REPORT OF THE AUDITOR-GENERAL ON NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Commission for Science, Technology and Innovation set out on pages 1 to 21, which comprise of the statement of financial position as at 30 June, 2020, statement of financial performance, statement of cash flows, statement of changes in net assets and the 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 the National Commission for Science, Technology and Innovation as at 30 June, 2020 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the National Commission for Science, Technology and Innovation's Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Loss of Inventory

As previously reported, the statement of financial position reflects an inventories balance of Kshs.13,647,687 which includes stock of partitioning materials worth Kshs.5,746,188 removed from the Commission's offices at Emperor Plaza Building in 1997 and transferred to the Ministry of Public Works which have not been accounted for as at the date of this report. According to information available, the materials went missing from the Ministry's godown at Industrial Area where they had been kept for safe custody.

Although, the matter has been under investigation by the Criminal Investigations Departments over the last seventeen (17) years, the Director, Criminal Investigations Department had indicated that no records were found to enable the investigations determine what happened as the police files could not be traced after five (5) years. In September, 2015, during their twentieth sitting, the Public Investment Committee deliberated on the issue and observed that the CID had taken an inordinately long time to conclude investigations. The Committee recommended that the then Chief Executive Officer, the Corporation's officers assigned to supervise the exercise of relocating the stocks and the Ministry of Public Works Officers then in charge of the godown at Industrial Area be held accountable and be surcharged for the loss of the materials. However as at the time of this report no surcharge or recovery of the amount had been instituted.

In the circumstances, it has not been possible to confirm the accuracy and validity of the inventories balance of Kshs.5,746,188 reflected in the statement of financial position as at 30 June, 2020.

2. Grants not Received

As disclosed under Note 18 to the financial statements, the statement of financial position reflects receivables from non-exchange transactions balance of Kshs.139,852,098 which includes an amount of Kshs.136,642,133 which relates to grants expected from the Government in the financial year 2014-2015 which were not received. The amount represents budgeted Exchequer appropriations which ought to lapse at the close of the accounting year.

In the circumstances, it has not been possible to confirm the accuracy and validity of receivables from non-exchange transactions balance of Kshs.136,642,133 reflected in the statement of financial position as at 30 June, 2020.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Commission for Science, Technology and Innovation Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

1.0 Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.314,074,704 and Kshs.297,326,591 respectively resulting to an under-funding of Kshs. 16,748,113 or 5% of the budget. The Commissions expenditure was limited to the amount realised.
The deficit on income was majorly attributed to effects of Covid-19 pandemic and reduction in operating activities. However, there is a need by the Commission to refocus on realistic budgeting on own locally generated revenue to avoid over budgeting.

2.0 Unresolved Prior Year Issues

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, although the Management has indicated that the issues have been

responded to, the matters have remained unresolved as the Public Account Committee has not deliberated on the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1.0. Delay in Completion of Commission Headquarters

1.1. Work-in-Progress

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

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

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

1.2. Trade and Other Payable from Exchange Transactions

As disclosed under Note 22 to the financial statements, the statement of financial position reflects trade and other payables amounting Kshs.244,994,037 as at 30 June, 2020, which includes an amount of Kshs.220,555,112 in respect of work in progress. Available

information indicates that the amount constitutes certified works which have not been paid for as indicated below:

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

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

In the circumstances, I am unable to confirm the value for money in use of public funds in the penalties paid.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Commission or to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the 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 Commission's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Commission to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Commission to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

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

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

CPA Nancy Gathungu CBS
AUDITOR-GENERAL

Nairobi

03 June, 2021