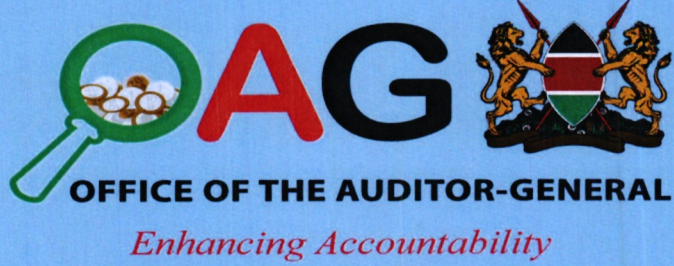



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**REPORT**

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**THE AUDITOR-GENERAL**

**ON**

**EASTERN AND SOUTHERN AFRICA HIGHER  
 EDUCATION CENTERS OF EXCELLENCE  
 (ACE II) PROJECT (CREDIT NO. 5798-KE) -  
 MINISTRY OF EDUCATION**

**FOR THE YEAR ENDED  
 30 JUNE, 2020**

**STATE DEPARTMENT FOR UNIVERSITY  
 EDUCATION**



1111



**PROJECT NAME: EASTERN AND SOUTHERN AFRICA HIGHER EDUCATION CENTERS  
OF EXCELLENCE (ACEII) PROJECT**

**IMPLEMENTING ENTITY: MINISTRY OF EDUCATION  
STATE DEPARTMENT FOR UNIVERSITY EDUCATION**

**PROJECT CREDIT NUMBER: 5798-KE**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
30 JUNE, 2020**

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

*Eastern and Southern Africa Higher Education Centers of Excellence (ACEII) Project  
Reports and Financial Statements  
For the year ended 30 June, 2020*

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<b>CONTENTS</b>	<b>PAGE</b>
1. PROJECT INFORMATION AND OVERALL PERFORMANCE .....	i
2. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES .....	vi
3. REPORT OF THE AUDITOR-GENERAL .....	vii
4. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 JUNE 2020 .....	1
5. STATEMENT OF FINANCIAL ASSETS AS AT 30 JUNE 2020 .....	2
6. STATEMENT OF CASHFLOW FOR THE YEAR ENDED 30 JUNE 2020 .....	3
7. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT FOR THE YEAR ENDED 30 JUNE 2020 .....	4
8. NOTES TO THE FINANCIAL STATEMENTS .....	5
9. PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS .....	16
10. OTHER IMPORTANT DISCLOSURES .....	17

## 1. PROJECT INFORMATION AND OVERALL PERFORMANCE

### 1.1 Name and Registered Office

**Name:** The project's official name is Eastern and Southern Africa Higher Education Centers of Excellence (ACEII) project.

**Objective:** The key objective of the project is to strengthen selected Eastern and Southern Africa Higher Education Institutions to deliver quality post graduate education and build collaborative research capacity in the regional priority areas. In Kenya, the selected implementing institutions are: Moi, Jaramogi Oginga Odinga and Egerton universities.

**Address:** The project headquarters office is located in

Nairobi County, Kenya.

The address of its registered office is:

Ministry of Education Headquarters,

Jogoo House 'B'

Harambee Avenue

P.O.Box 9583-00200, Nairobi.

The project also has offices/branches as follows:

- Moi University- Project implementation
- Jaramogi Oginga Odinga University – Project implementation
- Egerton University- project implementation

**Contacts:** The following are the project contacts

Telephone: (+254) 722586164

E-mail: paul.mungai@yahoo.com

### 1.2 Project Information

Project Start Date:	The project start date is 01.02.2017
Project End Date:	The project end date is 31.12.2022
Project Manager:	The project manager is Mr Paul Mungai
Project Sponsor:	The project sponsor is International Development Association

### 1.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the Education Ministry. (State Department for University Education)
Project number	IDA Credit 5798-KE
Strategic goals of the	The strategic goals of the project are as follows:

project	(i) To strengthen selected eastern and southern Africa higher education institutions to deliver quality post graduate education and build collaborative research capacity in the regional priority areas.
Achievement of strategic goals	The project management aims to achieve the goals through the following means: (i) Build institutional capacity to provide quality post graduate education with relevance to the labour market. (ii) Develop and enhance partnerships with other academic institutions (national, regional and international) to pursue academic excellence. (iii) Develop and enhance partnerships with industry and private sector to generate greater impact.
Other important background information of the project	The project is in line with vision 2030, objectives for relevance in education to assist the country attain mid-level industrialization.
Current situation that the project was formed to intervene	The project was formed to intervene in the following areas: (i) The project was formed to address the issue of few skilled post graduates being produced in Sub Saharan Africa especially in Science & Technology in order to meet the requirements for expansion and diversifying the region's economy. (ii) Apart from addressing the issue of few numbers of graduates being produced in Science, Technology and Mathematics in the region, the project seeks to address the issue of relevance and quality of courses offered which are currently contributing to a mismatch between the graduates produced and the labour market requirements especially in science and technology courses.
Project duration	The project was effective as from 1 <sup>st</sup> February 2017 and is expected to run until 31 December 2022

#### **1.4 Bankers**

The following are the bankers for the current year:

- (i) Kenya Commercial Bank (For Moi University)  
Account No. 1202447163
- (ii) Equity Bank (For Jaramogi Oginga Odinga University)  
Account No. 0750271748376

**Eastern and Southern Africa Higher Education Centers of Excellence (ACEII) Project  
Reports and Financial Statements  
For the year ended 30 June 2020**

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- (iii) Kenya Commercial Bank (For Egerton University)  
Account No. 1184060347
- (iv) Central Bank of Kenya (US Dollar Special Project Account for receiving donor funds)  
Account No. 1000331704

### 1.5 Auditor

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

### 1.6 Roles and Responsibilities

The following table summarises the different people who will be working on the project. This list includes the project manager and all the key stakeholders who will be involved with the project.

Names	Title designation	Key qualification	Responsibilities
Paul Mungai	Deputy Director of Education	Masters	Project co-ordination at the Ministry.
Prof. Ambrose. K Kiprop	Professor	Professor	Center Leader-PTRE Project: Moi University.
Prof. Darius Andika	Acting Director	Professor	Center Leader-INSEFOODS Project: Jaramogi Oginga Odinga University.
Prof. George Owuor	Professor	Professor	Center Leader-CESAAM Project Egerton University.
CPA Robert A. Samuel	Assistant Accountant General	Masters;), CPA(K)	Withdrawal Application, Processing payments for disbursements from Ministry to the various project accounts. Preparation of Financial Statements.

**Eastern and Southern Africa Higher Education Centers of Excellence (ACEII) Project  
Reports and Financial Statements  
For the year ended 30 June 2020**

**1.7 Funding Summary**

The Project duration is six years from 2017 to 2022 with an approved budget of XDR13.7 Million equivalent to Kshs. 1,917,405,000 as highlighted in the table below:

Below is the funding summary:

Source of funds	Donor Commitment-		Amount received to date (30.06. 2020)		Undrawn balance to date (30. 06 .2020)	
	<i>Donor currency (XDR)</i>	<i>Kshs</i>	<i>Donor currency (XDR)</i>	<i>Kshs</i>	<i>Donor currency (XDR)</i>	<i>Kshs</i>
	<i>(A)</i>	<i>(A')</i>	<i>(B)</i>	<i>(B')</i>	<i>(A)-(B)</i>	<i>(A')-(B')</i>
(i) Loan						
International Development Association	12.8 Million	1,826,100,000	5,833,683	801,599,658	6,966,317	1,024,500,342
(ii) Counterpart funds						
Government of Kenya	0	91,305,000		26,919,213		64,385,787
Total	12.8 Million	1,917,405,000	5,833,683	828,518,871	6,966,317	1,088,886,129

The amounts are arrived at using the following exchange rates as indicated in the board approved Project Appraisal Document:

12.8M XDR is equivalent to 18M USD.

1USD is equivalent to Kshs 101.45

Total Budget including 5% GoK Counterpart funding in XDR is 13,440,000.

Using the rates provided in the PAD of 1USD being equivalent to Kshs. 101.45, then the total budget of USD 18,900,000 is equivalent to Kshs. 1,917,405,000.

**1.8 Summary of Overall Project Performance:**

During the year under review the project utilised 38% of the GoK budget and 53% of donor budget provided.

on time for their activities.

- The Disbursements made to the universities are as a result of having achieved results which are measurable and / verified by independent verifiers. There is therefore value for all funds disbursed for this particular project.

### **1.9 Summary of Project Compliance**

Since commencement of the project, it has not had any instances of non- Compliance. Implementation of the project is done by the three centres of excellence in Kenya.

## **2. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES**

The Principal Secretary for the Ministry of Education, State Department of University Education and the Project Coordinator for Eastern and Southern Africa Higher Education Centres of Excellent (ACEII) Project are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangement 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 Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Principal Secretary for the Ministry of Education, State Department of University Education and the Project Coordinator for Eastern and Southern Africa Higher Education Centers of Excellent (ACEII) Project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Principal Secretary for the Ministry of Education, State Department of University Education and the Project Coordinator for Eastern and Southern Africa Higher Education Centers of Excellent (ACEII) Project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30, 2020, and of the Project's financial position as at that date. The Principal Secretary for the Ministry of Education, State Department of University Education and the Project Coordinator for Eastern and Southern Africa Higher Education Centers of Excellent (ACEII) Project further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The Principal Secretary for the Ministry of Education, State Department of University Education and the Project Coordinator for Eastern and Southern Africa Higher Education Centers of Excellent (ACEII) Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

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

The Project financial statements were approved by the Principal Secretary for the Ministry of Education, State Department of University Education and the Project Coordinator for Eastern and Southern Africa Higher Education Centers of Excellent (ACEII) Project on 30 September 2020 and signed by them.



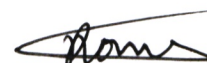
Amb. Simon Nabukwesi

**Principal Secretary**



Paul Mungai

**Project Manager**

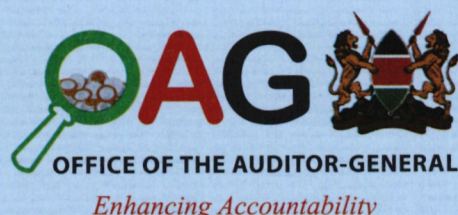


CPA Robert A. Samuel  
ICPAK NO. 10100

**Assistant Accountant General**

# 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 EASTERN AND SOUTHERN AFRICA HIGHER EDUCATION CENTERS OF EXCELLENCE (ACE II) PROJECT (CREDIT NO. 5798-KE) FOR THE YEAR ENDED 30 JUNE, 2020 - MINISTRY OF EDUCATION - STATE DEPARTMENT FOR UNIVERSITY EDUCATION**

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### REPORT ON THE FINANCIAL STATEMENTS

#### **Opinion**

I have audited the accompanying financial statements of Eastern and Southern Africa Higher Education Centers of Excellence (ACE II) Project (Credit No. 5798-KE) set out on pages 1 to 16, which comprise of the statement of financial assets as at 30 June, 2020, statement of receipts and payments, statement of cash flows and the statement of comparison of budget and actual amounts 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, the financial statements present fairly, in all material respects, the financial position of Eastern and Southern Africa Higher Education Centers of Excellence (ACE II) Project as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Financing Agreement No.5798-KE dated 4 July, 2016 between the International Development Association and the Republic of Kenya and the Public Finance Management Act, 2012.

In addition, the special account statement presents fairly the special account transactions for the period and the closing balance has been reconciled with the books of account.

#### **Basis for Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Eastern and Southern Africa Higher Education Centers of Excellence (ACE II) Project 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 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 in the year under review.

### **Other Matter**

#### **1. Budget Control and Performance**

The statement of comparative budget and actual amounts reflects budgeted receipts of Kshs. 352,329,600 and actual receipts on comparable basis of Kshs.187,058,131 only, resulting to a shortfall of Kshs.165,271,469 or 47% of the budgeted receipts. Similarly, Management had budgeted to spend Kshs. 352,329,600 but only Kshs. 187,058,131 or 53% was actually expended. Management has attributed the low realization of receipts and low absorption to the effects on the COVID 19 pandemic which culminated to the closure of universities as the focal implementing agencies.

The under-utilization of funds implies that the Project may not be achieving its planned goals and objectives.

#### **2. Loss of Project Vehicle**

As previously reported, disclosed under Note 8.6 to the financial statements, the statement of receipts and payment reflects a comparative balance of Kshs.24,285,013 in respect of acquisition of non-financial assets, out of which Kshs.22,180,900 relates to purchase of vehicles and other transport equipment. Available information indicated that the Management acquired a vehicle at a cost of Kshs.8,355,900 in May, 2019. However, Management explained that the vehicle was stolen, within days after purchase, in a carjacking incident and this was reported to the police. By the time of concluding the audit exercise the matter was still under police investigation.

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

### **Conclusion**

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

## **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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

### **Conclusion**

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

### **Basis for Conclusion**

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.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

As required by Article 111.B of the Project appraisal report dated 5 May, 2016 and the Credit No.5798-KE dated 4 July, 2016 between the International Development Association and the Republic of Kenya, except as reported under other matter section of my report, I report based on my audit, that: -

- i. 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;
- ii. In my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and
- iii. The Project's financial statements are in agreement with the accounting records and returns.

## **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 (Cash 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 Project's ability to continue to sustain its 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 terminate the Project or 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.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Project 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 considers 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 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 Project's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the

related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project 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 provides 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**


**15 December, 2020**

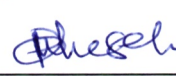
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Reports and Financial Statements  
For the year ended 30 June, 2020*

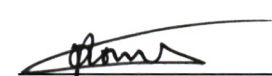
**4. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 JUNE 2020**

	Note	2019-2020		2018-2019		Cumulative to-date (From inception)
		Receipts and payments controlled by the entity	Payments made by third parties	Receipts and payment controlled by the entity	Payments made by third parties	
		Kshs	Kshs	Kshs	Kshs	Kshs
<b>RECEIPTS</b>						
Transfer from Government entities	8.3	1,305,600	-	24,285,013	-	26,919,213
Loan from external development partners	8.4	185,752,531	-	280,284,627	-	801,599,658
<b>TOTAL RECEIPTS</b>		<b>187,058,131</b>		<b>304,569,640</b>		<b>828,518,871</b>
<b>PAYMENTS</b>						
Purchase of goods and services	8.5	1,305,600	-	-	-	2,634,200
Acquisition of non-financial assets	8.6	-	-	24,285,013		24,285,013
Transfers to other government entities	8.7	185,752,531	-	279,999,999		801,315,030
<b>TOTAL PAYMENTS</b>		<b>187,058,131</b>		<b>304,285,012</b>		<b>828,234,243</b>
<b>SURPLUS/(DEFICIT)</b>		<b>-</b>	<b>-</b>	<b>284,628</b>	<b>-</b>	<b>284,628</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements.

  
Amb. Simon Nabukwesi  
Principal Secretary

  
Paul Mungai  
Project Manager

  
CPA. Robert A. Samuel  
ICPAK NO. 10100  
Assistant Accountant General

*Eastern and Southern Africa Higher Education Centers of Excellence (ACEII) Project  
Reports and Financial Statements  
For the year ended 30 June 2020*

**5. STATEMENT OF FINANCIAL ASSETS AS AT 30 JUNE 2020**

	Note	2019-2020	2018-2019
		KShs	KShs
<b>FINANCIAL ASSETS</b>			
<b>Cash and Cash Equivalents</b>			
Bank Balances	8.8	-	284,628
<b>Total Cash and Cash Equivalents</b>			<b>284,628</b>
<b>TOTAL FINANCIAL ASSETS</b>			<b>284,628</b>
<b>REPRESENTED BY</b>			
Fund balance b/fwd	8.9	284,628	-
Surplus/(Deficit) for the year		-	284,628
Prior Year Adjustment	8.10	(284,628)	-
<b>NET FINANCIAL POSITION</b>		<b>-</b>	<b>284,628</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 30 September 2020 and signed by:




Amb. Simon Nabukwesi

**Principal Secretary**



Paul Mungai

**Project Manager**



CPA. Robert A. Samuel  
ICPAK NO. 10100

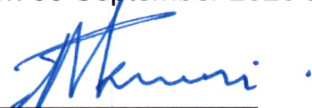
**Assistant Accountant  
General**

*Eastern and Southern Africa Higher Education Centers of Excellence (ACEII) Project  
Reports and Financial Statements  
For the year ended 30 June 2020*


**6. STATEMENT OF CASHFLOW FOR THE YEAR ENDED 30 JUNE 2020**

		<b>2019-2020</b>	<b>2018-2019</b>
	<b>Note</b>	<b>KShs</b>	<b>KShs</b>
<b>Receipts for operating activities</b>			
Transfer from Government entities	<b>8.3</b>	1,305,600	24,285,013
<b>Payments for operating activities</b>			
Purchase of goods and services	<b>8.5</b>	(1,305,600)	-
Transfers to other government entities	<b>8.7</b>	(185,752,531)	(279,999,999)
Acquisition of non-financial assets	<b>8.6</b>	-	(24,285,013)
<b>Net cash flow from operating activities</b>		<b>(185,752,531)</b>	<b>(279,999,999)</b>
<b>Cashflow From Borrowing Activities</b>			
Proceeds from Foreign Borrowings	<b>8.4</b>	185,752,531	280,284,627
<b>Net cash flow from financing activities</b>		<b>185,752,531</b>	<b>280,284,627</b>
<b>Net Increase In Cash And Cash Equivalent</b>		<b>-</b>	<b>284,628</b>
<b>Cash and cash equivalent at BEGINNING of the year</b>		<b>284,628</b>	<b>-</b>
<b>Prior Year Adjustment</b>	<b>8.10</b>	<b>(284,628)</b>	<b>-</b>
<b>Cash and cash equivalent at END of the year</b>		<b>0</b>	<b>284,628</b>

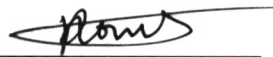
The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30 September 2020 and signed by:

  
Amb. Simon Nabukwesi

**Principal Secretary**

  
Paul Mungai

**Project Manager**

  
CPA. Robert A. Samuel  
ICPAK NO. 10100  
**Assistant Accountant General**

*Eastern and Southern Africa Higher Education Centers of Excellence (ACEII) Project  
Reports and Financial Statements  
For the year ended 30 June 2020*

**7. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT FOR THE  
YEAR ENDED 30 JUNE 2020**

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a-b	d	e=c-d	f=d/c %
<b>Receipts</b>						
Transfer from Government entities	30,000,000	(27,670,400)	2,329,600	1,305,600	1,024,000	56%
Proceeds from borrowings	450,000,000	(100,000,000)	350,000,000	185,752,531	164,247,469	53 %
<b>Total Receipts</b>	<b>480,000,000</b>	<b>(127,670,400)</b>	<b>352,329,600</b>	<b>187,058,131</b>	<b>165,271,469</b>	<b>53%</b>
<b>Payments</b>						
Acquisition of non-financial assets	30,000,000	(27,670,400)	2,329,600	1,305,600	1,024,000	56%
Transfers to other government entities	450,000,000	(100,000,000)	350,000,000	185,752,531	164,247,469	53%
Other grants and transfers						
<b>Total payments</b>	<b>480,000,000</b>	<b>(127,670,400)</b>	<b>352,329,600</b>	<b>187,058,131</b>	<b>165,271,469</b>	<b>53 %</b>

Note: The significant budget utilisation/performance differences in the last column are explained in **Annex 1** to these financial statements.



Amb. Simon Nabukwesi

**Principal Secretary**



Paul Mungai

**Project Manager**



CPA Robert A. Samuel  
ICPAK NO. 10100

**Assistant Accountant  
General**

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

The principal accounting policies adopted in the preparation of these financial statements are set out below:

### **8.1. Basis of Preparation**

#### **a) Statement of compliance and basis of preparation**

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of Accounting, as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions.

The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

The accounting policies adopted have been consistently applied to all the years presented.

#### **b) Reporting entity**

The financial statements are for the Eastern and Southern Africa Higher Education Centers of Excellence (ACEII) Project under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012.

#### **c) Reporting currency**

The financial statements are presented in Kenya Shillings (Kshs), which is the functional and reporting currency of the Project and all values are rounded to the nearest Kenya Shilling.

### **8.2 Significant Accounting Policies**

#### **a) Recognition of receipts**

The Project recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Government.

- Transfers from the Exchequer

Transfer from Exchequer is recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

- External Assistance

External assistance is received through grants and loans from multilateral and bilateral development-partners.

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Donations and grants**

Grants and donations shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary. In case of grant/donation in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice.

**Proceeds from borrowing**

Borrowing includes Treasury bill, treasury bonds, corporate bonds, sovereign bonds and external loans acquired by the Project or any other debt the Project may take on will be treated on cash basis and recognized as a receipt during the year they were received.

**Undrawn external assistance**

These are loans and grants at reporting date as specified in a binding agreement and relate to funding for the Project currently under development where conditions have been satisfied or their ongoing satisfaction is highly likely and the project is anticipated to continue to completion. An analysis of the Project's undrawn external assistance is shown in the funding summary

- Other receipts

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognized in the financial statements the time associated cash is received.

**b) Recognition of payments**

The Project recognises all payments when the event occurs and the related cash has actually been paid out by the Project.

- Compensation of employees

Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid.

- Use of goods and services

Goods and services are recognized as payments in the period when the goods/services are consumed and paid for. If not paid for during the period where goods/services are consumed, they shall be disclosed as pending bills.

- Interest on borrowing

Borrowing costs that include interest are recognized as payment in the period in which they incurred and paid for.

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- **Repayment of borrowing (principal amount)**

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made. The stock of debt is disclosed as an annexure to the consolidated financial statements.

- **Acquisition of fixed assets**

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

**c) In-kind donations**

In-kind contributions are donations that are made to the Project in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Project includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

**d) 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 authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**Restriction on cash**

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third party deposits.

## **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **e) Accounts receivable**

For the purposes of these financial statements, imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

### **f) Pending bills**

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Project at the end of the year. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

### **g) Budget**

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognized as inter-entity transfers and are eliminated upon consolidation.

A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

### **h) Third party payments**

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties column in the statement of receipts and payments.

During the year no loan disbursements were received in form of direct payments from third parties.

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**i) Exchange rate differences**

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates, Kenya Shillings. Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of receipts and payments.

**j) Comparative figures**

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

**k) 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, 2020.

**l) Errors**

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. Restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

**NOTES TO THE FINANCIAL STATEMENTS**

**8.3 TRANSFER FROM GOVERNMENT ENTITIES**

These represent counterpart funding and other receipts from government as follows:

	2019/20	2018/19	Cumulative
	KShs	KShs	to-date(from inception)
<i>Counterpart funding through Ministry</i>	1,305,600	24,285,013	26,919,213
	<b>1,305,600</b>	<b>24,285,013</b>	<b>26,919,213</b>
<i>Other transfers from government entities</i>			
<b>Total</b>	<b>1,305,600</b>	<b>24,285,013</b>	<b>26,919,213</b>

**8.4 LOAN FROM EXTERNAL DEVELOPMENT PARTNERS**

Name of Donor	Date received	Amount in loan currency(X DR)	Loans received in	Loans received as direct payment*	Cumulative to- date	
			KShs	KShs	FY19/20	FY18/19
<b>Loans Received from Multilateral Donors (International Organisations)</b>						
International Development Association of the World Bank	FY 2019/20	1,351,824	185,752,531	0	801,599,658	615,847,127
<b>Total</b>		<b>1,351,824</b>	<b>185,752,531</b>	<b>0</b>	<b>801,599,658</b>	<b>615,847,127</b>

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

**8.5 PURCHASE OF GOODS AND SERVICES**

	2019-2020			2018-2019	Cumulative t date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
Domestic travel and subsistence	1,305,600	-	1,305,600	-	2,634,200
<b>Total</b>	<b><u>1,305,600</u></b>	<b>-</b>	<b><u>1,305,600</u></b>	<b>-</b>	<b>2,634,200</b>

**8.6 ACQUISITION OF NON-FINANCIAL ASSETS**

	2019/2020			2018/2019	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
Purchase of vehicles & other transport equipment	-	-	-	22,180,900	22,180,900
Purchase of office furniture & general equipment	-	-	-	2,104,113	2,104,113
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b><u>24,285,013</u></b>	<b>24,285,013</b>

*Eastern and Southern Africa Higher Education Centers of Excellence (ACEII) Project  
Reports and Financial Statements  
For the year ended 30 June 2020*

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

**8.7 TRANSFERS TO OTHER GOVERNMENT ENTITIES**

During the 12 months to 30 June 2020, we transferred funds to reporting government entities as shown below:

	2019-2020			2018-2019	Cumulative to-date
	Payments made by the entity in Cash	Payments made by third parties	Total Payments		(from inception)
	Kshs	Kshs	Kshs	Kshs	Kshs
Transfers to Government Entities					
Ministry of Education					
Sustainable use of insects as food and Feeds project. (INSEFOODS) Implementing entity: Jaramogi Oginga Odinga University	56,946,321	-	56,946,321	49,389,689	218,190,177
Center of Excellence in phytochemicals, Textiles and Renewable Energy project.(PTRE) Implementing entity: Moi University	63,219,912	-	63,219,912	93,361,509	268,435,588
Center of Excellence in Sustainable Agriculture & Agribusiness Management project. (CESAAM). Implementing entity: Egerton University.	65,586,298	-	65,586,298	137,248,801	314,689,265
<b>TOTAL</b>	<b>185,752,531</b>	<b>-</b>	<b>185,752,531</b>	<b>279,999,999</b>	<b>801,315,030</b>

We have confirmed that the beneficiary institutions have received the funds and have recorded these as inter-entity receipts. We have attached these duly signed confirmations as Appendix 1A, 1B and 1C-to-the-financial-statements.

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

**8.8 CASH AND CASH EQUIVALENTS CARRIED FORWARD**

	<b>2019/20</b>	<b>2018/19</b>
	<b>KShs</b>	<b>KShs</b>
Bank accounts (Note 8.8A)	0	284,628
Cash in hand (Note 8. 8B)		
Cash equivalents (short-term deposits) (Note 8.8C)		
<b>Total</b>	<b>0</b>	<b><u>284,628</u></b>

The project has three project accounts spread within the project implementation area and one foreign currency designated accounts managed by the National Treasury as listed below:

**8.8 A Bank Accounts**

**Project Bank Accounts**

	<b>2019/20</b>	<b>2018/19</b>
	<b>KShs</b>	<b>KShs</b>
<b><u>Foreign Currency Accounts</u></b>		
Central Bank of Kenya [A/c No1000331704]		
<b>Total Foreign Currency balances</b>		
<b><u>Local Currency Accounts</u></b>		
Equity Bank,Bondo branch [A/c No0750271748376]		
Kenya Commercial Bank , Eldoret [A/c No1202447163]		
Kenya Commercial Bank, Egerton [A/c No1184060347]		
<b>Total local currency balances</b>		
<b>Total bank account balances</b>		

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

**Special Deposit Accounts**

The balances in the Project's Special Deposit Account(s) as at 30 June 2020 are not included in the Statement of Financial Assets since they are below the line items and are yet to be drawn into the Exchequer Account as a voted provision.

Below is the Special Deposit Account (SDA) movement schedule which shows the flow of funds that were voted in the year. These funds have been reported as loans/grants received in the year under the Statement of Receipts and Payments.

**Special Deposit Accounts Movement Schedule**

	<b>2019/20</b>	<b>2018/19</b>
	<b>USD</b>	<b>USD</b>
<b>(i) A/c Name [A/c No1000331704]</b>		
Opening balance	154,690.33	38,834.01
Total amount deposited in the account	1,672,441.30	2,897,103.32
Total amount withdrawn (as per Statement of Receipts & Payments)	<u>1,775,541.80</u>	<u>2,781,247.00</u>
<b>Closing balance (as per SDA bank account reconciliation attached)</b>	<b><u>51,589.83</u></b>	<b><u>154,690.33</u></b>
<b>(ii) A/c Name [A/c No.....]</b>		
Opening balance (as per the SDA reconciliation)	-	-
Total amount deposited in the account	-	-
Total amount withdrawn (as per Statement of Receipts & Payments)	=	=
<b>Closing balance (as per SDA bank account reconciliation attached)</b>	<b>=</b>	<b>=</b>

The Special Deposit Account reconciliation statement has been attached as Appendix 2 in support these closing balances.

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

**8.9 FUND BALANCE BROUGHT FORWARD**

	<b>2019/20</b>	<b>2018/19</b>
	<b>KShs</b>	<b>KShs</b>
Bank accounts	284,628	284,628
Cash in hand	-	-
Cash equivalents (short-term deposits)	-	-
Outstanding imprests and advances	-	-
<b>Total</b>	<b>284,628</b>	<b>284,628</b>

**8.10 PRIOR YEAR ADJUSTMENTS**

	<b>2019/20</b>	<b>2018/19</b>
	<b>KShs</b>	<b>KShs</b>
Adjustment	(284,628)	-
<b>Total</b>	<b>(284,628)</b>	<b>-</b>

The adjustment relates to project fund balance as at 30 June 2019 which was returned to the National Treasury in April 2020 together with the State Department's development account funds.

**Eastern and Southern Africa Higher Education Centers of Excellence (ACEII) Project  
Reports and Financial Statements  
For the year ended 30 June 2020**

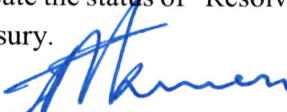
**9. PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS**

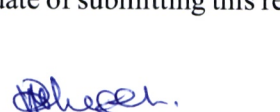
The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

<b>Reference No. on the external audit Report</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Focal Point person to resolve the issue (Name and designation)</b>	<b>Status: (Resolved / Not Resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>
1	Loss of Project Vehicle	Driver responsible has been sacked and investigations are still ongoing	Transport Officer	Not resolved	

**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 entity 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.

  
\_\_\_\_\_  
**Principal Secretary**

  
\_\_\_\_\_  
**Project Coordinator**

30/06/2020  
**Date**

30/6/2020  
**Date**

*Eastern and Southern Africa Higher Education Centers of Excellence (ACEII) Project  
Reports and Financial Statements  
For the year ended 30 June 2020*

**10. OTHER IMPORTANT DISCLOSURES**

**ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS**

	<b>Final Budget</b>	<b>Actual on Comparable Basis</b>	<b>Budget Utilization Difference</b>	<b>% of Utilization</b>	<b>Comments on Variance</b>
	a	b	c=a-b	d=b/a %	
<b>Receipts</b>					
Transfer from Government entities	2,329,600	1,305,600	1,024,000	56%	
Proceeds from borrowings	350,000,000	185,752,531	164,247,469	53%	
<b>Total Receipts</b>	<b>352,329,600</b>	<b>187,058,131</b>	<b>165,271,469</b>	<b>53%</b>	
<b>Payments</b>					
Purchase of goods and services	2,329,600	1,305,600	1,024,000	56%	
Transfers to other government entities	350,000,000	185,527,431	164,247,469	53%	
<b>Total payments</b>	<b>352,329,600</b>	<b>187,058,131</b>	<b>165,271,469</b>	<b>53 %</b>	

The year under review is the third one in project implementation. Towards the end of the second quarter, the novel corona virus had caused a global pandemic which necessitated limited movement of humans. The implementing entities, which are universities were also closed thereby inevitably slowing down operations. These actions contributed towards the low absorption in the project during this period.

*Eastern and Southern Africa Higher Education Centers of Excellence (ACEII) Project  
Reports and Financial Statements  
For the year ended 30 June, 2020*

**ANNEX 2 - ANALYSIS OF OTHER PENDING PAYABLES**

<b>Name</b>	<b>Brief Transaction Description</b>	<b>Original Amount</b>	<b>Date Payable Contracted</b>	<b>Amount Paid To-Date</b>	<b>Outstanding Balance 2019/20</b>	<b>Outstanding Balance 2018/19</b>	<b>Comments</b>
		a	b	c	d=a-c		
<b>Amounts due to National Government Entities</b>							
1. Center of Excellence in phytochemicals, Textiles and Renewable Energy project. (PTRE) Implementing entity: Moi University	Being part of DLR2.2 and 2.7	53,938,481		53,653,853	284,628	8,189,056	

*Eastern and Southern Africa Higher Education Centers of Excellence (ACEII) Project  
Reports and Financial Statements  
For the year ended 30 June 2020*

**ANNEX 3 – SUMMARY OF FIXED ASSET REGISTER**

<b>Asset class</b>	<b>Opening Cost (KShs) 2019/20</b>	<b>*Purchases/Additions in the Year (KShs) 2019/20</b>	<b>**Disposals in the Year (KShs) 2019/20</b>	<b>Transfers in/(out) Kshs 2019/20</b>	<b>Closing Cost (KShs) 2020</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	<b>(d)</b>	<b>(e)= (a)+ (b)-(c)+(-)d</b>
Transport equipment- Motor Vehicles	22,180,900	-	-	-	22,180,900
Office , furniture and fittings	2,104,113	-	-	-	2,104,113
<b>Total</b>	<b>24,285,013</b>	-	-	-	<b>24,285,013</b>

Notes

\* Purchases/Additions in the year reconciled to the amount in Statement of Receipts and Payments

\*\* The disposal amount to be disclosed in this register is the cost that the asset was acquired at and not the price at which it has been sold.

**APPENDICES**

- i. Signed confirmations from beneficiaries in Transfers to Other Government Entities
- ii. Special Deposit Account reconciliation statement
- iii. Special deposit Account bank statement