
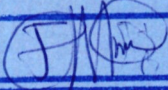


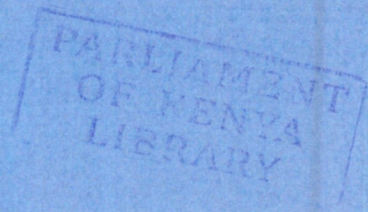
REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 26 MAR 2019	DAY: TUESDAY
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THE AUDITOR-GENERAL

ON

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

FOR THE YEAR ENDED
30 JUNE 2018



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

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
30 JUNE 2018**

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

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KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

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

The Commission 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 current Board was appointed on 6th December 2017 vide Gazette Notice Numbers 11926 for the Chairperson and 11927 for the Members.

(b) Principal Activities

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

(c) Key Management

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

- Board of Commissioners;
- Director General/ CEO; and
- Management

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Director General/CEO	Dr. Moses K. Rugutt
2.	Director, Scheduled Sciences	Dr. Roy B. Mugiira
3.	Director, Research Accreditation and Quality Assurance	Dr. Stephen K. Karimi
4.	Director, Corporate Services	Ms. Emilly M. Ongaga

(e) Fiduciary Oversight Arrangements

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

(f) Commission's Headquarters

National Commission for Science, Technology and Innovation
NACOSTI Headquarters Building
Off Waiyaki Way, Upper Kabete
P.O. Box 30623-00100
Nairobi, KENYA

(g) Commission's Contacts

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

(h) Commission's Bankers

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

(i) Independent Auditors

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

(j) Principal Legal Adviser

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

BOARD OF THE COMMISSION

MEMBERS OF THE BOARD



Prof. Tom Peter Migun Ogada, PhD, MSc, MBA – Chairman

Prof Tom Peter Migun Ogada, (59 years) was appointed the Chairman of the Board on 6th 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 the 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.



Prof. Collette A. Suda, PhD, FKNAS, CBS - Member

Prof. Collette A. Suda, PhD, FKNAS, CBS is the Chief Administrative Secretary and Principal Secretary State Department for University Education and Research, Ministry of Education.

Prof. Suda is the former Secretary for Gender and Social Development, Ministry of Gender, Children and Social Development. Previously, she was the Director, Institute of African Studies and Director, Board of Common Undergraduate Courses, University of Nairobi. She also served as a member of the National Commission on Gender and Development and a member of the Advisory Board of the Women Enterprise Fund, among others. Prof. Suda is a full Professor of Sociology at the Institute of African Studies. She is a fellow of the National Academy of Sciences (FKNAS). She has served as an external Examiner at Moi University, Maseno University and the University of Dar-es-Salaam.

Prof. Suda has published widely in national and international scholarly and peer refereed journals and also contributed several book chapters. She has extensive research experience as principal investigator in the areas of gender, family studies, social change and sustainable rural development.



Dr. Nicholas Kibiwott Letting', PhD, FCPA (K), FCS (K), HSC, MKIM, MIHRM, CIFA – Member

Dr. Nicholas Letting' (47 years) was appointed a member of the Board on 6th 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 by 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 (19 years) experience in senior management positions in leading organizations in the country. He is the Vice Chancellor and Chief Executive Officer of The Management University of Africa (MUA).



Ms. Rachel Shibalira, Msc (Environmental Planning and Management), LLB (Hons), Dip (Law) – Member

Ms. Rachel Shibalira (46 years) was appointed a member of the Board in 6th 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.



Prof. Francis Wamakima Muregi, PhD (Medical Science), Msc (Biochemistry and Biotechnology), Bsc (Biochemistry) – Member

Prof. Francis Wamakima Muregi (47 years) was appointed a member of the Board in 6th December, 2017. He is a PhD holder in medical sciences from Hamamatsu University School of Medicine, a Master of Science (Biochemistry, Biotechnology) 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).



Dr. Jemimah Onsare, PhD - Member

Dr. Jemimah Onsare (42 years) is 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.



Dr. Salome Guchu, PhD - Member

Dr. Salome Guchu is the Ag. Chief Executive Officer of Kenya National Innovation Agency (KENIA). She holds a Doctor of Philosophy Degree in Chemistry from the University of Nairobi and is a member of Kenya Chemical Society. Dr. Guchu has undertaken various professional development programmes in Science, Technology and Innovation Policy Development, Strategic Leadership and Corporate Governance. Her experience is on use of research for evidence informed policy making and on technology and innovation management.







Dr. Moses K. Rugutt, PhD, OGW, Director General/Chief Executive Officer

Dr. Rugutt (BVM, MSC, PhD, OGW) is currently the Director General of National Commission for Science, Technology and Innovation. He joined the predecessor of NACOSTI, the National Council for Science and Technology (NCST) in 2010 as Deputy Council Secretary. He has previously worked with Kenya Agricultural Research Institute in its Animal Health Programme. He holds a Bachelor of Veterinary Medicine (BVM) University of Nairobi, a Master's degree in Tropical Veterinary Science and a Ph.D. in Veterinary Parasitology from Glasgow University Veterinary School.

By virtue of his office, Dr. Rugutt sits in the Boards of various Organizations where NACOSTI is represented. He has wide experience in development of Science, Technology and Innovation programs.

National Commission for Science, Technology and Innovation
Annual Reports and Financial Statements
For the year ended 30 June 2018

MANAGEMENT TEAM

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

CHAIRMAN'S STATEMENT

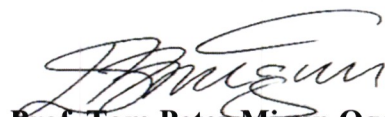
The National Commission for Science, Technology and Innovation was established by the Science Technology and Innovation Act of 2013. It is the successor to the National Council for Science and Technology. The Commission was commenced on 24 June, 2014.

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

We have for the 7th year running held the National Science, Technology and Innovation Week to showcase Kenya's achievements and breakthrough in Science, Technology and Innovation and to appraise and create public awareness of the development and achievement of Science, Technology and Innovation in Kenya.

The Commission, recognizing the important role its workforce plays, has made significant strides to complete the process of transferring staff who were earlier employees of the Parent Ministry, in order to establish the staff status. The Commission also engages in relevant workshops and training including but not limited to sensitization and team building.

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




Prof. Tom Peter Migun Ogada, PhD.
Chairperson

REPORT OF THE CHIEF EXECUTIVE OFFICER

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

The Commission has played a key role in the implementation of partnership programmes with development partners and collaborating foreign Governments including 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 the International Atomic Energy Agency, the International Centre for Genetic Engineering and Biotechnology and the Biological Toxins Weapons Convention.

I thank the Ministry of Education and the Board of NACOSTI for the continued support to the implementation of NACOSTI Programmes. I am also indebted to the NACOSTI staff for their dedication and commitment to duty towards this achievement. I look forward to a great and more fruitful 2018/19 Financial Year.



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

CORPORATE GOVERNANCE STATEMENT

The National Commission for Science, Technology and Innovation (NACOSTI) is the successor to National Council for Science and Technology (NCST) and was established after the commencement of the Science, Technology and Innovation Act, 2013 on 24 June, 2013. The Commission's Mission is to improve the quality of life of Kenyans by integrating science and technology in social and economic development. It regulates, assures quality, promotes, coordinates and advises on science, technology, innovation and research.

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

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

The Commission is governed by a Board of nine (9) persons with the Chief Executive Officer as its Secretary. The 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 Board has established the following three (3) Committees:

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

The membership is as follows:

No.	Finance and General Purpose Committee	Technical Committee	Audit, Risk Management & Compliance Committee
1.	Ms. Rachel Shibalira - Chair	Prof. Francis Muregi - Chair	Dr. Nicholas Letting - Chair
2.	Prof. Collete A. Suda, PhD, FKNAS, CBS	Prof. Collete A. Suda, PhD, FKNAS, CBS	Prof. Collete A. Suda, PhD, FKNAS, CBS
3.	Rep. CS National Treasury	Dr. Jemimah Onsare	Prof. Francis Muregi
4.	Dr. Jemimah Onsare	Ms. Rachel Shibalira	Rep. CS National Treasury
5.	Rep. KEPSA	Dr. Nicholas Letting	Rep. KEPSA
6.	Dr. Moses K. Rugutt, PhD, OGW	Dr. Salome Guchu	
7.		Dr. Moses K. Rugutt, PhD, OGW	

MANAGEMENT DISCUSSION AND ANALYSIS

Commission's Operational Performance

The Commission undertook the following activities linked to its mandate during the year ended 30 June 2018:

a) **Research Licensing, Monitoring and Evaluation**

All persons intending to undertake research in the country are required to apply to the Commission for the grant of a Licence in accordance with the Science, Technology and Innovation Act, 2013. During the Financial Year 2017/18, the Commission received and processed four thousand six hundred and two (4,602) Research License applications. Three hundred and eighty four of these were from non-Kenyans.

b) **Regulation of Research and Development activities**

Regulation in the research and development 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 Developing regulations and guidelines for registration of research institutions; Ensuring relevance and quality of research undertaken and reviewing the progress in scientific research in Kenya. By the end of the Financial Year 2017/18 the Commission visited 15 research institutions culminating in 7 research institutions being registered. A total of 28 Institutional Ethics Review Committees were also accredited.

c) **Promotion and Socialization of Science, Technology and Innovation**

This is to increase awareness and mainstream ST&I in all sectors of the economy and in the Financial Year 2017/2018, this was achieved through the following activities:

- **Organizing the Annual National Science Week**

The main objective of the National ST&I Week was to take stock of the achievements of the Kenya Vision 2030 and improve the understanding of the existing challenges and opportunities in National Innovation Systems and Knowledge-Based Economy. It provided participants including policy makers, civil society, universities, research organizations, private sector, donor community and other ST&I networks, a forum to share research outputs, experiences and discuss how to best promote ST&I in the country.

- **University Research Chairs Program**

NACOSTI in partnership with International Development Research Centre started on pilot basis a Universities Research Chairs Program. This is a new funding model to encourage and institutionalize multi-organizational and multi-sectorial collaborations with universities as the fulcrum of the research and innovation process. The program is focusing on health research systems and innovations in manufacturing. However, it is expected to cover other priority sectors in the subsequent years including but not limited to: Nuclear Science, Material Science, Nanotechnology, Renewable Energy, Marine Science and Space Science.

Commission's Financial Performance

The main source of funding for the Commission's activities during the Financial Year continued to be GoK budgetary support which amounted to Kshs. 270.9 Million and Kshs. 62.5 Million as recurrent budget and development grants respectively. The Commission had also raised a total of Kshs. 24 million as fees for research licences and permits. The Commission also partnered with external agencies to support collaborative research programs. The development grants were utilized to

National Commission for Science, Technology and Innovation
Annual Reports and Financial Statements
For the year ended 30 June 2018

meet payment of contractor's certificates in the construction of NACOSTI headquarters building while the recurrent revenue supported the Commission's employee costs as well as operations and maintenance expenses.

The total revenue for the Year ended 30 June 2018, was Kshs. 340,453,264 and total expenses were Kshs. 320,696,182 hence a surplus for the year of Kshs. 19,757,082. This closely matches with the previous year's total revenue of Kshs. 325,733,243; total expenses of Kshs. 289,751,850 and surplus of Kshs. 35,981,393.

Key Projects and Investment decisions that the Commission is planning/implementing

The key development project being implemented by the Commission is the construction of NACOSTI Headquarters building. The project consists of a Six Storey Office Block, Four Storey Hostel Block, Civil Works, Landscaping, Sewerage Treatment Plant, Borehole and Ancillary Facilities. The Commission has utilized five of the seven floors in the office block and is in discussion with some Government entities to lease the remaining two floors. The Commission has also planned for the furnishing of the Hostel/Conference facility so that it starts using for holding its meetings and conferences as well as serving as an income generating unit through provision of the same services to other entities.

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 are however pending payments due to the Contractor who has submitted Payments Certificates for totalling Kshs. 329,209,893 for payment for works done. This amount is however still subject to review by the Project Managers, The State Department for Public Works. This amount is also above the contract sum and can only be included in the Trade and Other Payables balances upon approval of variation of the contract sum.

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 management comments that were provided to the auditor are shown in Appendix I attached to these Financial Statements. The Appendix also shows the current status on the issues that were raised.

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 169 but currently the Commission is operating at about 25% of this establishment. Due to shortage of staff, the Commission sought and obtained authority from both The National Treasury and The Head of Public Service to recruit twenty five (25) additional staff in various cadres. These additional staff are expected to be in place in the course of the FY 2018/2019.

The overall performance of the Commission is an improved financial position with total assets capable of sustaining the operations and growth projections of the Commission.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

The National Commission for Science, Technology and Innovation believes in adding value to the Kenyan public and society at large as they are the key stakeholders of our services. During the year under review, the Commission continued to engage in Corporate Social Responsibility (CSR) and related activities. Emphasis was given to activities geared towards support to students interested in science and technology. Towards this end, the Commission supported the Kenya Secondary Schools and Tertiary Institutions Science Exhibitions during the year.

It also supported a STEM Camp in Machakos which brought together Secondary School girls in an effort to encourage them to pursue Science, Technology, Engineering and Mathematics (STEM) oriented courses. This was part of the Annual Scientific Camps of Excellence for Mentoring Girls in Science, Technology, Engineering, and Mathematics (STEM) organized by the UNESCO Nairobi Office, together with the Government of Kenya and NACOSTI amongst other partners. This one week long camp involved career choice discussions, life skills mentoring, experience-sharing with STEM university students, science experiments, and industry visits.

The Commission has also been supporting 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.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018 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, 2018 are set out on page 1.

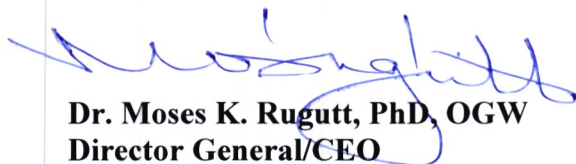
Directors

The members of the Board of Directors who served during the year are shown on page iv.

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



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

Nairobi

Date:.....

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.

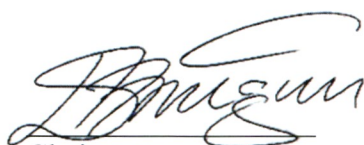
The Directors are responsible for the preparation and presentation of the Commission's financial statements, which give a true and fair view of the state of affairs of the Commission for and as at the end of the financial year ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Commission; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

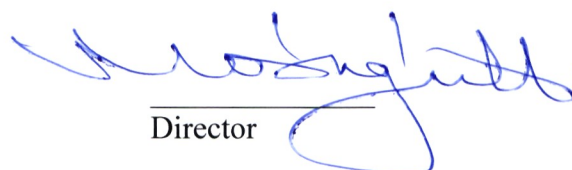
The Directors accept responsibility for the Commission's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required 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, 2018, 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 _____ 2018 and signed on its behalf by:


Chairman


Director

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke

P.O. Box 30084-00100
NAIROBI



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION FOR THE YEAR ENDED 30 JUNE 2018

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 22, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of National Commission for Science, Technology and Innovation as 30 June, 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the National Commission for Science, Technology and Innovation's Act, 2013.

Basis for Qualified Opinion

1. Inventory

As previously reported, the inventories balance of Kshs.11,453,998 as at 30 June 2018 includes stock of partitioning materials worth 5,746,188 removed from the Commission's offices at Emperor Plaza Building way back in 1997 to the Ministry of Public Works which have not been accounted for as at the date of this report. According to information available, the materials disappeared from the Ministry's go down in industrial area where they had been kept apparently for safe custody.

Although, the matter has been under investigation by the Criminal Investigations Departments over the last seventeen (17) years, the director Criminal Investigations Department indicated on 19th October 2015 that no records could be found to know what really happened as the police files cannot be traced after 5 years. On September 2015,

Report of the Auditor-General on the Financial Statements of National Commission for Science, Technology and Innovation for the year ended 30 June 2018

the Public Investment Committee deliberated on the issue and observed that the Criminal Investigations Departments had taken inordinately long to conclude investigations. The 20th Public Investment Committee recommended 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 go down at Industrial Area to be held accountable and be surcharged for the loss of the materials from the Corporation's offices at Emperor Plaza Buildings that were worth Kshs.5,746,188. However as at the time of this report no surcharge nor recovery has been done.

In the circumstances, it has not been possible to confirm the carrying value of inventories balance of Kshs.11,453,998 as at 30 June 2018.

2. Work in Progress

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

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

Further, the contract states that interest on any certificate not paid within thirty days from the date of approval will be calculated at 3% above the Central Bank's average lending rate of the period overdue which was 16% and therefore the interest rate for the year was 19% for all overdue certificates. A review of outstanding payment certificates revealed that interest amounting to Kshs.45,260,335 arising from delay in payment of certified work had accrued as at 30 June 2018. This wasteful expenditure could have been avoided had the parent Ministry settled the bills on time.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other Key Audit Matters to communicate in my report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

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

In preparing the financial statements, management is responsible for assessing the Commissions ability to continue as a going concern disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Commission or to cease operations, or have no realistic alternative but to do so.

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements

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

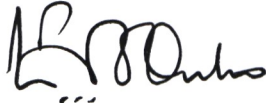
Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the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

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

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

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

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



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

Nairobi

27 February 2019

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018	2017
		Kshs.	Kshs.
Revenue from Non-Exchange Transactions			
Public Contributions and donations	5	270,904,320	280,904,320
Licenses and permits	6	24,031,296	23,564,408
Other Income	7	45,517,648	21,264,514
Total Revenue		340,453,264	325,733,243
Expenses			
Employee Costs	8	158,160,981	148,977,616
Depreciation and Amortization Expense	9	6,897,316	6,779,960
Repairs and Maintenance	10	2,588,141	2,980,817
Contracted Professional Services	11	8,413,181	6,633,905
Donor Supported Projects Cost	12	39,424,418	20,586,584
Administrative Expenses	13	86,395,250	67,405,232
Board Expenses	14	3,562,134	4,795,397
Bank Charges	15	530,760	532,765
Research Cost	16	13,970,000	30,305,574
Audit Fees	17	754,000	754,000
Total Expenses		320,696,182	289,751,850
Surplus before tax		19,757,082	35,981,393
Surplus		19,757,082	35,981,393

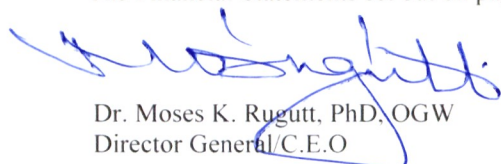
The notes set out on pages 6 to 18 form an integral part of these Financial Statements

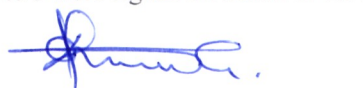
**National Commission for Science, Technology and Innovation
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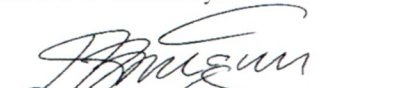
**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018**

	Note	2018	2017
		Kshs.	Kshs.
Assets			
Current Assets			
Cash and cash equivalents	18	242,118,331	237,476,911
Receivables from non-exchange transactions	19	136,642,133	136,642,133
Inventories	20	11,453,998	9,897,572
Total Current Assets		390,214,462	384,016,616
Non-Current Assets			
Property, Plant and Equipment	21	1,104,138,312	1,100,721,946
Total Assets		1,494,352,774	1,484,738,562
Current Liabilities			
Trade and other payables from exchange transactions	22	24,246,971	78,217,585
Project Deposits	23	-	18,672,258
Total Current Liabilities		24,246,971	96,889,843
Net Assets			
Revaluation Reserves	24	86,886,293	86,886,293
Accumulated Surplus	25	332,631,284	312,874,202
Capital Grants	26	1,050,588,226	988,088,226
Total Net Assets and Liabilities		1,494,352,775	1,484,738,564

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


Dr. Moses K. Rugutt, PhD, OGW
Director General/C.E.O


Gideon K. Kirui
Ag. Director, Corporate Services
ICPAK Member No 4005


Prof. Tom Peter Migun Ogada, PhD.
Chairman of the Board

Date.....

Date.....

Date.....

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2018

	Capital Grants	Revaluation Reserves	Accumulated Surplus	TOTAL
	Kshs	Kshs	Kshs	Kshs
1st July 2016	960,152,085	86,886,293	276,892,809	1,323,931,187
Additional Capital	27,936,141	-	-	27,936,141
Surplus for the period	-	-	35,981,393	35,981,393
30th June 2017	988,088,226	86,886,293	312,874,202	1,387,848,721
1st July 2017	988,088,226	86,886,293	312,874,202	1,387,848,721
Additional Capital	62,500,000	-	-	62,500,000
Surplus for the period	-	-	19,757,082	19,757,082
30th June 2018	1,050,588,226	86,886,293	332,631,284	1,470,105,803

National Commission for Science, Technology and Innovation
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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018	2017
		Kshs.	Kshs.
Cash flow from Operating Activities			
Surplus for the year		19,757,082	35,981,393
Adjustments for items not involving cash movements			
Depreciation	9	6,897,316	6,779,960
Surplus before working capital changes		26,654,398	42,761,353
Working Capital Changes			
Increase in Inventory	20	(1,556,426)	929,024
Decrease in Prepayments		-	6,343,871
Increase/Decrease in Accounts Receivable	19	-	88,878,450
Increase/Decrease in Accounts Payables	22	(53,970,614)	(54,774,479)
Decrease in Project Deposits	23	(18,672,258)	10,974,204
Net Cash flow from operating activities		(47,544,900)	95,112,423
Cash flow from Investing Activities			
Capital Grants		62,500,000	27,936,141
Changes in Fixed Assets		(10,313,682)	(982,499)
Increase/Decrease in Cash and Cash Equivalents		4,641,418	122,066,065
Cash and Cash Equivalents - Beginning		237,476,913	115,410,848
Cash and Cash Equivalents - Ending	18	242,118,331	237,476,913

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**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE 2018**

	Original Budget Kshs	Final Budget	Actual on Comparable Basis Kshs	Performance Difference Kshs
Revenue				
Recurrent Grants	270,904,320	270,904,320	270,904,320	-
Development Grants	250,000,000	62,500,000	62,500,000	-
B/F Balances	87,200,000	87,200,000	87,200,000	-
Licenses and Permits Fees	24,000,000	24,000,000	24,031,296	(31,296)
Other Income	-	-	45,517,648	(45,517,648)
Total Income	632,104,320	444,604,320	490,153,264	(45,548,944)
Expenses				
Employee Costs	180,033,000	180,033,000	158,160,981	21,872,019
Repairs and Maintenance	10,500,000	10,500,000	2,588,141	7,911,859
Contracted Professional Services	27,256,000	27,256,000	8,413,181	18,842,819
Administrative Expenses	93,311,000	93,311,000	86,395,250	6,915,750
Board Expenses	8,000,000	8,000,000	3,562,134	4,437,866
Bank Charges	1,000,000	904,320	530,760	373,560
Research Cost	30,000,000	30,000,000	13,970,000	16,030,000
Audit Fee	754,000	754,000	754,000	-
Development Expenditure	250,000,000	62,500,000	62,500,000	-
Depreciation Expense	-	-	6,897,316	(6,897,316)
Donor supported Projects Costs	-	-	39,424,418	(39,424,418)
Total Expenses	600,854,000	413,258,320	383,196,182	30,062,138
Surplus	31,250,320	31,346,000	106,957,082	-

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

National Commission for Science, Technology and Innovation (NACOSTI) is established by and derives its authority and accountability from the Science, Technology and Innovation Act 2013. The Commission is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to regulate, assure quality, promote, coordinate and advise on science, technology, innovation and 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 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. Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Standard	Impact
<p>IPSAS 39: Employee Benefits</p>	<p>Applicable: 1st January 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.</p> <p>This standard has no impact on the Commission since it does not operate a defined benefit pension scheme.</p>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard	Effective date and impact:
IPSAS 40: Public Sector Combinations	<p>Applicable: 1st January 2019:</p> <p>The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.</p> <p>This Standard has no impact on the Commission.</p>

iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2018.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees, taxes and fines

The Commission recognizes revenues from research licence application fees and research institutions registration fees when the applications have been made. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

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

ii) Revenue from exchange transactions

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 entity.

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.

Dividends

Dividends or similar distributions must be recognized when the shareholder's or the entity'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 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.

c) 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.

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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.

d) 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 entity 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.

e) Leases

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Entity 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 Entity will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

f) 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.

g) Financial instruments

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 Entity 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 entity of financial assets is impaired. A financial asset or an entity 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 entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

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

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.

h) Inventories

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

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

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor 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 Entity.

i) Provisions

Provisions are recognized when the Entity 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.

Contingent liabilities

The Entity does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity 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.

j) 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.

k) Employee benefits -Retirement benefit plans

The Commission provides retirement benefits for its employees through a Defined Contribution Plans for staff on permanent terms and a gratuity arrangement for staff on contract terms. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

l) 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.

m) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

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n) Related parties

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

The Commission is a State Corporation under the Ministry of Education. Its ultimate parent is the Government of Kenya

	2018	2017
	Kshs	Kshs
Transactions with related parties		
a) Sales to related parties		
Sales of goods	-	-
Sales of services	-	-
Total	-	-
b) Grants from the Government		
Grants from National Government	333,404,320	308,840,461
Grants from County Government	-	-
Donations in kind	-	-
Total	333,404,320	308,840,461
c) Expenses incurred on behalf of related party		
Payments of salaries and wages for employees		
Payments for goods and services for xxx		
Total		
Total	333,404,320	308,840,461

o) 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.

p) Comparative figures

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

q) 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, 2018.

r) 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:

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

s) Events after the Reporting Period

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

t) Currency

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note	2018 Kshs.	2017 Kshs.
5 Public Contributions and donations		
Recurrent Grants	270,904,320	260,904,320
Research Grants	-	-
Other Government Grants	-	20,000,000
	270,904,320	280,904,320
6 Licenses and permits		
Research Permit Fees	24,031,296	23,564,408
7 Other Income		
EU Projects	9,185,425	2,450,435
CTBTO	13,314,225	-
IDRC	17,041,189	-
EASTECO and RESTEC Conference grants	1,090,228	4,481,930
Foreign Exchange Gain	4,886,580	-
	45,517,648	21,264,514
8 Employee Costs		
Salaries and Allowances	106,433,890	109,405,258
Wages -Interns Stipend	5,510,305	3,490,306
Staff Insurance	7,469,418	9,178,702
Domestic Travel	15,528,499	9,553,385
Foreign Travel	6,911,679	7,616,293
Hospitality	16,307,190	9,733,672
	158,160,981	148,977,616
9 Depreciation and Amortization Expense		
Property, Plant and Equipment	6,897,316	6,779,960
10 Repairs and Maintenance		
Computers and Softwares	206,400	247,532
Building and Stations	81,000	-
Motor Vehicles	1,991,942	2,733,285
Furniture and Equipment	308,799	-
	2,588,141	2,980,817
11 Contracted Professional Services		
Security Services	2,642,480	898,905
Cleaning and Garbage Collection	3,868,000	763,000
Surveys and Development of Policy Documents and Manuals	1,866,701	1,840,000
Transport and Relocation Services	36,000	3,132,000
	8,413,181	6,633,905

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12	Donor Supported Project Cost		
	EU Projects	8,767,205	2,450,435
	CTBTO	15,548,248	14,332,149
	IDRC	14,018,737	-
	EASTICO and RESTEC Conferences	1,090,228	3,804,000
		39,424,418	20,586,584
13	Administrative Expenses		
	Utilities and Supplies	4,374,430	816,899
	Communication Supplies and Services	10,187,723	7,344,135
	Printing, Advertising, Information Supplies and Services	5,531,713	4,394,566
	Office and General Supplies	7,559,722	7,121,518
	Fuel, Oil and Lubricants	2,056,000	1,010,000
	Rent and Rates	836,454	2,751,200
	Trade Shows and Exhibitions	21,216,710	23,436,666
	Motor Vehicle Insurance	499,386	549,008
	Other Operating Expenses	1,666,500	929,652
	Committee and Conferences	22,835,769	13,839,876
	Cleaning Materials and Services	166,000	66,325
	Computer Supplies and Accessories	1,378,290	876,154
	Training Expenses	8,086,554	4,269,233
		86,395,250	67,405,232
14	Board Expenses		
	Sitting Allowance	1,960,000	3,020,000
	Lunch Allowance	118,000	116,000
	Accommodation	873,600	764,200
	Transport	88,534	112,197
	Airtime	42,000	63,000
	Honoraria	480,000	720,000
		3,562,134	4,795,397
15	Bank Charges	530,760	532,765
16	Research Cost	13,970,000	30,305,574
	The expenditure is on NACOSTI's support for collaborative research programs		
17	Audit Fees	754,000	754,000
	This is NACOSTI's payment to the Office of the Auditor General		
18	Cash and cash equivalents		
	Kenya Commercial Bank	208,342,948	215,862,697
	NIC Bank	33,722,153	21,529,735
	Cash on Hand	53,230	84,480
		242,118,331	237,476,911

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19	Receivables from non-exchange transactions		
	Grants Receivable	136,642,133	136,642,133
		136,642,133	136,642,133
	This relates to grants that were to be received from the Government in the FY 2014/2015 but was not received by the end of the FY.		
20	Inventories		
	Partitioning materials	5,746,188	5,746,188
	Consumable stores	5,707,810	4,151,384
		11,453,998	9,897,572
21	Property Plant and Equipment		
	Fixed Assets Schedule as in Note 25		
22	Trade and other payables from Exchange Transactions		
	Kenya Post & Telecommunication	477,160	477,160
	Kenya Power & Lighting Co.	24,778	24,778
	Provision for Audit Fees	754,000	754,000
	Ministry of Public Works	1,000,000	1,000,000
	Milicons Ltd	-	38,421,635
	Student Grants payable	4,688,347	14,597,687
	Gratuity Payable	11,641,269	7,394,281
	Pension Payable	3,582,243	3,409,698
	Others	2,079,175	12,138,346
		24,246,971	78,217,585
	Milicons Ltd, the project contractor for the NACOSTI Headquarters Construction Project has Submitted Payments Certificates for totaling Kshs. 329,209,893 for payment for works done and contractual penalties and claims. This amount is however above the contract sum and can only be has not been included in the Trade and Other Payables balances upon approval of variation of the contract sum		
23	Project Deposits		
	Fund balances for the following projects were carried forward as deferred income:		
	EU Projects - ERAFRICA	-	1,883,060
	CTBTO	-	2,875,462
	IDRC	-	13,913,737
		-	18,672,258
24	Revaluation Reserves		
	Land valued in February 2011	86,886,293	86,886,293
		86,886,293	86,886,293

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25	Revenue Reserves		
	Opening Balance	312,874,202	276,892,809
	Surplus for the year	19,757,082	35,981,393
	Total	332,631,284	312,874,202
26	Capital Grants		
	Opening Balance	988,088,226	960,152,085
	Capital grants for the year	62,500,000	27,936,141
	Total	1,050,588,226	988,088,226

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Note 27. NON-CURRENT ASSETS MOVEMENT SCHEDULE

FINANCIAL YEAR ENDED 30 JUNE 2017

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

FINANCIAL YEAR ENDED 30 JUNE 2018

	Land & Buildings	Furniture & Fittings	Plant & Equipment	Motor Vehicles	Computers	Work in Progress	Total
Cost 1 July 2017	86,000,000	47,196,055	11,839,914	36,750,242	25,463,071	985,402,413	1,192,651,695
Disposals	-	-	-	-	-	-	-
Additions	-	1,539,200	-	-	3,208,682	5,565,800	10,313,682
Cost 30 June 2018	86,000,000	48,735,255	11,839,914	36,750,242	28,671,753	990,968,213	1,202,965,377
Accum Depreciation 1 July 2017	-	38,074,883	5,994,964	28,060,697	19,799,205	-	91,929,748
Accum Depreciation on Disposals	-	-	-	-	-	-	-
Charge for the Year	-	1,332,547	730,619	2,172,386	2,661,764	-	6,897,316
Accum Depreciation 30 June 2018	-	39,407,429	6,725,582	30,233,083	22,460,970	-	98,827,064
Net Book Value 30 June 2018	86,000,000	9,327,826	5,114,332	6,517,159	6,210,783	990,968,213	1,104,138,312
Net Book Value 30 June 2017	86,000,000	9,121,172	5,844,950	8,689,545	5,663,866	985,402,413	1,100,721,946

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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. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the External audit Report	Issue / Observations from Auditor	Management Comments	Focal Point person to resolve the issue	Status:	Timeframe:
NCST/77/20 12/2013(8)	Inventories: Stock Partitioning which disappeared at the ministry of public works go-down in industrial area had not been accounted for	These were old partitioning materials removed from former accommodation space. The loss was reported and the latest response from the Directorate of Criminal Investigations indicates that the police files are untraceable after five years. The case will be difficult to re-open. PIC referred the matter to the Inspectorate of State Corporations.	Gideon Kirui, Deputy Director, Finance	The Commission is waiting for feedback from the Inspectorate of State Corporations.	Next External Audit
	Work in Progress: Completion of NACOSTI Headquarters Building has taken long and is attracting interests and penalties	The contract provides for payment of interest on delayed payments and the Commission has always tried to minimize this by settling outstanding certificates immediately it receives development budget grants. It is however faced with challenges when budget allocations are limited and funds disbursement delays. The Government in the Development Budget for the FY 2017/2018 allocated Kshs. 250,000,000 to NACOSTI towards the Headquarters building. If this amount is disbursed during the year, then the Commission will be able to settle the outstanding amounts due to the Contractors.	Dr. Moses Rugutt, Director General	The Government did not disburse all the development grants committed in FY 2017/18. This issue will therefore persist to the next FY.	Next External Audit

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APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects: Status of Projects completion

	Project	Total project Cost (Kshs '000')	Total expended to date (Kshs '000')	Completion % to date	Budget	Actual	Sources of funds
1	NACOSTI Headquarters Construction Project	1,320,208	947,687	99	1,320,208	947,687	GoK

APPENDIX III: INTER-ENTITY TRANSFERS

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION			
Break down of Transfers from the State Department for University Education and Research			
FINANCIAL YEAR 2017/2018			
a.	Recurrent Grants		
	Bank Statement Date	Amount (KShs)	FY to which the amounts relate
	4.09.2017	67,726,080.00	2017/2018
	3.11.2017	63,766,080.00	2017/2018
	8.02.2018	63,766,080.00	2017/2018
	2.05.2018	63,766,080.00	2017/2018
	29.06.2018	5,058,690.00	2017/2018
	Salaries for Ministry Staff deployed to NACOSTI	6,821,310.00	2017/2018
	Total	270,904,320.00	
b.	Development Grants		
	Bank Statement Date	Amount (KShs)	FY to which the amounts relate
	12.10.2017	62,500,000.00	2017/2018
	Total	62,500,000.00	
c.	Direct Payments		
	Bank Statement Date	Amount (KShs)	FY to which the amounts relate
		-	
	Total	-	
d.	Donor Receipts		
	Bank Statement Date	Amount (KShs)	FY to which the amounts relate
		-	
	Total	-	

Deputy Director, Finance
 National Commission for Science, Technology and Innovation

Head of Accounting Unit
 State Department for University Education and Research

Sign _____

Sign _____