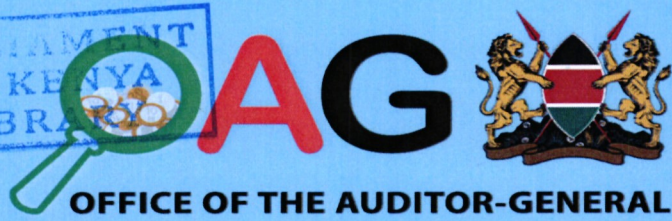
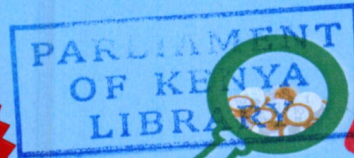


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

| | |
|-----------------------|---|
| THE NATIONAL ASSEMBLY | |
| THE AUDITOR-GENERAL | |
| DATE: | 13 APR 2023 |
| | THURSDAY |
| TABLED BY: | THE LEADER OF THE MAJORITY PARTY (Hon. Adimin. Ichung'wakh) |
| CLERK-AT THE-TABLE: | Joyce Lemerele |

ESTABLISHMENT OF KENYA ADVANCED INSTITUTE OF SCIENCE AND TECHNOLOGY PROJECT NO KEN-4

FOR THE YEAR ENDED
30 JUNE, 2022

MINISTRY OF EDUCATION – STATE
DEPARTMENT FOR UNIVERSITY EDUCATION
AND RESEARCH

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

22 NOV 2022

RECEIVED



PROJECT NAME:

**ESTABLISHMENT OF KENYA ADVANCED INSTITUTE OF SCIENCE AND
TECHNOLOGY PROJECT**

IMPLEMENTING ENTITY:

**MINISTRY OF EDUCATION
STATE DEPARTMENT FOR UNIVERSITY EDUCATION**

PROJECT GRANT/CREDIT NUMBER:

EDF LOAN No.4 KEN

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

30 JUNE, 2022

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

*Establishment of Kenya Advanced Institute of Science and Technology (KAIST) Project
Annual Report and Financial Statements for the financial year ended 30 June, 2022*

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| 3. Environmental and Sustainability Reporting | xiii |
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Project Information and Overall Performance

1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Official Project Name

Establishment of Kenya Advanced Institute of Science and Technology (KAIST)

1.2 Key Objectives

- i) The key objective of the project is to produce highly qualified scientists and engineers with both theoretical and practical knowledge of the future industries in Kenya, and the East African region at large. The production of well-trained graduates in science and technology will contribute to a knowledge-based economy and sustained growth in innovation.

- ii) To promote relevant Research and Development through the promotion of industrial-academic collaboration for stimulating technological and industrial transformation. This aims at making Kenya industrially competitive around the globe by transforming it into an industrializing middle-income country as envisioned by Kenya's vision 2030 blueprint.

1.3 Address

Headquarters
Ministry of Education
Jogoo House "B"
Harambee Avenue
P.O. Box 9583-00200
Nairobi

The project also has offices in:

Directorate of University Education
Teleposta towers
Kenyatta Avenue
Nairobi

1.4 Contacts:

Project Coordinator
Telephone: (+254721453005)
Email: roselidaowuor@yahoo.com

Establishment of Kenya Advanced Institute of Science and Technology (KAIST) Project Annual Report and Financial Statements for the financial year ended 30 June, 2022

1.5 Project Information

Project Start Date: 28th December 2017

Project End Date: 24th September 2023

Project Manager: The current project manager is Dr. Roselida Awuor

Project Sponsor: The project sponsor is the Export-Import Bank of Korea.
(Government Agency for International Development)

1.6 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 | EDCF loan No. KEN-4 |
| Strategic goals of the project | The strategic goals of the project are as follows: (i) To provide high-quality education in science and Technology and to generate highly skilled engineers and scientists with both theory and practical knowledge. (ii) To conduct socially relevant Research and Development thereby improving national competitiveness and transforming Kenya into a knowledge-based economy. |
| Achievement of strategic goals | The project management aims to achieve the goals through the following means: (i) Establishing and appropriately equipping a new advanced and independent university and introducing, a truly innovative approach to higher education science and technology. (ii) Formulating a curriculum different from the one in existing universities in such a manner that it will emphasize applied science and technology, problem-solving skills, and hands-on experience. |
| Other important background information about the project | The project is in line with the government of Kenya's long-term strategic development plan outlined in Kenya Vision 2030 which aims at transforming Kenya into a newly industrialized middle-income country by 2030. |

*Establishment of Kenya Advanced Institute of Science and Technology (KAIST) Project
Annual Report and Financial Statements for the financial year ended 30 June, 2022*

| | |
|---|---|
| | Since one of the major factors in achieving the vision is the utilization of science, technology and modernization, the project was envisioned and developed to assist in boosting this factor. |
| The current situation that the project was formed to intervene | The project was formed for intervention in; Filling the gap in existing institutions which have a deficiency in the provision of high-quality science and technology education and research causing many students to give up on Science, Technology, Engineering and Mathematics (STEM) or leave the country for better education opportunities abroad. |
| Project duration | The project started on 28 th December 2017 and is expected to run until 24 th September 2023 |

1.7 Bankers

The project does not have a separate bank account in the year under review. All donor funded payments were made directly by the donor while GoK counterpart funds were paid through the State Department of University Education's development bank account.

1.8 Auditors

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

***Establishment of Kenya Advanced Institute of Science and Technology (KAIST) Project
Annual Report and Financial Statements for the financial year ended 30 June, 2022***

1.9 Roles and Responsibilities

The following is a list of people who were working on the project. This list includes the project manager and all the key stakeholders who were involved with the project during the year under review and their role, positions, and contact information.

| Name | Designation | Academic qualification | Key Responsibilities |
|---------------------------|-----------------------------|-------------------------------|---|
| Prof. George Magoha, EGH | Cabinet Secretary | PhD | Overall policy direction on the management of the project. |
| Amb. Simon Nabukwesi, CBS | Principal Secretary | Masters | Overall policy direction on the management of the project. |
| Dr. Roselida Owuor | Deputy Director of Research | Doctor of Philosophy | Project coordination at the Ministry. |
| CPA Johnson Njuguna | Deputy Accountant General | Masters, CPA(K), | Ensure Processing payments for project activities, Preparation of project financial statements. |
| Bernard Were | Project Accountant | Bachelors in Commerce | Process payments, and Preparation of financial reports. |

1.10 Funding summary

The Project is for a duration of six years from December 2017 to September 2023 with an approved budget of US\$ 136,392,000 equivalents to Kshs 13,952,669,734 as highlighted in the table below:

Below is the funding summary:

a) Source of Funds

| Source of funds | Donor Commitment- | | Amount received to date (30 June 2022) | | Undrawn balance to date (30 June 2022) | |
|---|--------------------|-----------------------|---|----------------------|---|-----------------------|
| | <i>USD</i> | <i>KShs</i> | <i>(USD)</i> | <i>KShs</i> | <i>(USD)</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 | | | | | | |
| The Export-Import Bank of Korea. (Government Agency of the EDCF) | 94,697,000 | 9,687,342,115 | 18,941,454 | 1,897,510,523 | 75,755,546 | 7,789,831,592 |
| (ii) Counterpart funds | | | | | | |
| Government of Kenya | 41,695,000 | 4,265,327,619 | 1,988,037 | 203,372,755 | 39,706,963 | 4,061,954,864 |
| Total | 136,392,000 | 13,952,669,734 | 20,929,491 | 2,100,883,278 | 115,462,509 | 11,851,786,456 |

Project information and overall performance (continued)

b) Application of Funds

| Application of funds | Amount received to date (30 June 2022) | | Cumulative Amount paid to date (30 June 2022) | Unutilized balance to date (30 June 2022) | |
|---|---|----------------------|--|--|-----------------------|
| | Donor currency | Kshs | | Donor currency | Kshs |
| | (A) | (A') | (B') | (A)-(B) | (A')-(B') |
| i) Loan | | | | | |
| The Export-Import Bank of Korea. (Government Agency of the EDCF) | 18,941,454 | 1,897,510,593 | 1,897,510,593 | 75,755,546 | 7,789,831,592 |
| 1. Counterpart funds | | | | | |
| Government of Kenya | 1,988,037 | 203,372,755 | 203,372,755 | 39,706,963 | 4,061,954,864 |
| Total | 20,929,491 | 2,100,883,278 | 2,100,883,278 | 115,462,509 | 11,851,786,456 |

Project information and overall performance (continued)

1.11 Summary of Overall Project Performance:

- i) Budget performance against actual amounts for current year and for cumulative to-date,
- ii) Physical progress based on outputs, outcomes, and impacts since project commencement,

The construction has been ongoing for the last 12 months and the work done is 6.4%.

- iii) Comment on value-for-money achievements,
- iv) Absorption rate for each year since the commencement of the project.
- v) Implementation challenges and recommended way forward.
 - a) The Contractor has not demonstrated capacity to realize the Project. Most of the experts from Korea are not qualified as per the contract's specification (GC 6.9: Contractor's Personnel) yet they are holding very senior positions in the Project. The Project Manager is a Diploma holder and cannot communicate in English as required by GC 4.3 and GC1.4 in the signed contract. The Project Manager can also not make decisions. The Contractor has only one professional engineer in civil works. The other engineers are technicians.
 - b) The Contractor does not have schedule of works for the completion of the Project. He does not have a catch-up plan for the lost time in the construction. He has instead submitted twice irrelevant schedule of works which go beyond the Contract period by 5 months.
 - c) Delay in designs in which the Contractor is applying as an excuse. Despite delay in drawings, there is evidence that the contractor was given nod to continue with works during the last major project's stakeholders meeting in February 2022. It was agreed that the Campus Core was to be completed by June 2022 in readiness for commissioning by the President of the Republic of Kenya, but the Contractor did not honour the pledge; The building is still at foundation level 6 months along the line.

***Establishment of Kenya Advanced Institute of Science and Technology (KAIST) Project
Annual Report and Financial Statements for the financial year ended 30 June, 2022***

- d) The Contractor has no good plans for timely acquisition of materials and request for Engineer's approvals. On several occasions she has failed to follow instructions from the Consultants and in more than three occasions requested the Employer to remove the Consultant from the site if they are to make any significant progress. This is a sign of compromising the quality of works at the site.
- e) The Contractor does not have means of establishing the progress of the undertake works and has on several occasions given a figure which is higher than that of the Consultant. The quality of the Progress report submitted is also against the GC 4.21.
- f) The Contractor has not registered the project (Kenya-AIST) and her Company with the National Construction Authority (NCA) as per the Kenyan law
- g) The Contractor has not engaged registered subcontractors for specialized works as per the Kenyan law and the signed contract (GC4.4: Subcontractors).
- h) The Contractor does not optimize personnel and resources on site. Most buildings remain unattended every day.
- i) The Contractor has slowed down establishment of batching plant by declining to provide facilitation (down payment, electricity, and transportation) to the Sub-Contractor.

The recommended Way forward

- The Contractor should observe rules and regulations.
- Both Contractor and Consultant to meet, write, and submit a commitment letter to the Ministry of Education citing resolutions for expediting establishment of the Kenya-AIST.
- The Contractor should hire qualified workers across the Country and also replace her unqualified staff from Korea.
- The Korea Exim bank should visit the site at least every month.

- The Contractor should make payment request in good time and submit all the documents required to process the payment.
- The Contractor should submit Schedule of works within the Contract period.

1.12 Summary of Project Compliance:

- The contractor, BOMI E&C Consortium has not produced evidence of registration of the project with the National Construction Authority (NCA) as required by the Kenyan Law to expedite the payment process, hence low utilization of funds.*
- The NCA can shut down construction.*

The employer reminded the Contractor to register accordingly and the process is underway.

***Establishment of Kenya Advanced Institute of Science and Technology (KAIST) Project
Annual Report and Financial Statements for the financial year ended 30 June, 2022***

2. Statement of Performance against Project's Predetermined Objectives

The key development objectives of the project plan are to:

1. To produce highly qualified scientists and engineers with both theoretical and practical knowledge of the future industries in Kenya and the East African region at large. The production of well-trained graduates in science and technology will contribute to a knowledge-based economy and sustained growth in innovation.
2. To promote relevant Research and Development through the promotion of industrial-academic collaboration for stimulation of technological and industrial transformation. This aims at making Kenya competitive around the globe by transforming into an industrial middle-income country as envisioned in the Kenya Vision 2030

Progress on the attainment of Strategic development objectives

For purposes of implementing and cascading the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic, and time-bound (SMART) and converted into development outcomes. Attendant indicators were identified for reasons of tracking progress and performance measurement:

Below we provide the progress on attaining the stated objectives:

| Project | Objective | Outcome | Indicator | Performance |
|--|--|--|--|---|
| Establishment of Kenya Advanced Institute of Science and Technology | To produce highly qualified scientists and engineers | Highly qualified scientists and engineers trained | Number of scientists and engineers | Several engineering and science programs mounted. |
| | To promote relevant Research and Development through the promotion of industrial-academic collaboration for stimulation of technological and industrial transformation | Enhanced quality of graduates in engineering and manufacturing economic productive sectors | Number of industrial-academic collaborations | Number of industrial-academic collaborations initiated |
| | | | Number of Research initiatives Conducted in target faculties | Number of Research initiatives undertaken in target faculties |

3. Environmental and Sustainability Reporting

The establishment of the Kenya Advanced Institute of Science and Technology (KAIST) 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.

a) Sustainability strategy and profile

To ensure operational sustainability of the Establishment of Kenya Advanced Institute of Science and Technology Project, the following measures should be upheld firmly;

(i) Policy

The Establishment of Kenya Advanced Institute of Science and Technology Project 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 II), third Medium Term Plan (MTP III). 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, Cabinet Memo among others.

(ii) Stakeholder Involvement:

The project will derive its sustainability through the involvement of key stakeholders in all processes of procurement of the contractor and equipment including development of specifications, bid evaluation, delivery, installation, commissioning as well as inspection and acceptance of goods. In addition, the selection of students will entail advertising for eligible candidates who will be selected based on meritocracy.

(iii) Capacity Building and Training on Use and Maintenance of Equipment:

Training on the use and maintenance of equipment will be a key component once the institution is set up. The staff recruited both academic, technologists and technicians will be adequately trained to ensure proper use, troubleshooting and undertaking regular repair and maintenance of the laboratory equipment. The University once set up will be expected to sign

service level agreements with equipment suppliers to undertake regular maintenance and repair of any equipment that breaks down.

(iv) Resource Mobilization:

The Institute once set up will be allocated funds for recurrent expenditure and will be required to set aside funds to assist in maintenance of equipment enhancing sustainability. The Institute will also set up an endowment fund that will attract sponsorship from industry.

b) Environmental performance

The Establishment of the Kenya Advanced Institute of Science and Technology Project has marginal environmental impacts. The site preparation, design, construction, and operation undertaken through this project shall be implemented in line with the Kenya government's environmental laws and regulations and Economic Development Cooperation Fund's (EDCF) safeguard policy.

There is no land acquisition or resettlement required under this project. The institute shall be constructed on unoccupied land owned by the government at Konza Technopolis.

c) Employee welfare

The hiring process for the establishment of Kenya-AIST is guided by Kenyan HR laws and practices. The Contractor has equal number of office staff among Koreans and Kenyans. The organization has engaged community liaison officers to manage recruitment of site workers. In July 2022, the Contractor and worker's union entered into an agreement. In this regard, the relationship between the Contractor and site workers have improved greatly. The parties agreed on favourable terms of managing careers, appraisal and reward systems. The organisation also observes the policy on health and safety in compliance with Occupational Safety and Health Act of 2007, (OSHA).

d) Market place practices

(i) Responsible Supply chain and supplier relations-

The parties to the establishment of Kenya-AIST maintains good business practices, observe procurement laws, and treat its suppliers responsibly, by honouring contracts and payment agreements

(ii) Responsible ethical practices

The Client, Contractor, Consultant, and all stakeholders uphold the integrity and good conduct in reference to the applicable laws.

(iii) Regulatory impact assessment

The project has put in place Safeguards to ensure citizens and stakeholder's rights.

(iv) Community Engagement

The project has embraced community engagement by employing locals and improving the livelihood of those who live in its vicinity

4. Statement of Project Management Responsibilities

The Principal Secretary for the Ministry of Education, State Department of University Education, and the Project Coordinator for the establishment of Kenya Advanced Institute of Science and Technology (KAIST) 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 (period) ended on 3rd June, 2022

This responsibility includes (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the 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 of University Education, and the Project Coordinator for the 'Establishment of Kenya Advanced Institute of Science and Technology (KAIST) Project' accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policy with International Public Sector Accounting Standards.

***Establishment of Kenya Advanced Institute of Science and Technology (KAIST) Project
Annual Report and Financial Statements for the financial year ended 30 June, 2022***

The Principal Secretary for the Ministry of Education, State Department of University Education, and the Project Coordinator for the Establishment of Kenya Advanced Institute of Science and Technology (KAIST) 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, 2022 and of the Project's financial position as at that date. The Principal Secretary for the State Department for University Education and the Project Coordinator for the Establishment of Kenya Advanced Institute of Science and Technology (KAIST) 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 the Establishment of Kenya Advanced Institute of Science and Technology (KAIST) 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 of University Education and the Project Coordinator for the establishment of Kenya Advanced Institute of Science and Technology (KAIST) Project on 18th November, 2022 and signed by them.



.....
Amb Simon Nabukwesi CBS
Principal Secretary



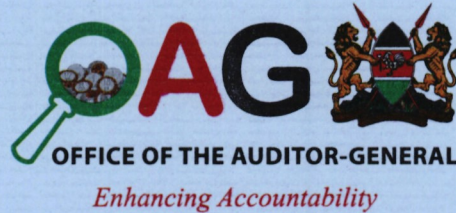
.....
Dr. Roselida Oduor
Project Coordinator



.....
CPA Johnson Njuguna
Deputy Accountant General
ICPAK Member No: 7626

REPUBLIC OF KENYA

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HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR GENERAL ON ESTABLISHMENT OF KENYA ADVANCED INSTITUTE OF SCIENCE AND TECHNOLOGY PROJECT NO KEN-4 FOR THE YEAR ENDED 30 JUNE, 2022 – MINISTRY OF EDUCATION - STATE DEPARTMENT FOR UNIVERSITY EDUCATION AND RESEARCH

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 the intended purpose.
- C. Report on the Effectiveness of Internal Controls, Risk Management, and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient, and effective operations of the entity.

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Establishment of Kenya Advanced Institute of Science and Technology Project set out on pages 1 to 33, which

Report of the Auditor-General on Establishment of Kenya Advanced Institute of Science and Technology Project Loan No. KEN-4 for the year ended 30 June, 2022 – Ministry of Education - State Department for University Education and Research

comprise of the statement of financial assets as at 30 June, 2022, statement of receipts and payments, statement of cash flows and the statement of comparison budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion Section of my report, the financial statements present fairly, in all material respects, the financial position of the Establishment of Kenya Advanced Institute of Science and Technology Project as at 30 June, 2022 and of its financial performance and its cash flows for the year ended in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the terms of Loan Agreement No.KEN-4 of 28 December, 2017 between the Republic of Korea through the Export-Import Bank of Korea (Government Agency for the Economic Development Cooperation Fund, EDCF) and the Government of Kenya and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Unsupported and Unaccounted for Expenditure on Fuel and Lubricants for Motor Vehicles

The statement of receipts and payments reflects an amount of Kshs.86,231,005 in respect of purchase of goods and services as disclosed in Note 3 to the financial statements. Included in the amount is Kshs.499,999 in respect of fuel and lubricants for motor vehicles. However, the following anomalies were noted: -

- i. The fuel was not recorded in the Project's work tickets;
- ii. A number of work tickets used were not provided for audit in support of the expenditure; and,
- iii. The contract between the Project Management and the service provider was not provided for audit review.

In the circumstances, the regularity of the expenditure of Kshs.499,999 in respect of fuel and lubricants for motor vehicles could not be confirmed.

2.0 Payment for Undelivered Goods and Irregular Charge of Unrelated Expenditure

The statement of receipts and payments reflects acquisition of non-financial assets purchase of vehicles and other transport equipments amounting to Kshs.11,290,000 as disclosed in Note 4 to the financial statements which has not been delivered and could not be physically verified. Further, as previously reported, the Project incurred an expenditure of Kshs.25,030,000 in the purchase of vehicles and other transport equipment which had not been delivered to the Project. However, the vehicles were being used by Ministry officials for non-project activities.

In the circumstances, the regularity of the expenditure of Kshs.36,320,000 on purchase of vehicles and other transport equipment could not be confirmed and value for money may not have been realized.

3.0 Lack of Fixed Asset Register and Ownership Documents

The statement of receipts and payments reflects the acquisition of non-financial assets cumulative expenditure amounting to Kshs.1,934,423,523 as disclosed in Note 4 to the financial statements. However, the Management did not provide for audit review a fixed asset register and logbooks for the two vehicles owned by the project.

In the circumstances, the existence, ownership, and valuation of assets with a cumulative balance of Kshs.1,934,423,523 could not be confirmed.

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Establishment of Kenya Advanced Institute of Science and Technology Project Management in accordance with ISSAI 130 on the 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 the most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter 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

Delayed Construction Works

The Project's financial records indicate that the project has been ongoing for five (5) years since the loan agreement was signed on 28 December, 2017. The project has recorded an accumulated expenditure on the acquisition of non-financial assets amounting to Kshs.1,934,423,523 with the summary of fixed assets register reflecting buildings and structures of Kshs.1,897,510,523 for which the value of work done has not been measured. Further, the project Management ought to have made four (4) semi-annual consecutive repayments of the loan on February, 2020, August, 2020, February, 2021,

and August, 2021 in compliance with the provisions of Article 1 Section 1.02 on general terms and conditions of the loan agreement. The project continues to attract interest on the unutilized amounts.

In the circumstances, value for money has not been realised in the implementation of the project. In addition, the project continues to attract interest on the unspent amounts.

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 THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

Lack of Internal Audit on the Project

Review of Internal Audit Function revealed that no audit was carried out. Further, the Audit Committee did not sit to deliberate on matters relating to the project.

In the circumstances, the project did not benefit from the assurance and advisory services from the internal audit function as well as oversight from the Audit Committee.

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 controls, 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 Economic Development Cooperation Fund Loan Agreement No.KEN-4 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 Economic Development Cooperation Fund Loan Agreement No.KEN-4, so far as appears from the examination of those records; and,

iii. The 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 controls, risk management, and overall governance.

In preparing the financial statements, Management is responsible for assessing the Project's ability 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 Project's financial reporting process, reviewing the effectiveness of how the Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in

compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls 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 controls 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 controls.
- 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 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 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 controls 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

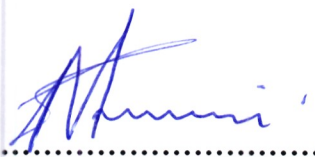
Nairobi

07 December, 2022

6. Statement of Receipts and Payments for the year ended 30 June 2022.

| | N o t e | 2021/2022 | | | 2020/2021 | | | Cumulative to- date (From inception) |
|---|------------------|---|--------------------------------------|--------------------|--|--------------------------------------|----------------------|--|
| | | Receipts and payments controlled by the entity | Payments made by third parties | Total | Receipts and payments controlle d by the entity | Payments made by third parties | Total | |
| | | KShs | KShs | | KShs | KShs | KShs. | |
| RECEIPTS | | | | | | | | |
| Transfer from Government entities | 1 | 97,521,005 | - | 97,521,005 | 103,010,821 | - | 103,010,821 | 203,372,755 |
| A loan from external development partners | 2 | - | 53,679,386 | 53,679,386 | - | 1,382,695,140 | 1,382,695,140 | 1,897,510,523 |
| TOTAL RECEIPTS | | 97,521,005 | 53,679,386 | 151,200,391 | 103,010,821 | 1,382,695,140 | 1,485,705,961 | 2,100,883,278 |
| PAYMENTS | | | | | | | | |
| Purchase of goods and services | 3 | 86,231,005 | - | 86,231,005 | 77,779,821 | - | 77,779,821 | 166,459,755 |
| Acquisition of non-financial assets | 4 | 11,290,000 | 53,679,386 | 64,969,386 | 25,231,000 | 1,382,695,140 | 1,407,926,140 | 1,934,423,523 |
| TOTAL PAYMENTS | | 97,521,005 | 53,697,386 | 151,200,391 | 103,010,821 | 1,382,695,140 | 1,485,705,961 | 2,100,883,278 |
| SURPLUS/ (DEFICIT) | | - | - | - | - | - | - | - |

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



Amb Simon Nabukwesi CBS
Principal Secretary



Dr. Roselida Oduor
Project Coordinator



CPA Johnson Njuguna
Deputy Accountant General
ICPAK Member No: 7626

*Establishment of Kenya Advanced Institute of Science and Technology (KAIST) Project
Annual Report and Financial Statements for the financial year ended 30 June, 2022*

7. Statement of Financial Assets as of 30 June 2022

| | Note | 2020/2021 | 2019/2020 |
|--|------|-----------|-----------|
| | | KShs | KShs |
| FINANCIAL ASSETS | | | |
| Cash and Cash Equivalents | | | |
| Bank Balances | 5.1A | - | - |
| Cash Balances | 5.1B | - | - |
| Cash Equivalents (short-term deposits) | 5.1C | - | - |
| 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/forward | 8 | - | - |
| Prior year adjustments | | - | - |
| 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 18th November, 2022 and signed by:



.....
Amb Simon Nabukwesi CBS
Principal Secretary



.....
Dr. Roselida Oduor
Project Coordinator

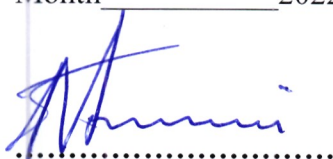


.....
CPA Johnson Njuguna
Deputy Accountant General
ICPAK Member No: 7626

8. Statement of Cashflow for the year ended 30 June 2022

| | | 2021/2022 | 2020/2021 |
|--|------|---------------------|------------------------|
| | Note | KShs | KShs |
| CASHFLOW FROM OPERATING ACTIVITIES | | | |
| Receipts from operating activities | | | |
| Transfer from Government entities | 1 | 97,521,005 | 103,010,821 |
| Payments from operating activities | | | |
| Purchase of goods and services | 3 | (86,231,005) | (77,779,821) |
| Adjustments during the year | | | |
| Net cash flow from operating activities | | 11,290,000 | 25,231,000 |
| CASHFLOW FROM INVESTING ACTIVITIES | | | |
| Acquisition of Assets | 4 | (64,969,386) | (1,407,926,140) |
| Net cash flows from Investing Activities | | (64,969,386) | (1,407,926,386) |
| CASHFLOW FROM BORROWING ACTIVITIES | | | |
| Proceeds from Foreign Borrowings | 2 | 53,679,386 | 1,382,695,140 |
| Net cash flow from financing activities | | 53,679,386 | 1,382,695,140 |
| 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 18.11.2022 Month _____ 2022 and signed by:



.....
Amb Simon Nabukwesi CBS
Principal Secretary



.....
Dr. Roselida Oduor
Project Coordinator




.....
CPA Johnson Njuguna
Deputy Accountant General
ICPAK Member No: 7626

*Establishment of the Kenya Advanced Institute of Science and Technology (KAIST) Project
Annual Report and Financial Statements for the financial year ended June 30, 2022*

9. Statement of Comparison of Budget and Actual amounts for the year ended 30 June 2022

| Receipts/Payments Item | Original Budget a | Adjustments b | Final Budget c=a+b | Actual on Comparable Basis d | Budget Utilization Difference e=c-d | % of Utilization f=d/c % |
|-------------------------------------|----------------------|------------------|-----------------------|------------------------------------|---|--------------------------------|
| Receipts | | | | | | |
| Transfer from The National Treasury | 100,000,000 | - | 100,000,000 | 97,521,005 | 2,478,995 | 97.5 |
| Proceeds from borrowings | 750,000,000 | - | 750,000,000 | 53,679,386 | 696,320,614 | 7.1 |
| Total Receipts | 850,000,000 | - | 850,000,000 | 151,200,391 | 698,799,609 | 17.9 |
| Payments | | | | | | |
| Purchase of goods and services | 88,710,000 | - | 88,710,000 | 97,521,005 | 2,478,995 | 97.2 |
| Acquisition of non-financial assets | 761,290,000 | - | 761,290,000 | 64,969,386 | 696,320,614 | 8.5 |
| Total Payments | 850,000,000 | - | 850,000,000 | 151,200,391 | 698,799,609 | 17.7 |

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


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Amb. Simon Nabukwesi, CBS
Principal Secretary


.....

Dr. Roselida Owuor
Project Coordinator



.....

CPA Johnson Njuguna
Deputy Accountant General
ICPAK Member No: 7626

10. Significant Accounting Policies

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

10.1 Statement of compliance and basis of preparation

The financial statements have been prepared by 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.

10.2 Reporting Entity

The financial statements are for the Establishment of the Kenya Advanced Institute of Science and Technology Project under the National Government. The financial statements are for the reporting entity State Department of University Education as required by Section 81 of the PFM Act, 2012 .

10.3 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 Recognition of receipts

The Establishment of Kenya Advanced Institute of Science and Technology Project recognizes all receipts from various sources when the event occurs, and the related cash has been received.

i) 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.

Significant Accounting Policies (Continued)

ii) External Assistance

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

iii) Other receipts

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

iv) Donations and grants

Grants and donations shall be recognized in the books of accounts when cash is received. Cash is considered as received when 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 termination of the value. The date of the transaction is the value date indicated on the payment advice.

v) Proceeds from borrowing

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

vi) 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.

10.5 Recognition of payments

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

i) Compensation to employees

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

Significant Accounting Policies (Continued)

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 payments in the period in which they incur and are paid for.

iv) Repayment of borrowing (principal amount)

The repayment of the 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 the 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 is provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

10.6 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 the 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.

Significant Accounting Policies (Continued)

10.7 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at the 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 these financial statements, cash and cash equivalents also include short term cash short-term advance imprest authorised public authorized and/or institutions which were not that are surrender or accounted for at the end of the financial year.

10.8 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.

10.9 Imprests and Advances

For these financial statements, imprests and advances authorised public authorized and/or institutions which were not surrender 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.

10.10 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 entity; or
- b) A present obligation that arises from past events but is not recognized 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 the contingent liabilities may arise from: litigation in progress, guarantee and es, indemnities. Letters of comfort/ support, in Public-Private Private Partnerships,

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

10.11 Contingent Assets

The Establishment of Kenya Advanced Institute of Science and Technology 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 Establishment of Kenya Advanced Institute of Science and Technology Project 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.

10.12 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 are recorded as 'memorandum' or 'off-balance' 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.

Significant Accounting Policies (Continued)

10.13 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.

10.14 Third-party party payments Kshs. 53,679,386

Included in the receipts and payments, are payments made on its behalf by 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 Fifty-Three Million, Six Hundred and seventy-Nine thousand, three Hundred and eighty-six loan disbursements were received in form of direct payments from third parties.

10.15 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 recognised in the statements of receipts and payments.

Significant Accounting Policies (Continued)

10.16 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.

10.17 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 June 30, 2022.

10.18 Prior period adjustments

Prior period adjustments relate to errors and other adjustments noted arising from previous year(s). There are no prior year adjustments in these financial statements.

*Establishment of Kenya Advanced Institute of Science and Technology (KAIST) Project
Annual Report and Financial Statements for the financial year ended 30 June, 2022*

11. Notes to the Financial Statements

1. Transfers from Government entities

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

| | 2021/2022 | 2020/2021 | |
|--|--------------------------|-------------------------|--|
| | KShs | KShs | Cumulative to-date (from inception) |
| <i>Counterpart funding through Ministry of Education</i> | | | |
| Counterpart funds Quarter 1 | 375,000 | 522,429 | 27,713,959 |
| Counterpart funds Quarter 2 | 17,466,554 | 13,299,650 | 31,513,104 |
| Counterpart funds Quarter 3 | 14,672,055 | 46,372,840 | 61,702,695 |
| Counterpart funds Quarter 4 | 65,007,396 | 16,521,801 | 83,477,352 |
| Total (See Annex 2) | <u>97,521,005</u> | <u>2,840,929</u> | <u>204,407,110</u> |

Notes to the Financial Statements (Continued)

2. Loan from External Development Partners

During the financial period to 30 June 2022, we received funding from development partners in form of loans negotiated by the National Treasury a 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 | | Cumulative to-date (from inception) |
|---|---------------|-------------------------|------------------------|-----------------------------------|----------------------|----------------------|-------------------------------------|
| | | | | | 2021-2022 | 2020-2021 | |
| Loans received from Multilateral Donors (International Organizations) | | | Kshs | Kshs | | | |
| The Export- Import Bank of Korea. Government Agency of the EDCF | 14.02.2022 | 472,419.60 | - | 53,679,386 | 53,679,386 | 1,382,695,140 | 1,897,510,523 |
| Total | | 472,419.60 | - | 53,679,386 | 53,679,386 | 1,382,695,140 | 1,897,510,523 |

Notes to the Financial Statements (Continued)

3 Purchase of Goods and Services

| | 2021/2022 | | | 2020/2021 | | Cumulative to-date Kshs |
|--|-------------------------------|--|------------------------|------------------------|------------------------|----------------------------|
| | Payments made in Cash Kshs | Payments made by third parties Kshs | Total payments Kshs | Total payments Kshs | Total payments Kshs | |
| | | | | | | |
| Domestic travel and subsistence | 59,955,741 | - | 59,955,741 | 23,661,068 | 23,661,068 | 86,059,509 |
| Conference Facilities | 15,105,625 | - | 15,105,625 | 4,670,780 | 4,670,780 | 19,776,405 |
| Air tickets | 5,514,140 | - | 5,514,140 | - | - | 5,514,140 |
| Accreditation fee | 4,480,000 | - | 4,480,000 | - | - | 4,480,000 |
| Fuel and lubricants for Motor vehicles | 499,999 | - | 499,999 | 8,151,530 | 8,151,530 | 8,651,529 |
| General office supplies | 477,000 | - | 477,000 | - | - | 477,000 |
| Airtime | 198,500 | - | 198,500 | - | - | 198,500 |
| Hospitality supplies and services | - | - | - | 24,000 | 24,000 | 24,000 |
| Consultancy Services | - | - | - | 24,135,000 | 24,135,000 | 24,135,000 |
| Other operating expenses | - | - | - | 12,871,122 | 12,871,122 | 12,871,122 |
| Printing Advertising and Information Tech, | - | - | - | 898,046 | 898,046 | 904,275 |
| Routine maintenance- other assets | - | - | - | 3,368,275 | 3,368,275 | 3,368,275 |
| Total | 86,231,005 | = | 86,231,005 | 77,779,821 | 77,779,821 | 166,459,755 |

Notes to the Financial Statements (Continued)

4 Acquisition of Non-Financial Assets

| | Payments made in Cash | 2021-2022 | | Total payments | Total payments 2020-2021 | Cumulative to-date |
|--|-----------------------|-------------------|-------------------|----------------------|--------------------------|--------------------|
| | | Kshs. | Kshs. | | | |
| Construction of buildings | - | 53,679,386 | 53,679,386 | 1,382,695,140 | 1,897,510,523 | |
| Purchase of vehicles & other transport equipment | 11,290,000 | - | 11,290,000 | 25,030,000 | 36,320,000 | |
| Purchase of office furniture & general equipment | - | - | - | 201,000 | 201,000 | |
| Purchase of computers | - | - | - | - | 392,000 | |
| Total | 11,290,000 | 53,679,386 | 64,969,386 | 1,407,926,140 | 1,934,423,523 | |

*Establishment of Kenya Advanced Institute of Science and Technology (KAIST) Project
Annual Report and Financial Statements for the financial year ended 30 June, 2022*

Notes to the Financial Statements (Continued)

5. Cash and Cash equivalents

| Description | 2021-2022 Kshs | 2020-2021 Kshs |
|---|---------------------------|---------------------------|
| Bank accounts (Note 5.A) | - | - |
| Cash in hand (Note 5.B) | - | - |
| Cash equivalents (short-term deposits) (Note 5.C) | - | - |
| Total | = | = |

5.A The project has no dedicated bank account opened for its operations. All expenses which are borne by the donor as per the financing agreement are paid through the direct payment method, while the GoK counterpart funds are paid through the state department of university education main development account in the central bank.:

Notes to the Financial Statements (Continued)

Special Deposit Accounts

The project has no Special Deposit Account(s) since the donor makes payment directly to the vendors.

5 B Cash in hand

| Description | 2021-2022 KShs | 2020-2021 KShs |
|------------------------------------|---------------------------|---------------------------|
| Location 1 | - | - |
| Location 2 | - | - |
| Location 3 | - | - |
| Other locations (<i>specify</i>) | - | - |
| Total cash in hand balances | = | = |

Notes to the Financial Statements (Continued)

5 C Cash equivalents (short-term deposits)

| Description | 2021-2022 | 2020-2021 |
|--------------------|------------------|------------------|
| | Kshs | Kshs |
| N/A | - | - |
| Total | = | = |

(v) Accounts Receivables

| Description | 2021-2022 | 2020-2021 |
|---------------------|------------------|------------------|
| | Kshs | Kshs |
| Government Imprests | - | - |
| Salary advances | - | - |
| Total | - | - |

Notes to the Financial Statements (Continued)

(vi) Payables - Deposits and Retention Monies

| Description | 2021-2022 Kshs | 2020-2021 Kshs |
|--------------------|---------------------------|---------------------------|
| Retention | - | - |
| Deposits | - | - |
| Total | - | - |

(vii) Fund Balance Brought Forward

| Description | 2021-2022 Kshs | 2020-2021 Kshs |
|--|---------------------------|---------------------------|
| Bank accounts | - | - |
| Cash in hand | - | - |
| Cash equivalents (short-term deposits) | - | - |
| Outstanding imprests and advances | - | - |
| Total | - | - |

Notes to the Financial Statements (Continued)

(viii) Prior Year adjustment

| | Balance b/f FY (2021/2022 audited financial statements) | Adjustments | Adjusted balance b/f FY 2020/2021 |
|---------------------------------|--|--------------------|--|
| Description of the error | Kshs | Kshs | Kshs |
| Bank account Balances | - | - | - |
| Cash in hand | - | - | - |
| Accounts Payables | - | - | - |
| Receivables | - | - | - |
| Others (<i>specify</i>) | - | - | - |
| Total | - | - | - |

12. OTHER IMPORTANT DISCLOSURES

1. EXTERNAL ASSISTANCE

| | 2021/2022 | 2020/2021 |
|---------------------------------------|-------------------|----------------------|
| Description | Kshs | Kshs |
| External assistance received as loans | 53,679,386 | 1,382,695,140 |
| Total | 53,679,386 | 1,382,695,140 |

a). External assistance relating loans and grants

| | 2021/2022 | 2020/2021 |
|---------------------------------------|-------------------|----------------------|
| Description | Kshs | Kshs |
| External assistance received as loans | 53,679,386 | 1,382,695,140 |
| Total | 53,679,386 | 1,382,695,140 |

b) Undrawn external assistance

| | Purpose for which the undrawn external assistance may be used | 2021/2022 | 2020/2021 |
|-------------------------------------|--|----------------------|----------------------|
| Description | | Kshs | Kshs |
| Undrawn external assistance - loans | <ul style="list-style-type: none"> To produce highly qualified scientists and engineers with both theoretical and practical knowledge of the future industries in Kenya and the East African region at large To promote relevant Research and Development through promotion of industrial-academic collaboration for stimulating of technological and industrial transformation. | 7,843,510,978 | 9,226,206,118 |
| Total | | 7,843,510,978 | 9,226,206,118 |

c) Classes of providers of external assistance

| | 2021/2022 | 2020/2021 |
|---|-------------------|----------------------|
| Description | Kshs | Kshs |
| Multilateral donors (The export Import Bank of Korea – Government Agency of the EDCF) | 53,679,386 | 1,382,695,140 |
| Total | 53,679,386 | 1,382,695,140 |

13. PRIOR YEAR AUDITOR-GENERAL'S RECOMMENDATIONS

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|--|---|--|--|
| 1 | <p>Acquisition of Asset: The project has accumulated expenditure amounting to kshs 1,843,831,137 However site visit reveals that there is nothing tangible on the ground in form of construction of any form.</p> | <p>During the site visit, the contractor was on the ground putting up the temporary offices and excavating the ground for the construction of the project.</p> <p>Out of the total payment of kshs 1,843,831,137, an amount of kshs 461,135,997 was paid to consultants for development of the project designs as stipulated in the contract.</p> | <p>The issue was tabled in the Parliamentary Accounts committee. We are waiting for the report on the same from the PAC.</p> | <p>To be determined by the Parliamentary Accounts committee</p> |

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|--|---|--|--|--|
| | | Further an amount totalling kshs, 1,300,564,388 was paid to the main contractor being 20% of the contract sum. This was an advance payment also stipulated in the Special conditions of the contract. A payment of kshs. 82,130,752/= was payment for the project's designs. | | |
| 2. | <p>1) Purchase of Goods and Services</p> <p>It was observed that consultancy service paid from the GoK component of the project budget</p> | <p>i) The payment of Kshs. 24,135,000 in relation to construction of physical science laboratories phase 1 was made from the government of Kenya component of KAIST project</p> | <p>The issue was tabled in the Parliamentary Accounts committee. We are waiting for the report on the same from the PAC.</p> | <p>To be determined by the Parliamentary Accounts committee</p> |

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|--|--|---|--------------------------------------|--|
| | <p>amounting to kshs. 24,135,000/ related to physical science laboratories phase 1 which is a different project.</p> <p>ii) It was also observed that fuel and lubricants expenditure amounting to Kshs. 8,151,350/= was charged to the GoK component of the project budget yet the motor vehicles were used by the Ministry officials.</p> <p>iii) It was observed that</p> | <p>budget since the budget for the physical labs phase 1 project was to clear the pending payment due to the contractor to avoid accumulation of interests and penalties. The state department had requested for reallocation of funds from KAIST project to the physical labs phase 1 through supplementary 11 budget project. This reallocation was approved by the National Assembly in June 2021.</p> <p>ii) The fuel and lubricants expenditure amounting to</p> | | |

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|--|--|--|--------------------------------------|--|
| | <p>routine maintenance of other assets amounting to kshs. 3,368,275 /= was charged to the project yet it owns no assets.</p> <p>iv) The domestic travel cost of kshs. 24,661,068 could not be linked to the project.</p> | <p>Kshs. 8,151,530 charged to the project expenditures related to the expenses for the motor vehicles that were being utilized to carry out project activities by the ministry officials. The payment vouchers supporting the purchase of fuel and other documents supporting the consumption of fuel have been verified by auditors.</p> <p>iii)The routine and maintenance expenditure amounting to Kshs. 3,368,275 that was charged to the project relates to the</p> | | |

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|--|--------------------------------------|--|--------------------------------------|--|
| | | <p>repairs and maintenance of motor vehicles which were involved in the project activities. Payment vouchers and relevant supporting documents have also been verified by auditors.</p> <p>iv)The state department started the process of developing the curriculum for KAIST university to facilitate application for accreditation by the Commission for university education during the financial year under review. A proposal for the</p> | | |

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|--|--------------------------------------|--|--------------------------------------|--|
| | | <p>establishment of KAIST university was developed. Part of Kshs. 23,681,068 was utilized to cater for the domestic travelling expenses for officers who were involved in carrying out the above activities. Kshs. 6,244,770 was utilized as reimbursement to KONZA Technopolis Development Authority (KoTDA) who is the agency appointed to manage and coordinate preliminary activities for establishment of KAIST University to cater for</p> | | |

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|--|--------------------------------------|--|---|--|
| | | <p>travelling and subsistence expenses they incurred.</p> <p>The project also procured the main contractor during the year under review, the bids were evaluated, the contract was negotiated and a review of architectural designs was also done during the year under review. The costs incurred in these activities also form part of travelling and subsistence allowances of Kshs 23,661,068. The payment vouchers supporting the expenditure have been verified by the auditors.</p> | | |

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|--|--|--|--|--|
| 3 | <p>Project Motor Vehicles</p> <p>The Project Management unit procured two high-end vehicles with a total value of Kshs. 25,030,030 for executing project activities. However, the vehicles are not used for project activities but were used by Ministry's official for non-project activities. This is contrary to Public Finance Management Act, 2012 section 72. (1) (3) which states that, the accounting officer for a national government entity shall not loan or transfer</p> | <p>Two project vehicles were procured for the project activities and were being used by the Ministry officials while undertaking the project activities.</p> <p>However, the State Department has taken full responsibility and has ensured that internal control systems exist for these vehicles, preventative mechanism are in place to eliminate theft, security threats, losses, wastage and misuse as per the prevailing government regulations.</p> | <p>The issue was tabled in the Parliamentary Accounts committee. We are waiting for the report on the same from the PAC.</p> | <p>To be determined by the Parliamentary Accounts committee</p> |

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|--|--|---------------------|--------------------------------------|--|
| | <p>assets to any person or organization or permit any person or organization to use assets for purposes other than carrying out the functions of the entity, except in accordance with an Act of Parliament enacted pursuant to Article 227 of the Constitution. Further, the use of the motor vehicles also contravenes section 139. (1) public finance management regulations, 2015 which states that the accounting officer of a national</p> | | | |


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|--|---|---------------------|--------------------------------------|--|
| | <p>government entity shall take full responsibility and ensure that proper control systems exist for assets and that;</p> <p>a) Preventative mechanisms are in place to eliminate theft, security threats, losses, wastage and misuse and;</p> <p>b) Movement and conditions of assets can be tracked.</p> <p>Consequently, the management is in breach of the law.</p> | | | |

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|--|--------------------------------------|---------------------|--------------------------------------|--|
| | | | | |

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 Amb. Simon Nabukwesi, CBS
 Principal Secretary

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 Dr. Roselida Owuor
 Project Coordinator

.....

 CPA Johnson Njuguna
 Deputy Accountant General
 ICPAK Member No: 7626

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14. ANNEXES

Summary of Fixed Assets Register

| Asset class | Opening Cost (KShs) 2021/2022 | Donations in form of assets (KShs) 2021/2022 | *Purchases/ Additions in the Year (KShs) 2021/2022 | **Disposals in the Year (KShs) 2021/2022 | Transfers in/(out) Kshs 2021/2022 | Closing Cost (KShs) 2021/2022 |
|--|-------------------------------------|---|--|--|--|-------------------------------------|
| | (a) | (b) | (c) | (d) | (d) | (e)= (a)+ (b)+c)- (d)+(-)d |
| Land | | | | | | |
| Buildings and structures | 1,843,831,137 | - | 53,679,386 | - | - | 1,897,510,523 |
| Transport equipment | 25,030,000 | - | 11,290,000 | - | - | 36,320,000 |
| Office equipment, furniture and fittings | - | - | - | - | - | 201,000 |
| ICT Equipment, | - | - | - | - | - | 392,000 |
| Total | | | | | | 1,934,070,723 |

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