)*

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1							
2							

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**APPENDIX III: INTER-AGENCY TRANSFERS**

<b>COMMISSION NAME:</b>				
<b>Break down of Transfers from the State Department of University Education and Research</b>				
<b>FY 2020/2021</b>				
<b>a.</b>	<b>Recurrent Grants</b>			
		<b><u>Bank Statement Date</u></b>	<b><u>Amount (KShs)</u></b>	<b><u>Indicate the FY to which the amounts relate</u></b>
		10.05.2021	20,710,451.00	2020/2021
		04-02-2021	50,710,451.00	2020/2021
		06-01-2021	50,710,451.00	2020/2021
		18-08-2020	50,710,451.00	2020/2021
		<b>Total</b>	<b>172,841,804.00</b>	
<b>b.</b>	<b>Development Grants</b>			
		<b><u>Bank Statement Date</u></b>	<b><u>Amount (KShs)</u></b>	<b><u>Indicate the FY to which the amounts relate</u></b>
			-	
			-	
			-	
		<b>Total</b>	-	
<b>c.</b>	<b>Direct Payments</b>			
		<b><u>Bank Statement Date</u></b>	<b><u>Amount (KShs)</u></b>	<b><u>Indicate the FY to which the amounts relate</u></b>
			-	
			-	
		<b>Total</b>	-	
<b>d.</b>	<b>Donor Receipts</b>			
		<b><u>Bank Statement Date</u></b>	<b><u>Amount (KShs)</u></b>	<b><u>Indicate the FY to which the amounts relate</u></b>
			-	
			-	
		<b>Total</b>	-	

The above amounts have been communicated to and reconciled with the parent Ministry

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APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds	Date received	Nature: Recurrent/Development/Others	Total Amount - KES	Where Recorded		
	as per bank statement			Statement of Financial Performance	Capital Fund	Deferred Income
Ministry of Planning and Devolution	0	Recurrent	0	0	0	
Ministry of Planning and Devolution	0	Development	0	0	0	
USAID	0	Donor Fund	0	0	0	
Ministry of Planning and Devolution	0	Direct Payment	0	0	0	
			0	0	0	
<b>Total</b>			0	0	0	