

REPORT OF THE AUDITOR-GENERAL ON NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION FOR THE YEAR ENDED 30 JUNE, 2021

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, gazetted notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal 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 National Commission for Science, Technology and Innovation set out on pages 1 to 32, which comprise of the statement of financial position as at 30 June, 2021, and the statement of financial performance, statement of cash flows, statement of changes in net assets, 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 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 National Commission for Science, Technology and

Innovation as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and the National Commission for Science, Technology and Innovation's Act, 2013.

Basis for Qualified Opinion

1.0 Loss of Inventory

As previously reported, the statement of financial position reflects an inventories balance of Kshs.12,778,845 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 Directorate of Criminal Investigations (DCI) over the last eighteen (18) years, the Director-DCI 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 DCI 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 of the inventories balance of Kshs.5,746,188 could not be confirmed.

2.0 Unsupported Accounts Receivables and Prepayments

The statement of financial position as at 30 June, 2021 and Note 20 to the financial statements reflects receivables from non-exchange transactions balance of Kshs.145,537,183. Included in this balance is an amount of Kshs.136,642,133 relating 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 have lapsed at the close of that accounting year. In addition, the prepayments on software licenses of Kshs.3,264,172 have not been supported with documentation to indicate the nature and the periods the prepayments relates to.

In the circumstances, the accuracy of accounts receivables and prepayments balance of Kshs.145,537,183 and Kshs.3,264,172 respectively could not be confirmed.

3.0 Unsupported Trade and Other Payables

3.1 Research Grants Payable

The statement of financial position as at 30 June, 2022 reflects a balance of Kshs.180,647,184 which, as disclosed in Note 23 to the financial statements, includes research grants payable of Kshs.1,184,223 which has been outstanding from the previous period and whose details of the activities and beneficiaries were not provided for audit review.

Information provided by Management indicated that the amounts related to second tranche payable to Japan Society for Promotion of Science (JSPS) project implementers but being held by the Commission as the implementors are yet to account for the first tranche.

In the circumstance, the accuracy of research grants balance payable of Kshs.1,184,223 could not be confirmed.

3.2 Unsupported Gratuity Payable

Included in trade and other payables balance of Kshs.180,647,184, as disclosed in Note 23 to the financial statements, is gratuity payable balance of Kshs.1,687,170 which relates to a movement from Kshs.13,726,447 as at 30 June, 2020 to Kshs.1,687,170 as at 30 June, 2021. The payment of Kshs.12,039,277 has not been supported with details of the payments made and the entitlement arising from service rendered during the year.

In the circumstances, the accuracy and completeness of the gratuity payable balance of Kshs.1,687,170 could not be confirmed.

3.3 Long Outstanding Payables

Included in trade and other payables balance of Kshs.180,647,184, as disclosed in Note 23 to the financial statement, are other payables balance of 3,702,972 which includes long outstanding and unsupported amount of Kshs.1,759,800 with Kshs.282,640 being due to the Kenya Power and Lighting Company, Kshs.477,150 due to the Postal Corporation of Kenya and Kshs.1,000,000 due to the Ministry of Public Works.

In the circumstances, the accuracy and completeness of other payables balance of Kshs.1,759,800 could not be confirmed.

4.0 Property Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.1,492,176,249 which, as disclosed on Note 27 to the financial statements, includes work in progress amounting to Kshs.1,341,252,770 which Management explained as being the Commission's headquarter costs. The Management has not capitalized the costs even though the building was commissioned and already occupied citing the fact there are disputed claims by the contractor relating to additional payments in respect of penalties and interest on delayed payment. Further, the work in progress includes an amount of Kshs.25,659,223 in respect of an Enterprise Resource Planning (ERP) system

which the Management indicated to be under defects liability period though its fully operational. The documentation detailing the percentage completion of the ERP project were not provided for audit verification.

In the circumstances, the accuracy and valuation of property, plant and equipment of Kshs1,366,911,993 could not be confirmed.

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 comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.274,765,414 and Kshs.251,460,953 respectively resulting to an under-funding of Kshs.23,304,461 or 9% of the budget. The Commissions expenditure was limited to the amount realized. The deficit on income was majorly attributed to reduction in GoK recurrent grants and unrealized AIA due to fall in the number of research applicants on research licenses and permits attributed to the effect of Covid-19 Pandemic. However, there is a need by the Commission to refocus on realistic budgeting on own 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. Delay in Completion of Commission Headquarters

As previously reported, 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 works were 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 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, review of the project status financial appraisal in the final account report of 19 January, 2020, 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. 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.

2. Trade and Other Payable from Exchange and Transactions

As disclosed in Note 22 to the financial statements, the statement of financial position reflects trade and other payables amounting to Kshs.244,994,037 as at 30 June, 2021, 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. 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, the value for money in use of public funds for the amount of Kshs.147,659,596 in penalties paid could not be confirmed.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter 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 a Substantive Board of Directors

During the year under review, the term of four (4) Board Members lapsed without reappointment leaving only five (5) members to constitute the Board of Directors.

In the circumstance, the Commission could not effectively carry out its mandate as required.

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 the Board of Directors

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 to sustain 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 abolish 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.

The Board of Directors is responsible for overseeing the 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. 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 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 Commission's ability to continue to sustain services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Commission to cease to continue to sustain services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Commission to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

01 September, 2022