

REPUBLIC OF KENYA



Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

**SUPPORT TO ENHANCEMENT OF QUALITY
AND RELEVANCE IN HIGHER EDUCATION,
SCIENCE AND TECHNOLOGY PROJECT
(ID NO.P-KE-IAD-001-LOAN AGREEMENT
NO.2100150027993)**

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

**STATE DEPARTMENT FOR UNIVERSITY
EDUCATION**

3 NATIONAL ASSEMBLY
PAPERS LAID

DATE: 10 FEB 2022

TABLED

LOM
B. Inzofy

PARLIAMENT
OF KENYA
LIBRARY

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

24 DEC 2021

RECEIVED



Project Name:

**Support to Enhancement of Quality and
Relevance in Higher Education, Science and Technology**

Implementing Entity:

**Ministry of Education
(State Department for University Education)**

PROJECT GRANT/CREDIT NUMBER.ADF/2100150027993.

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

30 JUNE, 2021

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

Table of Contents

1.	PROJECT INFORMATION AND OVERALL PERFORMANCE.....	ii
2.	STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETRMINED OBJECTIVES x	
3.	CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING ..	xiii
4.	STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES.....	xv
5.	STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30TH JUNE 2021.	1
6.	STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2021	2
7.	STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS	4
8.	SIGNIFICANT ACCOUNTING POLICIES.....	5
9.	NOTES THE FINANCIAL STATEMENTS.....	13
10.	PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS	18
	ANNEXES	19

1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name: The project's official name is: Support to Enhancement of Quality and Relevance in Higher Education, Science and Technology (HEST) Project.

Objective: The key objective of the project is to improve quality and relevance in engineering faculties in line with Kenya's Vision 2030 priorities for Science Technology and Innovation (STI).

Address: The project headquarters offices:

Teleposta Towers, 26th Floor
 Kenyatta Avenue, Nairobi
 P. O. Box 9583-00200 Nairobi, Kenya.

Contacts: The following are the project contacts

Telephone: (+254) 0722464696
 E-mail: kiburijames@yahoo.com
 Website: www.scienceandtechnology.go.ke

1.2 Project Information

Project Start Date:	January 2013
Project End Date:	31 December, 2021
Project Manager:	Mr James Mwangi Kiburi
Project Sponsor:	African Development Bank

1.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the Ministry of Education, State Department of University Education.
Project number	ADF Loan No.ADF/2100150027993
Strategic goals of the project	The strategic goals of the project are as follows: (i) The project will finance the purchase of identified equipment for existing laboratories/workshops in target faculties of engineering and applied sciences in eight universities: (ii) Capacity building of existing staff in engineering and applied sciences at Master's and Doctorate levels (iii) The project will support the construction of a teaching, learning and experiential centre at WMI. (iv) The project will support creation of a comprehensive University education database, impact evaluation/research, and linking of Kenya National Examination Council (KNEC) database to the University Joint Admission Board (JAB) data and to Higher Education Loans Board (HELB) data.

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)
Annual Reports and Financial Statements for the financial year ended 30 June 2021**

Achievement of strategic goals	The project management aims to achieve the goals through the following means: (i) Supply equipment to University of Nairobi, Dedan Kimathi, Masinde Muliro, Meru, Multimedia, Technical University of Mombasa, Technical University of Kenya and South Eastern Kenya University. (ii) Training of teaching staff in engineering and applied sciences programs. A total of 750 trainees are targeted comprising 550 Masters and 200 Doctorate and 250 of all trainees must be women. (iii) Construction of a teaching, learning and experiential centre at WMI (iv) Establishment of a database.
Other important background information of the project	The project is jointly funded by the GOK UA 8.03 million and ADB UA 28.00 million
Current situation that the project was formed to intervene	The project was formed to intervene in the following areas: (i) The project aims to improve quality and relevance in engineering faculties in line with Kenya's Vision 2030 priorities for Science Technology and Innovation (STI) and human resource aspirations of the East Africa Community (EAC) integration.
Project duration	The project started on 22 February 2013 and is expected to run until 31 st December 2021.

1.4 Bankers

The project does not have a dedicated bank account. All donor funds are paid through direct payment method while GoK counterpart funds are paid through the state departments main development account and captured in the state department's main development cashbook.

1.5 Auditors

The project is audited by:
Auditor- General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084-00100
Nairobi, Kenya

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.6 Roles and Responsibilities

List the different people who will be working on the project. This list would include the project manager and all the key stakeholders who will be involved with the project. Also, record their role, their positions, and their contact information.

Names	Title designation	Academic Qualification	Key Responsibilities
Amb. Simon Nabukwesi, CBS	Principal Secretary	Masters	Overall policy direction on the management of the project.
James Mwangi Kiburi	Deputy Director of Education	Masters	Project Manager. Coordinating implementation of the project
Evans Mugoya Atambo	Assistant Director of Education	Masters	Assisting the project manager in coordinating implementation of the project.
Robert Asumani	Assistant Accountant General	Masters, CPA	Ensuring payments are Processed, Preparation of Final Accounts, and .
Bernard Were	Project Accountant	Bachelors in Commerce	Process payments, Preparation of financial reports.

1.7 Funding summary

The Project was initially for a duration of Six (6) years from 2013 to 2019 with an approved budget of UA 36.03 million equivalent to Kshs. 4,724,613,900 as highlighted in the table below, however an extension was sought and granted for one and a half more years.

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)
Annual Reports and Financial Statements for the financial year ended 30 June 2021
PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)**

Below is the funding summary:

A. Source of Funds

Source of funds	Donor Commitment		Amount received to date (30 June, 2021)		Undrawn balance to date	
	Donor currency UA	Ksh	Donor currency UA	Ksh	Donor currency UA	Ksh
(i) Loan						
ADJ/B: Direct Payments (African Development Bank)	(A)	(A')	(B)	(B')	(A)-(B)	(A)-(B)
	UA28.00 Million	3,671,640,000	27,270,803	3,576,020,397	729,198	95,619,603
(ii) Counterpart funds						
Government of Kenya	UA8.03 Million	1,052,973,900	3,534,471	463,475,128	4,495,529	589,498,718
Total	UA36.03M	4,724,613,900	30,805,274	4,039,495,525	5,224,727	685,118,321

Exchange rate 1 UA to Kshs. 131.13 as at appraisal date July 2012

Undrawn Balance of Kshs. 95,619,734 from the loan represents part of the final 20% payable on acceptance of all the goods in the equipment contract which was not achieved in nine (9) of the contracts and it's not payable.

The balance of Kshs. 589,498,717 relates to GoK counterpart funding that was to be used for project management activities, consultancies and training of teaching staff in universities. The availability of Government Counterpart funding has been constrained to a large extent by austerity measures that have been instituted over the years due to other pressing competing needs and sometimes inability to get exchequer especially towards the end of the financial years in June. It is however, critical to note that the counterpart funding for this project was 22% which was higher than the traditional 10% in many projects co-funded by the Government and Development partners.

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

B. Application of Funds

Application of funds	Amount received to date (30 June, 2021)		Cumulative Amount paid to date (30 June, 2021)	Unutilised balance to date (30 June, 2021)	
	Donor currency (A)	Kshs (A')		Donor currency (A)-(B)	Kshs (A')-(B')
(i) Loan					
ADfB: Direct Payments (African Development Bank)	27,270,803	3,576,020,397	3,576,020,397	729,198	95,619,603
(ii) Counterpart funds					
Government of Kenya	3,534,471	463,475,128	463,475,128	4,495,529	589,498,718
Total	30,805,274	4,039,495,525	4,039,495,525	5,224,727	685,118,321

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.8 Summary of Overall Project Performance:

i) Budget performance against actual amounts for current year and for cumulative to-date,

Budget performance for Government Counterpart funding was 68.35% while the one for the ADF loan was 26.5%. The budget for the ADF component was only provided during the second supplementary budget estimates that became effective during the last month of the year June 2021. Due to slowing down of most activities due to lock down occasioned by COVID 19 pandemic a number of activities were constrained and could not be completed in time. The project has however been able to cumulatively utilise 97.4 of the ADF loan and 44.5% of the Government of Kenya Counterpart funding. The availability of Government Counterpart funding has been constrained to a large extent by austerity measures that have been institute over the years due to other pressing competing needs and sometimes inability to get exchequer especially towards the end of the financial years in June. It is however, critical to note that the counterpart funding for this project was 22% which was higher than the traditional 10% obtaining in many projects co-funded by the Government and Development partners.

ii) Physical progress based on outputs, outcomes and impacts since project commencement,

The Project has supplied training and research equipment to 31 faculties in eight (8) target universities as envisaged attaining 95% acceptance rate overall. The project enrolled 461 staff to train at bachelors, masters and PhD levels in engineering and applied sciences as well as constructed the Wangari Maathai Institute of Peace and environmental Studies. The project has also trained 662 university council and senior university management on governance and strategic management as well as providing office furniture and equipment for Project Coordination Unit. This has improved the quality of delivery of relevant engineering and applied sciences training as reflected by the huge number of publications in referred journals from target universities. The project has also witnessed the accreditation of 15 engineering programmes by the Engineer Board of Kenya in five target universities addressing the long standing challenge in universities that was characterized by court cases against universities and the board as well industrial unrests by engineering students protesting non registration of programmes. This has now brought industrial peace in the sector. The number of engineers registered has increased from 6650 in 2012 to over 20,000 in 2021 among other impacts. Target Universities have also introduced new programmes that were hitherto not on offer before the project started.

ii) Value-for-money achievements,

The project has achieved value for money as most of the activities have been carried without much increase in the project costs but achieving most of the outputs and outcomes that were expected.

iv) The absorption rate for each year since the commencement of the project.

YEAR	ABSORPTION OF PROJECTS RESOURCES (%)		
	ADF	GOK	AVERAGE
2013/14	202.3	-	202.3
2014/15	60.7	70.8	67.5
2015/16	59.9	29	66.6
2016/17	63	43	61
2017/18	75.2	93.3	76
2018/19	93	57	81
2019/20	72	88	79
2020/21	26.51	68.35	29

v) The implementation challenges and recommended way forward.

Challenges

- Changes in tax policy through enactment of Value Added Tax (VAT) in September, 2013 that removed tax exemption for donor funded projects
- Delays in clearance of goods leading to demurrage and storage charges
- Delays by suppliers to address recommendations of the inspection and acceptance committee.
- Lack of government counterpart funding in the initial years of the project.
- Delay in Readiness by universities to receive, install and commission equipment.

Recommendations on way forward

- Establish the taxes that are applicable and apply for the processing of tax exemption.
- Sensitisation of contractors, suppliers and consultants on their obligations and early submission tax exemption requests.
- Include taxes as eligible expenditure in donor funded projects.
- Enforce terms in the contract that provide for penalties.
- Interdepartmental collaborations to seen waiver on demurrage and storage charges.
- Capacity building of stakeholders to improve the processes and service delivery.

1.9 Summary of Project Compliance:

- i) Significant cases of non-compliance with applicable laws and regulations, and essential external financing agreements/covenants,

The project has complied with all the applicable laws and covenants as well as the essential external financing agreements and covenants.

The project has however experienced a challenge of suppliers who were slowing in addressing the recommendations of the inspection and acceptance committee on the delivery, installation and commissioning of equipment.

- ii) Consequences suffered on account of non-compliance or likely to be suffered.

The slow response by some of the suppliers delayed the completion of the contracts and the project leading to extension by two years.

- iii) Mitigation measures taken or planned to be taken to alleviate the adverse effects of actual or potential consequences of non-compliance.

The project has complied with all the applicable laws and covenants as well as the essential external financing agreements and covenants.

2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETRMINED OBJECTIVES

The key development objectives of the project's agreement/ plan are to:

- a) Provide identified equipment to target engineering and applied sciences faculties to improve the quality and relevance of STI Programmes
- b) Train university teaching staff at masters and PhD to strength Human Capital for development of STI Programs
- c) Design and construct a Learning and Teaching Facility at Wangari Maathai Institute – UON to improve the Quality of applied Knowledge and skills in environmental and natural resource management
- d) Conduct training on governance and strategic management and impact evaluation studies to enhance MOE capacity for evidence based policy formulation and execution of Higher Education policies and strategies

Progress on attainment of Strategic development objectives

Below we provide the progress on attaining the stated objectives:

Project	Objective	Outcome	Indicator	Performance
Support to Enhancement of Quality and Relevance in Higher Education, Science and Technology (HEST)	Provide identified equipment to target engineering and applied sciences faculties to improve the quality and relevance of STI Programmes	Enhanced Quality and skills of graduates in target faculties, especially for women	Number of engineering programs in target colleges approved	15 existing engineering programmes accredited by EBK by 2020 in six (6) target Universities. 23 new programmes Engineering and applied science Programmes mounted to date
			Sets of engineering equipment provided	31 sets of engineering and applied science equipment provided to faculties in Eight (8) Target Universities
			Number of qualified skilled engineering graduates	8974 students undertaking Bachelor's degree programmes in Target Faculties (7509 male and 1465 female). In 2021/2022 the number of students placed by Kenya Universities and Colleges Central Placement Services

SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)
Annual Reports and Financial Statements for the financial year ended 30 June 2021

Project	Objective	Outcome	Indicator	Performance
				for Engineering and applied science programmes is 2394 as follows: University of Nairobi 250; Technical University of Mombasa 459; Dedan Kimathi University of Science and Technology 615; Masinde Muliro University of Science and Technology 122; Meru University of Science and Technology 307; Multimedia University of Kenya 91; South Eastern Kenya University 149; and Technical University of Kenya 401.
	Train university teaching staff at masters and PhD to strength Human Capital for development of STI Programs	Enhanced quality of graduates in engineering and manufacturing economic productive sectors	Number of staff trained in target masters and PhD programs	415 staff at various stages of proposal development, data analysis, thesis and graduation. 60 of these have graduated up to date
Number of Research initiatives Conducted in target faculties			60 researches conducted by staff who have graduated	
Number of Staff trained in target Bachelor's degree in 3 Technical Universities			46 teaching staff undertaking training Bachelor Degree Training in three technical universities	
	Design and construct Learning and Teaching Facility at Wangari Maathai	Cultivate better environmental stewardship and management of resources.	One environmental learning facility operational	One (1) environmental facility operational and enrolled 118 Students (71 Ph.D. and 47 Master of Science) and has graduated 39 to date at masters and

SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)
Annual Reports and Financial Statements for the financial year ended 30 June 2021

Project	Objective	Outcome	Indicator	Performance
	Institute – University of Nairobi to improve the Quality of applied Knowledge and skills in environmental and natural resource Management			<p>PhD. 16 PhD- (11 Male & 5 Female) Masters - 23 (8 Male & 15 Female)</p> <p>Has trained 53 students in Environmental Impact Assessment and Audit.</p> <p>Has planted about 12,500 indigenous trees in collaboration with the University of Nairobi and other stakeholders.</p>
	Conduct training and impact evaluation studies to enhance MOE capacity for evidence based policy formulation and execution of higher Education policies and strategies	Improved governance and management for quality, relevance and efficiency	Number of University management Personnel Trained	662 staff trained by 2019 and target fully achieved
Number of Impact Evaluation and Tracer studies carried out			One tracer study conducted and draft report delivered	
			Procurement process for end of Project Evaluation initiated and reached stage of request for no objection to award contract as at 30 June, 2021	

3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

The Support to Enhancement of quality and relevance in higher Education, science and technology (HEST) project exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy. Below is a brief highlight of our activities that drive towards sustainability.

i) Sustainability strategy and profile

To ensure operational sustainability, of the Support to HEST Project the following are areas of focus;

a) Policy

The Support to Enhancement of quality and relevance in higher Education, science and technology (HEST) project's development objective and its interventions are anchored within the overall long-term Government blueprint for development, the Vision 2030, its second Medium Term Plan (MTP 2), third Medium Term Plan (MTP 3). They are further aligned to the University strategy, Sessional Paper No. 1 2019, on A Policy Framework on Reforming Education and Training for Sustainable development in Kenya among other key policy and legal documents such as the Big Four Agenda, the Universities Act, 2012 as well as new University Act, Science Technology and Innovation Act, 2013 and its policy among others.

b) Stakeholder involvement

The project will derive its sustainability through the involvement of target universities in all processes of procurement of equipment including developing of specifications, bid evaluation, delivery, installation, commissioning as well as inspection and acceptance of goods. In addition, the selection of beneficiaries for training and participation in activities will involve the universities who are the beneficiaries of the project thus enhancing ownership.

c) Capacity Building and Training on Use and Maintenance of Equipment

Training on use and maintenance of equipment is a key component in the provision of equipment commissioned to ensure proper use, troubleshooting and undertaking regular repair and maintenance. Each supplier in each contract will training up to 10 staff including academicians, technicians and technologists on use and maintenance of equipment.

ii) Environmental performance

The support to HEST project is a category III operations according African Development Bank classification that have minimal impact on the physical environment in the target institutions. MOE where the Support to HEST Project is being implemented encourages all its institutions to plant trees and a major tree planting exercise is undertaken each year and is hoped that it will contribute towards achievement of the Vision 2030 proposal of increasing forest cover to at least 10% by 2030.

The project supported the construction of Wangari Mathai Institute (WMI) which is charged with the responsibility of facilitating transfer of knowledge and skills on sustainable environmental conservation and management to the community level. The construction of the institute has been done in compliance with the covenants signed between the Government of Kenya and African Development Bank in the loan agreement signed on 6th December, 2012. This required the project to comply with the necessary Kenya National legislations including the Environmental Management and Coordination Act 1999 and to obtain appropriate licenses including approvals from the Nairobi County Government.

The Project commissioned a consultant to prepare an Environmental Impact Assessment study which also incorporated an Environment Management Plan (EMP) which was submitted to National Environmental Management Agency (NEMA) for approval and issuance of a licensee. The conditions in the issued license and Environment Management Plan (EMP) were adhered to during implementation of the construction contract.

Disposal of out-dated equipment will be done in accord with the Environmental Management and Coordination Act, 1999, regulations. The new equipment will be more energy efficient and with less impact on the environment in regard to pollution.

4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Principal Secretary for the Ministry of Education, State Department for University Education and the Project Coordinator for Support to Enhancement of Quality and Relevance in Higher Education Science and Technology (HEST) 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 30 June, 2021.

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 (v) Making accounting estimates that are reasonable in the circumstances.

The Principal Secretary for the Ministry of Education, State Department for University Education and the Project Coordinator for Support To Enhancement of Quality and Relevance in Higher Education Science and Technology (HEST) 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 for University Education and the Project Coordinator for Support to Enhancement of Quality and Relevance in Higher Education Science and Technology (HEST) 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/period ended 30 June, 2021, and of the Project's financial position as at that date. The Principal Secretary for the Ministry of Education, State Department for University Education and the Project Coordinator for Support To Enhancement of Quality and Relevance in Higher Education Science and Technology (HEST) 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.

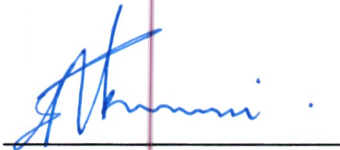
**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)**

Annual Reports and Financial Statements for the financial year ended 30 June 2021

The Principal Secretary for the Ministry of Education, State Department for University Education and the Project Coordinator for Support To Enhancement of Quality and Relevance in Higher Education Science and Technology (HEST) 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/period 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 for University Education and the Project Coordinator for Support to Enhancement of Quality and Relevance in Higher Education Science and Technology (HEST) project on 30/09/2021 and signed by them.



Amb. Simon Nabukwesi, CBS

Principal Secretary



James Mwangi Kiburi

Project Coordinator

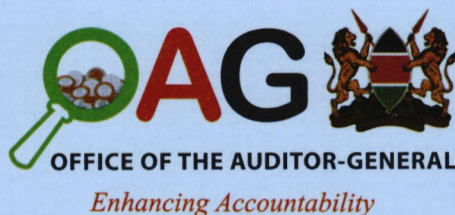


CPA Robert A. Samuel
ICPAK NO. 10100

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 SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER EDUCATION, SCIENCE AND TECHNOLOGY PROJECT (ID NO.P-KE-IAD-001-LOAN AGREEMENT NO.2100150027993) FOR THE YEAR ENDED 30 JUNE, 2021- STATE DEPARTMENT FOR UNIVERSITY EDUCATION

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal control, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

Report of the Auditor-General on Support to Enhancement of Quality and Relevance in Higher Education, Science and Technology Project (Id No. P-Ke-Iad-001-Loan Agreement No.2100150027993) for the year ended 30 June, 2021 - State Department for University Education

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Support to Enhancement of Quality and Relevance in Higher Education, Science and Technology Project No.P-KE-IAD-001 set out on pages 1 to 20, which comprise the statement of financial assets and liabilities as at 30 June , 2021, statement of receipts and payments, 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 Support to Enhancement of Quality and Relevance in Higher Education, Science and Technology Project as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Loan Agreement No.2100150027993 between the African Development Fund and the Republic of Kenya dated 6 December, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Inaccuracies in the Financial Statements

Review of financial statements presented for audit for the year ended 30 June, 2021 under the Project information and overall performance for the current year contradicts the previous year's information as it shows the cumulative receipts have declined from 28,184,468 unit of accounts to 27,270,803 unit of accounts yet the statement of receipts and payments reflects receipts of Kshs.61,795,785 that should have increased the cumulative receipts in donor currency.

Consequently, the accuracy of the financial statements for the year ended 30 June, 2021 could not be confirmed.

2.0 Defects and Delays in Delivery of Equipment to Various Universities

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.61,795,785 under acquisition of non-financial assets which includes an amount of Kshs.47,697,805 relating to purchase of specialized plant, equipment and machinery.

As previously reported, the Project entered into supply contracts with various vendors for supply of specialized science and engineering equipment to selected public universities. Under the terms of the contracts, the vendors were to receive advance payments of 20% of their respective contract values upon submission of bank guarantees of equivalent amounts. A further 60% of the contract sum was to be paid after the equipment was shipped and relevant documents submitted to Management. The remaining 20% was to be paid upon receipt and acceptance of the items supplied.

As at 30 June, 2021, the Project's cumulative expenditure from 2013/2014 financial year on procurement of specialized plant, equipment and machinery totaled Kshs.2,617,434,820 from. However, records provided for audit revealed that the project was expected to end by 30 June, 2021 and that equipment totaling Kshs.112,598,346 was rejected by the respective inspection and acceptance committees.

The Management explained that the State Department finalized the status of delivery and acceptance of equipment and wrote to the Attorney General in July and August, 2021 seeking for an advisory on payment of any outstanding balances due to the suppliers, refund of advance guarantees recovered and levying of liquidated damages from any payments to the suppliers. The State Department is awaiting the final advisory on the mode of recovery of the liquidated damages from the Office of the Attorney General.

In view of the defective and unfulfilled supplies, it is not possible to confirm the accuracy of the cumulative expenditure of Kshs.2,617,434,820 reported under purchase of specialized plant, equipment and machinery as at 30 June, 2021. In addition, the Project may not have been completed by the expected date of 30 June, 2021 delaying service delivery to the citizens.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Support to Enhancement of Quality and Relevance in Higher Education, Science and Technology 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 qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

1.0 Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects similar figures for final budgeted and actual expenditure on comparable basis of Kshs.256,634,610 and

Kshs.73,165,955 respectively resulting to under collection and under-expenditure of Kshs.183,468,655 or 71% of the budget for the year.

Consequently, the project activities may not have been implemented as planned delaying service delivery to the citizens.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter(s) described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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 the African Development Fund and financing agreement, 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 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 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 to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the 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 Project's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project 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 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 provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

24 December, 2021

SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER

EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)

Annual Reports and Financial Statements for the financial year ended 30 June 2021

5. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 JUNE, 2021.

Note	2020/2021		2019/2020		Cumulative to-date (From inception)
	Receipts and payments controlled by the entity KShs	Payments made by third parties KShs	Receipts and payment controlled by the entity KShs	Payments made by third parties KShs	
RECEIPTS					
Transfer from Government entities	11,370,170	-	149,044,233	-	463,475,128
Loan from external development partners	-	61,795,785	-	144,560,423	3,576,020,397
TOTAL RECEIPTS	11,370,170	61,795,785	149,044,233	144,560,423	4,039,495,525
PAYMENTS					
Purchase of goods and services	11,068,370	-	147,996,993	117,648,360	856,755,956
Acquisition of non-financial assets	301,800	61,795,785	1,047,240	26,912,063	3,182,739,569
TOTAL PAYMENTS	11,370,170	61,795,785	149,044,233	144,560,423	4,039,495,525
SURPLUS/ (DEFICIT)	-	-	-	-	-

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements. The financial statements were approved on 30 September, 2021 and signed by:



James Mwangi Kiburi
Project Coordinator



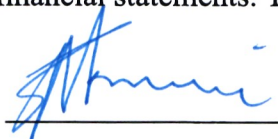
CPA Robert A. Samuel ICPAK NO. 10100
Assistant Accountant General

Amb. Simon Nabukwesi, CBS
Principal Secretary

6. STATEMENT OF FINANCIAL ASSETS AS AT 30 JUNE, 2021

	Note	2020-2021 KShs	2019-2020 KShs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	5.A	-	-
Cash Balances	5. B	-	-
Cash Equivalents (short-term deposits)	5. C	-	-
Total Cash and Cash Equivalents		-	-
Accounts Receivables	6	-	-
TOTAL FINANCIAL ASSETS		-	-
FINANCIAL LIABILITIES			
Payables- Deposits and Retentions	7	-	-
NET ASSETS		-	-
REPRESENTED BY			
Fund balance b/fwd	8	-	-
Prior year adjustments	9	-	-
Surplus/(Deficit) for the year		-	-
NET FINANCIAL POSITION		-	-

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, 2021 and signed by:



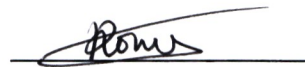
Amb. Simon Nabukwesi, CBS

Principal Secretary



James Mwangi Kiburi

Project Coordinator




CPA Robert A. Samuel
ICPAK NO. 10100

Assistant Accountant General

7. STATEMENT OF CASHFLOWS FOR THE PERIOD 30 JUNE, 2021

		2020-2021	2019-2020
	Note	KShs	KShs
CASHFLOW FROM OPERATING ACTIVITIES			
Receipts from operating activities			
Transfer from Government entities	1	11,370,170	149,044,233
Payments from operating activities			
Purchase of goods and services	3	(11,068,370)	(265,645,353)
Adjustments during the year			
Prior Year Adjustments		-	-
Decrease/(Increase) in Accounts Receivable		-	-
Increase/(Decrease) in Accounts Payable:		-	-
Net cash flow from operating activities		301,800	(116,601,120)
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets	4	(62,097,585)	(27,959,303)
Net cash flows from Investing Activities		(62,097,585)	(27,959,303)
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings	2	(61,795,785)	144,560,423
Net cash flow from financing activities		(61,795,785)	144,560,423
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		-	-
Cash and cash equivalent at BEGINNING of the year	-	-	-
Cash and cash equivalent at END of the year	-	-	-

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, 2021 and signed by:



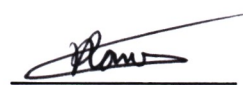
Amb. Simon Nabukwesi, CBS

Principal Secretary



James Mwangi Kiburi

Project Coordinator



CPA Robert A. Samuel
ICPAK NO. 10100

Assistant Accountant General

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)
Annual Reports and Financial Statements for the financial year ended 30 June 2021**


8. STATEMENT OF COMPARISON BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE, 2021

Receipts/Payments Item	Original Budget		Adjustments		Final Budget		Actual on Comparable Basis		Budget Utilization	
	a	b	c=a+b	d	e=c-d	f=d/c %				
	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	KShs	% of Utilization
Receipts										
Transfer from Government entities	16,634,610	-	16,634,610	11,370,170	5,264,440	68.35				
Proceeds from borrowings	-	240,000,000	240,000,000	61,795,785	178,204,215	25.75				
Total Receipts	16,634,610	240,000,000	256,634,610	73,165,955	183,468,655	28.51				
Payments										
Purchase of goods and services	16,634,610	-	16,634,610	11,068,370	5,566,240	66.54				
Acquisition of non-financial assets	-	240,000,000	240,000,000	62,097,585	177,902,415	25.87				
Total Payments	16,634,610	240,000,000	256,634,610	73,165,555	183,468,655	28.51				

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

: The variance between the original budget and the final budget was as a result of supplementary I1 budget where the original budget was revised to include the donor component.

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, 2021 and signed by:



Amb. Simon Nabukwesi, CBS

Principal Secretary



James Mwangi Kiburi

Project Coordinator



CPA Robert A. Samuel
ICPAK NO. 10100

Assistant Accountant General

9. SIGNIFICANT ACCOUNTING POLICIES

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

10.1 Basis of Preparation

10.2 Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with Cash-basis International Public Sector Accounting Standards (IPSAS) financial reporting under the cash basis of accounting, as prescribed by the Public Sector Accounting Standards Board (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 Public Sector Accounting Standards Board (PSASB).

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

10.3 Reporting entity

The financial statements are for the Project under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation Public Finance Management (PFM) Act 2012.

10.3.1 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.

10.4 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.

i) Transfers from the Exchequer

Transfer from Exchequer is be 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.

ii) External Assistance

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

iii) 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) 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.

c) 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.

d) 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

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)
Annual Reports and Financial Statements for the financial year ended 30 June 2021**
Significant Accounting Policies (Continued)

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

Recognition of payments

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

i) Compensation of employees

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

ii) 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.

iii) Interest on borrowing

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

iv) 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.

v) 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.

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)
Annual Reports and Financial Statements for the financial year ended 30 June 2021
Significant Accounting Policies (Continued)**

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.

e) 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.

f) 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 part deposits.

g) Accounts receivable

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as

Significant Accounting Policies (Continued)

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 (Authority to Incur Expenditure) holders.

This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

h) Contingent Liabilities

A contingent liability is:

- a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Support to Enhancement of Quality and Relevancy in Higher Education Science and Technology (HEST) Project; or
- b) A present obligation that arises from past events but is not recognised because:
 - i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
 - ii) The amount of the obligation cannot be measured with sufficient reliability.

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities. Letters of comfort/ support, insurance, Public Private Partnerships,

The project 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.

Section 89 (2) (i) of the Public Finance Management (PFM) Act requires the National Government to report on the payments made, or losses incurred, by the county government to meet contingent liabilities as a result of loans during the financial year, including payments made in respect of loan write-offs or waiver of interest on loans

Significant Accounting Policies (Continued)

i) Contingent Assets

The project 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) 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.

k) 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 Ministries, Departments and Agencies (MDAs) but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers and are eliminated upon consolidation.

Significant Accounting Policies (Continued)

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.

The Budget for this project was approved by the National Assembly and covers the period 1 July, 2020 to 30 June, 2021

l) 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 Kshs 61,795,785 being loan disbursements were received in form of direct payments from third parties.

m) 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.

n) 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.

o) Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended 30 June, 2021.

Significant Accounting Policies (Continued)

p) 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.

9. NOTES THE FINANCIAL STATEMENTS

1. Receipts from Government of Kenya

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

	2020/21	2019/20	Cumulative to-date (from inception)
	KShs	KShs	
Counterpart funding through Ministry of Education			
Counterpart funds Quarter 1	528,000		
Counterpart funds Quarter 2	5,126,731		
Counterpart funds Quarter 3	-		
Counterpart funds Quarter 4	5,715,439		
Total	11,370,170	149,044,233	463,475,128

2. Loan from External Development Partners

During the 12 months to 30 June, 2021 we received funding from development partners in form of loans negotiated by the National Treasury donors as detailed in the table below:

Name of Donor	Date received	Amount in loan currency	Loans received in cash	Loans received as direct payment*	Total amount in KShs	
			KShs	KShs	2020/21	2019/20
Loans Received from Multilateral Donors (International Organizations)						
African Development Bank	FY20/21	485,239	-	61,795,785	61,795,785	144,560,423
Total		485,239	-	61,795,785	61,795,785	144,560,423

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. Purchase of Goods and Services

	2020/2021		2019/2020		Cumulative to- date KShs
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments	Total Payments	
	KShs	KShs	KShs	KShs	
Domestic travel and subsistence	2,156,500	-	2,156,500	6,785,020	17,402,520
Printing, advertising and information supplies	-	-	-	-	1,361,416
Training payments	-	-	-	255,062,536	637,666,778
Consultancy	8,911,870	-	8,911,870	-	131,402,233
Other operating payments	-	-	-	3,797,797	68,923,009
Total	<u>11,068,370</u>	=	<u>11,068,370</u>	<u>265,645,353</u>	<u>856,755,956</u>

4. ACQUISITION OF NON-FINANCIAL ASSETS

	2020/21		2019/20		Cumulative to-date KShs
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments	Total Payments	
	KShs	KShs	KShs	KShs	
Construction of Buildings and structures	-	14,097,980	14,097,980	1,047,240	549,678,334
Purchase of Transport equipment	-	-	-	-	11,716,188
Purchase of specialised plant, equipment and machinery	-	47,697,805	47,697,805	26,912,063	2,617,434,820
Purchase of Office Furniture and general equipment	-	-	-	-	754,824
Purchase of computers & office equipment	301,800	-	301,800	-	3,155,403
Total	<u>301,800</u>	<u>61,795,785</u>	<u>62,097,585</u>	<u>27,959,303</u>	<u>3,182,739,569</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. Cash and Cash Equivalents

	2020/21	2019/20
	KShs	KShs
Bank accounts (Note 5.A)	-	-
Cash in hand (Note 5.B)	-	-
Cash equivalents (short-term deposits) (Note 5.C)	-	-
Total	≡	≡

5.A Bank Accounts

The project has no dedicated bank account opened for its operations. All expenses which are to be borne by the donor as per the financing agreement, are paid through the direct payment method while Gok counterpart funds are paid through the State departments main development account in the central bank.

Special Deposit Accounts

The project has no Special Deposit Account(s) as the donor makes payments directly.

5.B Cash in Hand

	2020/21	2019/20
	KShs	KShs
Location 1	-	-
Location 2	-	-
Location 3	-	-
Other locations (<i>specify</i>)	-	-
Total cash balances	≡	≡

5.C Cash equivalents (short-term deposits)

	2020/21	2019/20
	KShs	KShs
Kenya Commercial Bank [A/C No.....]	-	-
Co-Operative Bank of Kenya [A/C No.....]	-	-
Others (<i>Specify</i>)	-	-

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)
Annual Reports and Financial Statements for the financial year ended 30 June 2021**

Total = =

6. Accounts Receivables

<i>Description</i>	2020-2021	2019-2020
	Kshs	Kshs
Government Imprests	-	-
Salary advances	-	-
Total	-	-

7. Accounts Payables

Description	2020-2021	2019-2020
	Kshs	Kshs
Retention	-	-
Deposits	-	-
Total	-	-

8. Fund Balance Brought Forward

	2019/20	2018/19
	KShs	KShs
Bank accounts	-	-
Cash in hand	-	-
Cash equivalents (short-term deposits)	-	-
Outstanding imprests and advances	-	-
Total	-	-

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)**

Annual Reports and Financial Statements for the financial year ended 30 June 2021

9. Prior Year Adjustment

	Balance b/f FY 2019/2020 as per Financial statements	Adjustments	Adjusted Balance b/f FY 2019/2020
Description of the error	Kshs	Kshs	Kshs
Bank account Balances	-	-	-
Cash in hand	-	-	-
Accounts Payables	-	-	-
Receivables	-	-	-
Others (Acquisition of Assets)	26,912,063	27,993,539	54,905,602
Total	26,912,063	27,993,539	54,905,602

NB: The adjustment relates to direct payments paid to Redline Limited in the financial year 2019/2020 but were erroneously omitted in the financial statements. The omitted amount has been adjusted in the acquisition of non-financial assets (note 4) in the financial year 2020/2021.

Restatement of Opening Balances

Opening balances for purchase of specialized plant, equipment and machinery have been restated hence reconciling the donor and the project accounts .

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)**

Annual Reports and Financial Statements for the financial year ended 30 June 2021

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

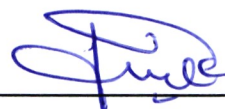
The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.1	Equipment not delivered/installed	Equipment worth Kshs.42,670,715.50 delivered/installed inspected and accepted by inspection and acceptance committee in February and October 2020	Issue already submitted and discussed by the Parliamentary Accounts Committee	Resolved	-
1.2	Equipment with missing parts/accessories	Missing parts and accessories for Equipment worth Kshs. 24,674,775.32 were supplied and accepted by the inspection Committee in February and October 2020.	Issue already submitted and discussed by the Parliamentary Accounts committee	Resolved	-
1.3	Equipment not as per user specifications	Equipment worth Kshs. 10,991,558.69 were inspected and accepted by the inspection and acceptance committee after replacement of those that did not meet specifications.	Issue already submitted and discussed by the Parliamentary Accounts committee	Resolved	-



Amb. Simon Nabukwesi, CBS
Principal Secretary

Date...23/12/2021.....



James Mwangi Kiburi
Project Coordinator

Date...30/09/21.....

ANNEXES

ANNEX1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments on Variance(below 90% and over 100%)
	a	b	c=a-b	d=b/a %	
	Kshs	Kshs	Kshs		
Receipts					
Transfer from Government entities	16,634,610	11,370,170	5,264,440	68.35	The project was coming to an end and so the monitoring activities had been scaled down .
Proceeds from borrowings	240,000,000	61,795,785	178,204,215	25.75	The suppliers did not supply all the equipment as per the contract and therefore they were not paid and their contracts were terminated.
Total Receipts	256,634,610	73,165,955	183,468,655		
Payments					
Purchase of goods and services	16,634,610	11,068,370	5,566,240	66.54	The project was coming to an end and so the monitoring activities had been scaled down .
Acquisition of non-financial assets	240,000,000	62,097,585	177,902,415	25.87	The suppliers did not supply all the equipment as per the contract and therefore they were not paid and their contracts were terminated.
Total payments	256,634,610	73,165,955	183,468,655		

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)**
Annual Reports and Financial Statements for the financial year ended 30 June 2021
ANNEX 4 – SUMMARY OF FIXED ASSETS REGISTER

Asset class	Opening Cost (KShs) 2020/21	Donations in form of assets (KShs) 2020/21	*Purchases/ Additions in the Year (KShs) 2020/21	**Disposals in the Year (KShs) 2020/21	Transfers in/(out) Kshs 2020/21	Closing Cost (KShs) 2021
	(a)	(b)	(c)	(d)	(d)	(e)= (a)+ (b)+c)-(d)+(-)d
Purchase of Transport equipment	11,716,188	-	-	-	-	11,716,188
Construction of Buildings and structures	535,580,354	-	14,097,980	-	-	549,678,334
Purchase of Office Furniture and general equipment	754,824	-	-	-	-	754,824
Purchase of Specialized Plant, Equipment and Machinery	2,569,737,015	-	47,697,805	-	-	2,617,434,820
Purchase Computers and office equipment	2,853,603	-	301,800	-	-	3,155,403
Total	3,120,641,984		62,097,585			<u>3,182,739,569</u>