

REPUBLIC OF KENYA



*Enhancing Accountability*

THE NATIONAL ASSEMBLY  
PAPERS LAID

DATE: 14 MAR 2024

DAY

*Petuel*

TABLED

*Hon. Naomi Wago, mp  
Deputy majority whip  
A. Stubbins*

**REPORT**

**OF**

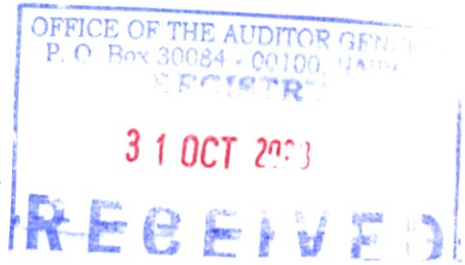
**THE AUDITOR-GENERAL**

**ON**

**SUPPORT TO ENHANCEMENT OF QUALITY AND  
RELEVANCE IN HIGHER EDUCATION, SCIENCE  
AND TECHNOLOGY PROJECT  
CREDIT NO. 2100150027993**

**FOR THE YEAR ENDED  
30 JUNE, 2023**

**STATE DEPARTMENT FOR HIGHER  
EDUCATION AND RESEARCH**



**PROJECT NAME:  
SUPPORT TO ENHANCEMENT OF QUALITY AND  
RELEVANCE IN HIGHER EDUCATION, SCIENCE AND TECHNOLOGY**

**IMPLEMENTING ENTITY:  
MINISTRY OF EDUCATION  
STATE DEPARTMENT FOR HIGHER EDUCATION AND RESEARCH**

**PROJECT GRANT/CREDIT NUMBER: ADF/2100150027993.**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE 30, 2023**

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

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER  
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)  
Annual Reports and Financial Statements for the financial year ended 30 June 2023**

**Table of Contents**

1. Acronyms and Glossary of Terms .....	ii
2. Project Information and Overall Performance .....	iii
3. Statement of Performance Against Project's Predetermined Objectives .....	xi
4. Environmental and Sustainability reporting .....	xiv
5. Statement of Project Management Responsibilities .....	xvii
6. Report of the Independent Auditor on the Support to Enhancement of Quality and Relevance in Higher Education Science and Technology (HEST) Project .....	xix
7. Statement of Receipts and Payments for the Year Ended 30 <sup>th</sup> June 2023. ....	1
8. Statement of Financial Assets as at 30 <sup>th</sup> June 2023 .....	2
9. Statement of Cashflow for the Period 30 <sup>th</sup> June, 2023 .....	3
10. Statement of Comparison of Budget and Actual amounts for year ended 30 <sup>th</sup> June 2023 .....	4
11. Significant Accounting Policies.....	5
12. Notes to the Financial Statements.....	12
13. Annexes.....	16
Annex 1: Prior Year Auditor-General's Recommendations.....	16
Annex 2: Summary of Fixed Assets Register .....	21

***SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER  
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)  
Annual Reports and Financial Statements for the financial year ended 30 June 2023***

**1. Acronyms and Glossary of Terms**

CBK	Central Bank of Kenya
Comparative FY	Financial year preceding the current financial year.
HEST	Support to Enhancement of Quality and Relevance in Higher Education, Science and Technology
ICPAK	Institute of Certified Public Accountants of Kenya
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
STI	Science Technology and Innovation
WB	World Bank

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

*Annual Reports and Financial Statements for the financial year ended 30 June 2023*

**2. Project Information and Overall Performance**

**2.1 Name and registered office**

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

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

**Address:** The project headquarters offices:

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

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

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

**2.2 Project Information**

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

**2.3 Project Overview**

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

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER  
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)  
Annual Reports and Financial Statements for the financial year ended 30 June 2023**

<b>Achievement of strategic goals</b>	The project management aims to achieve the goals through the following: (i) Supply equipment to University of Nairobi, Dedan Ki Muliro, Meru, Multimedia, Technical University of Moror University of Kenya and South Eastern Kenya University. (ii) Training of teaching staff in engineering and applied sciences. A total of 750 trainees are targeted comprising 550 Master's Degree and 200 Doctorate and 250 of all trainees must be women. (iii) Construction of a teaching, learning and experiential centre. (iv) Establishment of a database.
<b>Other important background information of the project</b>	The project is jointly funded by the GOK UA 8.03 million and AD 1.97 million.
<b>Current situation that the project was formed to intervene</b>	The project was formed to intervene in the following areas: (i) The project aims to improve quality and relevance in engineering and technology in line with Kenya's Vision 2030 priorities for Science, Technology, Innovation (STI) and human resource aspirations of the East African Community (EAC) integration.
<b>Project duration</b>	The project started on 22 February 2013 and it ended on 31 <sup>st</sup> December 2022.

#### **2.4 Bankers**

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

#### **2.5 Auditors**

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

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)**  
**Annual Reports and Financial Statements for the financial year ended 30 June 2023**

**Project Information and Overall Performance (Continued)**

**2.6 Roles and Responsibilities**

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

Names	Title designation	Academic Qualification	Key Responsibilities
Dr. Beatrice M. Inyangala	Principal Secretary	PhD	Overall policy direction on the management of the project.
James Mwangi Kiburi	Deputy Director of Education	Masters	Project Manager. Coordinating implementation of the project
Evans Mugoya Atambo	Assistant Director of Education	Masters	Assisting the project manager in coordinating implementation of the project.
CPA Margaret Kariuki	Snr. Deputy Accountant General	Masters, CPA(K)	Ensuring payments are Processed, Preparation of project financial statements.
CPA Nancy Mateli	Project Accountant	Bachelors in Commerce, CPA(K)	Process payments, and Preparation of financial reports.

**2.7 Funding summary**

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

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER  
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)**  
Annual Reports and Financial Statements for the financial year ended 30 June 2023

**Project Information and Overall Performance (Continued)**

Below is the funding summary:

**A. Source of Funds**

Source of funds	Donor Commitment		Amount received to date (30 June, 2023)		Undrawn balance to date	
	Donor currency UA	Ksh	Donor currency UA	Ksh	Donor currency UA	Ksh
	(A)	(A')	(B)	(B')	(A)-(B)	(A)-(B)
<b>(i) Loan</b>						
ADfB: Direct Payments (African Development Bank)	UA28.00 Million	3,671,640,000	27,270,803	3,576,020,397	729,198	95,619,603
<b>(ii) Counterpart funds</b>						
Government of Kenya	UA8.03 Million	1,052,973,900	3,534,471	463,475,128	4,495,529	589,498,772
<b>Total</b>	<b>UA36.03M</b>	<b>4,724,613,900</b>	<b>30,805,274</b>	<b>4,039,495,525</b>	<b>5,224,727</b>	<b>685,118,375</b>

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

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

The balance of Kshs. 589,498,772 relates to GoK counterpart funding that was to be used for project management activities, consultancies and training of teaching staff in universities. The availability of Government Counterpart funding has been constrained to a large extent by austerity measures that have been instituted over the years due to other pressing competing needs and sometimes inability to get



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

*Annual Reports and Financial Statements for the financial year ended 30 June 2023*

**Project Information and Overall Performance (Continued)**

**B. Application of Funds**

Application of funds	Amount received to date (30 June, 2023)		Cumulative Amount paid to date (30 June, 2023)	Unutilised balance to date (30 June, 2023)	
	<i>Donor currency</i>	<i>Kshs</i>		<i>Kshs</i>	<i>Donor currency</i>
	<i>(A)</i>	<i>(A')</i>	<i>(B')</i>	<i>(A)-(B)</i>	<i>(A')-(B')</i>
<b>(i) Loan</b>					
ADfB: Direct Payments (African Development Bank)	27,270,803	3,576,020,397	3,576,020,397	729,198	95,619,603
<b>(ii) Counterpart funds</b>					
Government of Kenya	3,534,471	463,475,128	463,475,128	4,495,529	589,498,772
<b>Total</b>	<b>30,805,274</b>	<b>4,039,495,525</b>	<b>4,039,495,525</b>	<b>5,224,727</b>	<b>685,118,375</b>

## **Project Information and Overall Performance (Continued)**

### **2.8 Summary of Overall Project Performance:**

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

During the Financial year 2022-2023, the project was not allocated any budget and consequently there were no payments made in relation to the project. The project has however been able to cumulatively utilise 97.4% of the ADF loan and 44.5% of Government of Kenya Counterpart funding. The availability of Government Counterpart funding has been constrained to a large extent by austerity measures that have been instituted over the years due to other pressing competing needs and sometimes inability to get exchequer especially towards the end of the financial years in June. It is however critical to note that the counterpart funding for this project was 22% which was higher than the traditional 10% obtaining in many projects co-funded by the Government and Development partners.

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

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

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)**  
**Annual Reports and Financial Statements for the financial year ended 30 June 2023**

**iii) Value-for-money achievements,**

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

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

YEAR	ABSORPTION OF PROJECTS RESOURCES (%)		
	ADF	GOK	AVERAGE
2013/14	202.3	-	202.3
2014/15	60.7	70.8	67.5
2015/16	59.9	29	66.6
2016/17	63	43	61
2017/18	75.2	93.3	76
2018/19	93	57	81
2019/20	72	88	79
2020/21	26.51	68.35	29
2021/22	Nil	Nil	Nil
2022/23	Nil	Nil	Nil

**v) The implementation challenges and recommended way forward.**

**Challenges**

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

**Recommended on way forward**

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

***SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)***  
***Annual Reports and Financial Statements for the financial year ended 30 June 202***

- Capacity building of stakeholders to improve the processes and service delivery

**2.9 Summary of Project Compliance:**

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

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

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

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

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

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

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

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)**  
**Annual Reports and Financial Statements for the financial year ended 30 June 2023**

**3. Statement of Performance Against Project's Predetermined Objectives**

**Introduction**

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer when preparing financial statements of each National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government entity's performance against predetermined objectives.

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

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

**Progress on attainment of Strategic development objectives**

Below we provide the progress on attaining the stated objectives:

Project	Objective	Outcome	Indicator	Performance
Support to Enhancement of Quality and Relevance in Higher Education, Science and Technology (HEST)	Provide identified equipment to target engineering and applied sciences faculties to improve the quality and relevance of STI Programmes	Enhanced Quality and skills of graduates in target faculties, especially for women	Number of engineering programs in target colleges approved	17 existing engineering programmes accredited by EBK by 2021 in seven (7) target Universities.  23 new programmes Engineering and applied science Programmes mounted to date
			Sets of engineering equipment provided	31 sets of engineering and applied science equipment provided to faculties in Eight (8) Target Universities

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)**  
**Annual Reports and Financial Statements for the financial year ended 30 June 2023**

Project	Objective	Outcome	Indicator	Performance
			Number of qualified skilled engineering graduates	<b>8974</b> students Bachelor's degree programmes Faculties ( <b>75</b> <b>1465</b> female)  In 2021/2022 students placed Universities: Central Placement for Engineering science programmes as follows: U Nairobi 250; University of Dedan Kimani Science and Technology Masinde Muliro University of Science and Technology 122; Meru University of Science and Technology Multimedia University Kenya 91; Strathmore University Kenya 401.
	Train university teaching staff at masters and PhD to strengthen Human Capital for development of STI Programs	Enhanced quality of graduates in engineering and manufacturing economic productive sectors	Number of staff trained in target masters and PhD programs	415 staff at various proposal development analysis, the graduation. 92 of these have to date 31 <sup>st</sup> I
			Number of Research initiatives Conducted in target faculties	<b>92</b> research staff who have
			Number of Staff trained in target Bachelor's degree in 3	<b>46</b> teaching staff training Bachelor's Training in target universities

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

**Annual Reports and Financial Statements for the financial year ended 30 June 2023**

Project	Objective	Outcome	Indicator	Performance
			Technical Universities	
	Design and construct Learning and Teaching Facility at Wangari Maathai Institute – University of Nairobi to improve the Quality of applied Knowledge and skills in environmental and natural resource Management	Cultivate better environmental stewardship and management of resources.	One environmental learning facility operational	<p><b>One (1)</b> environmental facility operational and enrolled 118 Students (71 Ph.D. and 47 Master of Science) and has graduated 39 to date at masters and <b>PhD.16 PhD-</b> (11 Male &amp; 5 Female)  <b>Masters - 23</b> (8 Male &amp; 15 Female)</p> <p>Has trained 53 students in Environmental Impact Assessment and Audit.</p> <p>Has planted about <b>12,500</b> indigenous trees in collaboration with the University of Nairobi and other stakeholders.</p>
	Conduct training and impact evaluation studies to enhance MOE capacity for evidence based policy formulation and execution of higher Education policies and strategies	Improved governance and management for quality, relevance and efficiency	Number of University management Personnel Trained	662 staff trained by target fully achieved
Number of Impact Evaluation and Tracer studies carried out			One tracer and final report submitted	

#### **4. Environmental and Sustainability reporting**

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

##### **1. Sustainability strategy and profile**

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

###### **i. Policy**

The Support to Enhancement of quality and relevance in higher Education, science technology (HEST) project's development objective and its interventions are anchored within the overall long-term Government blueprint for development, the Vision 2030 second Medium Term Plan (MTP 2), third Medium Term Plan (MTP 3). They are fully 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 key policy and legal documents such as the Big Four Agenda, the Universities Act, as well as new University Act, Science Technology and Innovation Act, 2013 and its provisions among others.

###### **ii. Stakeholder involvement**

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



**iii. Capacity Building and Training on Use and Maintenance of Equipment**

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

**5. Environmental performance**

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

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

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

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

### **3. Employee welfare**

The employee welfare is guided by the Human Resources Policies and Procedures manual for the public service as developed by the Public Service Commission. The organization should also rely on this policy manual on safety and compliance with Occupational Safety and Health Act of 2007, (OSHA)

### **4. Market place practices**

#### **a) Responsible Supply chain and supplier relations-**

The project is guided by the service charter for the state department for university education and research to maintain good business practices, treat its own suppliers responsibly by honouring contracts and respecting payment practices.

#### **b) Responsible ethical practices**

The project is guided by chapter six of the Kenya constitution 2010 on how to manage ethical and anti- corruption practices and responsible political involvement.

#### **c) Regulatory impact assessment**

Safeguard citizen and stakeholder's rights by ensuring proper disposal of waste as required by Environmental Management and Co-ordination Act No. 8 of 1999 (EMCA)

### **5. Community Engagements**

One of the project development objectives was to exist to transform lives. This is the purpose; the driving force behind everything we do. It's what guides us to develop a strategy deliver outreach, and create an impact, to the society by delivering excellent teaching and producing high quality applied research. This has been achieved through active involvement in the community activities and trainings. For instance, major tree planting exercise is undertaken each year.

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

***Annual Reports and Financial Statements for the financial year ended 30 June 2023***

**5. Statement of Project Management Responsibilities**

The Principal Secretary for the Ministry of Education, State Department for University Education and the Project Coordinator for Support to Enhancement of Quality and Relevance in Higher Education Science and Technology (HEST) project are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on 30 June, 2023.

This responsibility includes (i) Maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the project; (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the project; (v) Selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

The Principal Secretary for the Ministry of Education, State Department for University Education and the Project Coordinator for Support to Enhancement of Quality and Relevance in Higher Education Science and Technology (HEST) project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Principal Secretary for the Ministry of Education, State Department for University Education and the Project Coordinator for Support to Enhancement of Quality and Relevance in Higher Education Science and Technology (HEST) project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year/period ended 30 June, 2023, and of the Project's financial position as at that date. The Principal Secretary for the Ministry of Education, State Department for University Education and the Project Coordinator for Support to Enhancement of Quality and Relevance in Higher Education Science and Technology (HEST) project further confirm the completeness of the accounting records maintained for


**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)**  
**Annual Reports and Financial Statements for the financial year ended 30 June 2023**

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 for University Education and the Project Coordinator for Support to Enhancement of Quality and Relevance in Higher Education Science and Technology (HEST) project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

**Approval of the Project financial statements**

The Project financial statements were approved by the Principal Secretary for the Ministry of Education, State Department for University Education and the Project Coordinator for Support to Enhancement of Quality and Relevance in Higher Education Science and Technology (HEST) project on ..... and signed by

  
.....  
**Dr Beatrice M. Inyangala,**  
**Principal Secretary**

  
.....  
**James M. Kiburi**  
**Project Coordinator**

  
.....  
**CPA Margaret W.**  
**Snr. Deputy Account**  
**General**  
**ICPAK Member I**

# REPUBLIC OF KENYA

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Website: www.oagkenya.go.ke



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

## **REPORT OF THE AUDITOR-GENERAL ON SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER EDUCATION, SCIENCE AND TECHNOLOGY PROJECT CREDIT NO. 2100150027993 FOR THE YEAR ENDED 30 JUNE, 2023 - STATE DEPARTMENT FOR HIGHER EDUCATION AND RESEARCH**

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

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*Report of the Auditor-General on Support to Enhancement of Quality and Relevance in Higher Education, Science and Technology Project (ID No. P-KE-IAD-001-Loan Agreement No.2100150027993) for the year ended 30 June, 2023 - State Department for Higher Education and Research*

NO. 2100150027993 set out on pages 1 to 20, which comprise the statement of assets as at 30 June, 2023, statement of receipts and payments, statement of and statement of comparison of budget and actual amounts for the year then ended, a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and of the Public Audit Act, 2015. I have obtained all the information and explanations to the best of my knowledge and belief, were necessary for the purpose of the

In my opinion, except for the effect of the matters described in the Basis for Opinion section of my report, the financial statements present fairly, in all respects, the financial position of Support to Enhancement of Quality and Relevance in Higher Education, Science and Technology Project as at 30 June, 2023, financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with Agreement No.2100150027993 between the African Development Fund and the Government of Kenya dated 6 December, 2012 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1.0 Inaccuracies in the Financial Statements**

Review of the annual report and financial statements presented for audit revealed the following; -

- i. The statement of cash flows does not reflect payments amounting to Kshs.138,568,487;
- ii. The statement of comparison of budget and actual amounts has not been prepared. The project had a development budget of Kshs.138,600,000 and made payments amounting to Kshs.138,568,487;
- iii. The statement of receipts and payments does not reflect payments amounting to Kshs.138,568,487;
- iv. The statement of cash flows reflects transfers from Government of Kenya of a comparative amount of Kshs.11,370,170 which is not disclosed in Note 3 to the financial statements as well as 2021/2022 audited financial statements;
- v. The statement of cash flows reflects proceeds from foreign exchange of a comparative amount of Kshs.61,795,785 which is not disclosed in Note 3 to the financial statements as well as 2021/2022 audited financial statements;
- vi. The statement of cash flows reflects purchase of goods and services costing a comparative amount of Kshs.11,068,370 which is not disclosed in Note 3 to the financial statements as well as 2021/2022 audited financial statements.

- vii. The statement of cash flows reflects acquisition of assets comparative amount of Kshs.62,097,585 which not disclosed in Note 4 to the financial statements as well as 2021/2022 audited financial statements.
- viii. The statement of receipts and payments reflects acquisition of non-financial assets amounting to Kshs.3,182,739,569. However, the statement of receipts and payments for the prior year reflects acquisition of non-financial assets amounting to Kshs.3,364,346,908, resulting to unexplained difference of Kshs.181,607,339.
- ix. Ledger account for accounts payable was not provided to support the decrease/change of Kshs.138,568,038 to Nil balance as reflected in the statement of cash flows.
- x. The funding summary on page vi reflects loan from African Development Bank amounting to Kshs.3,576,020,397. However, the funding summary for the prior year reflects loan from African Development Bank amounting to Kshs.3,757,627,740, resulting to a variance of Kshs.181,607,343 which was not explained.

In the circumstances, accuracy and completeness of the annual report and financial statements could not be confirmed.

## **2.0 Defects and Delays in Delivery of Equipment to Various Universities**

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

As at 30 June, 2023, the Project's cumulative expenditure from 2013/2014 financial year on procurement of specialized plant, equipment and machinery totalled Kshs.2,617,434,820. However, records provided for audit revealed that the project was expected to end by 31 December, 2021 and that equipment totalling Kshs.112,598,346 were rejected by the respective inspection and acceptance committees.

The Project Management explained that the State Department finalized the status of delivery and acceptance of equipment and wrote to the Attorney-General in July and August, 2021 seeking an advisory on payment of any outstanding balances due to the suppliers, refund of advance guarantees recovered and levying of liquidated damages from any payments to the suppliers. The Attorney-General issued the advisory on 20 June, 2022 indicating that performance guarantee amounting to Kshs.11,745,000 (Approximately USD 81,000) was not recovered. Further, the State Department is awaiting the final advisory on the mode of recovery of the liquidated damages from the Office of the Attorney-General.

In view of the defective and unfulfilled supplies, the validity of the cumulative expenditure of Kshs.2,617,434,820 at Note 4 to the financial statements reported under purchase of specialized plant, equipment and machinery could not be confirmed. Furthermore, money had not been realized on the project and there was possible loss of purchase money amounting to Kshs.11,745,000 due to unrecovered performance guarantee.

### 3.0 Excess Payments on Bank Guarantee

Review of the bank statements for payments made on the universities equipment for the year under review revealed recovered bank guarantees amounting to Kshs.22,900,000 against total payments of Kshs.62,083,144, resulting in unrecovered bank guarantees totaling to Kshs.39,183,146 as detailed below; -

Date of Payment	Amount Paid (Kshs.)	Guarantees Recovered from The Contractor (Kshs.)	Unrecovered Amount
01.11 2022	16,602,533	7,300,000	9,302,533
01.11 2022	7,401,891	3,800,000	3,601,891
01.11. 2022	29,555,706	7,000,000	22,555,706
10.11. 2022	8,523,014	4,800,000	3,723,014
<b>Total</b>	<b>62,083,144</b>	<b>22,900,000</b>	<b>39,183,144</b>

Further, records provided for audit indicated that the State Department had paid Kshs.36,610,791 to African Development Bank. However, no acknowledgment of receipt of funds by the bank was provided for audit review.

In the circumstances, the regularity and completeness of the expenditure of Kshs.36,619,791 on refunds made to the bank and the unrecovered bank guarantee of Kshs.39,183,146 could not be confirmed.

The audit was conducted in accordance with the International Standards of Audit Institutions (ISSAIs). I am independent of Support to Enhancement of Quality and Relevance in Higher Education, Science and Technology Project Management. I have conducted the audit in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other responsibilities in accordance with the ISSAI and in accordance with other 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 qualified opinion.

### Key Audit Matters

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



# 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 Irregular Payment for Consultancy Services

The State Department for Higher Education and Research invited interested persons to bid for Tender No. MOE/SDUER/HEST/01/2020-2021 for the provision of consultancy services on the conduct of end of project evaluation. The procuring entity requested all the tenderers to submit their proposals on or before 12 May, 2021 after which the proposals were opened. The validity period for the said tender was 120 days starting from 12 May, 2021. However, the State Department entered into a contract on 22 October, 2021 after the lapse of the tender validity period on 9 September, 2021. This was contrary to Clause 12.1 of the Request for Proposal Document and Section 135(3) of the Public Procurement and Asset Disposal Act, 2015. The records also indicated that during the year under review, the State Department paid Kshs.4,640,000 despite the lapsed tender validity period.

In the circumstances, Management was in breach of the law.

### 2.0 Repair of Wangari Mathai Institute of Peace and Environment Studies

The State Department for Higher Education and Research paid Kshs.15,000,000 to the University of Nairobi for the repair of teaching and learning facilities at Wangari Mathai Institute of peace and environment studies. Review of this payment revealed the following anomalies; -

- i. Payment vouchers for the direct payments and Government of Kenya counterpart funds since the commencement of the project in 2015 were not provided for audit review. The donor estimated costs for component 3 were not to exceed 6.14 million Units of Account (UA);
- ii. Procurement process documentation for the contractor who was to repair the Institute was not provided for audit. The documentation included standard bidding document, bills of quantities, tender advertisement, tender opening committee appointment letters and minutes, evaluation committee minutes, professional opinion, approval by the Accounting Officer, notifications to both successful and unsuccessful bidders, letter of acceptance, and signed contract. This was contrary

to Section 44(2)(d) of the Public Procurement and Asset Disposal Act, 2015 states that 'the Accounting Officer shall ensure proper documentation of procurement proceedings and safe custody of all procurement records'.

In the circumstances, value for money may not have been achieved on the project. Management was in breach of the law.

### **3.0 Tracer Study on Destination of Engineering Graduates**

The State Department of Higher Education and Research entered into a contract with the University of Nairobi, College of Architecture and Engineering on 3 July, 2019 for a period of five months at a contract sum of Kshs.19,804,158. The objective of the project was to conduct a tracer study on the destination of engineering graduates from various Universities. The following unsatisfactory matters were observed; -

- i. Certificate confirming the right quality of service as part of contract required under Section 154 of the Public Procurement and Asset Disposal Act, 2015 was not provided for audit;
- ii. Management did not provide a reasonable justification on the delay in completion of the tracer study;
- iii. Liquidated damages on delayed performance were not imposed on the contractor's payments amounting to Kshs.10,892,287 as required by Section 140(b) of the Public Procurement and Asset Disposal Act, 2015.

In the circumstances, value for money was not achieved on the project.

The audit was conducted in accordance with ISSAI 4000. The standard requires the auditor to comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflect the true financial statements are in compliance, in all material respects, with the applicable laws 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 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

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 the African Development Fund and financing agreement, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. in my opinion, adequate accounting records have been kept by the Project Management, so far as appears from the examination of those records; and,
- iii. The Project's financial statements are in agreement with the accounting records and returns.

### **Responsibilities of Management and those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal controls 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 continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Project or to cease operations.

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

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

Those charged with governance are responsible for overseeing the Project's financial reporting process, reviewing the effectiveness of how 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 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 statements as a whole are free from material misstatement, whether due to fraud and to issue an auditor's report that includes my opinion in accordance with the 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 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 error or error and are considered material if, individually or in the aggregate, they are 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 financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are being used 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 compliance, I consider internal controls 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 system that might be material weaknesses under the ISSAIs. A material weakness is a deficiency which the design or operation of one or more of the internal control components could reduce to a relatively low level the risk that misstatements caused by error or fraud of amounts that would be material in relation to the financial statements being audited 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 all misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to support my basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for error because fraud involves collusion, forgery, intentional omission, asset misappropriation, or other irregularities that circumvent internal controls.

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 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

17 November, 2023




7. Statement of Receipts and Payments for the Year Ended 30th June 2023.

	Note	Receipts and payments controlled by the entity	Payments made by third parties	Total	Receipts and payment controlled by the entity	Payments made by third parties	Total	Cumulative to-date (From inception)
		2022/2023				2021/2022		
		KShs	KShs		KShs	KShs		KShs
<b>RECEIPTS</b>								
Transfer from Government entities	1	-	-	-	-	-	-	463,475,128
Loan from external development partners	2	-	-	-	-	-	-	3,576,020,397
<b>TOTAL RECEIPTS</b>		-	-	-	-	-	-	<b>4,039,495,525</b>
<b>PAYMENTS</b>								
Purchase of goods and services	3	-	-	-	-	-	-	856,755,956
Acquisition of non-financial assets	4	-	-	-	-	-	-	3,182,739,569
<b>TOTAL PAYMENTS</b>		-	-	-	-	-	-	<b>4,039,495,525</b>
<b>SURPLUS/ (DEFICIT)</b>		-	-	-	-	-	-	-

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

  
.....  
Dr. Beatrice M. Inyangala  
Principal Secretary

  
.....  
James M. Kiburi  
Project Coordinator

  
.....  
CPA Margaret W. Kariuki  
Snr. Deputy Accountant General  
ICPAK Member No: 4291

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER  
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)  
Annual Reports and Financial Statements for the financial year ended 30 June 2023**


**8. Statement of Financial Assets as at 30th June 2023**

	Note	2022-2023	
		KShs	
<b>FINANCIAL ASSETS</b>			
<b>Cash and Cash Equivalents</b>			
Bank Balances	5.A	-	1
Cash Balances	5. B	-	
Cash Equivalents (short-term deposits)	5. C	-	
<b>Total Cash and Cash Equivalents</b>		-	1
Accounts Receivables	6	-	
<b>TOTAL FINANCIAL ASSETS</b>		-	1
<b>FINANCIAL LIABILITIES</b>			
Payables- Deposits and Retentions	7	-	1
<b>NET ASSETS</b>		-	
<b>REPRESENTED BY</b>			
Fund balance b/fwd	8	-	
Prior year adjustments	9	-	
Surplus/(Deficit) for the year		-	
<b>NET FINANCIAL POSITION</b>		-	1

The accounting policies and explanatory notes to these financial statements form an integral part of these financial statements. The financial statements were approved on \_\_\_\_\_ 2023 at

  
.....  
**Dr. Beatrice M. Inyangala**  
Principal Secretary

  
.....  
**James M. Kiburi**  
Project Coordinator

  
.....  
**CPA Margarita**  
Snr. Deputy A  
ICPAK Member

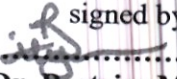


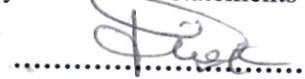
**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)**  
**Annual Reports and Financial Statements for the financial year ended 30 June 2023**


**9. Statement of Cashflow for the Period 30<sup>th</sup> June, 2023**

		2022-2023	2021-2022
	Note	KShs	KShs
<b>CASHFLOW FROM OPERATING ACTIVITIES</b>			
Receipts from operating activities			
Transfer from Government entities	1	-	11,370,170
<b>Payments from operating activities</b>			
Purchase of goods and services	3	-	(11,068,370)
<b>Adjustments during the year</b>			
Prior Year Adjustments		-	-
Decrease/(Increase) in Accounts Receivable		-	-
Increase/(Decrease) in Accounts Payable:		(138,568,038)	-
<b>Net cash flow from operating activities</b>		<b>(138,568,038)</b>	<b>301,800</b>
<b>CASHFLOW FROM INVESTING ACTIVITIES</b>			
Acquisition of Assets	4	-	(62,097,585)
<b>Net cash flows from Investing Activities</b>		<b>-</b>	<b>(62,097,585)</b>
<b>CASHFLOW FROM BORROWING ACTIVITIES</b>			
Proceeds from Foreign Borrowings	2	-	(61,795,785)
<b>Net cash flow from financing activities</b>		<b>-</b>	<b>(61,795,785)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>-</b>	<b>-</b>
<b>Cash and cash equivalent at BEGINNING of the year</b>	5A	<b>138,568,038</b>	<b>138,568,038</b>
<b>Cash and cash equivalent at END of the year</b>	-	<b>--</b>	<b>138,568,038</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity's financial statements were approved on ..... 2023 and signed by:

  
 Dr. Beatrice M. Inyangala  
 Principal Secretary


  
 James M. Kiburi  
 Project Coordinator


  
 CPA Margaret W. Kariuki  
 Snr. Deputy Accountant  
 General  
 ICPAK Member No: 4291

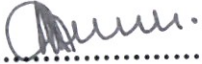
SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER  
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)  
Annual Reports and Financial Statements for the financial year ended 30 June 2023

10. Statement of Comparison of Budget and Actual amounts for year ended 30th June 2023

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	D	e=c-d	f=d/c %
	KShs	KShs	KShs	KShs	KShs	
<b>Receipts</b>						
Transfer from Government entities	-	-	-	-	-	-
Proceeds from borrowings	-	-	-	-	-	-
<b>Total Receipts</b>	-	-	-	-	-	-
<b>Payments</b>						
Purchase of goods and services	-	-	-	-	-	-
Acquisition of non-financial assets	-	-	-	-	-	-
<b>Total Payments</b>	-	-	-	-	-	-

  
.....  
Dr. Beatrice M. Inyangala  
Principal Secretary

  
.....  
James M. Kiburi  
Project Coordinator

  
.....  
CPA Margaret W. Kariuki  
Snr. Deputy Accountant General  
ICPAK Member No: 4291

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER  
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)**  
*Annual Reports and Financial Statements for the financial year ended 30 June 2023*

**11. Significant Accounting Policies**

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

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

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

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

**b) Reporting entity**

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

**c) Reporting currency**

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

**d) Recognition of receipts**

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

**i) Transfers from the Exchequer**

Transfer from Exchequer is 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.

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

***Annual Reports and Financial Statements for the financial year ended 30 June 2023***

**Significant Accounting Policies (Continued)**

**ii) External Assistance**

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

**iii) Other receipts**

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

**iv) Donations and grants**

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

**v) Proceeds from borrowing**

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

**vi) Undrawn external assistance**

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

**e) Recognition of payments**

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

**i) Compensation of employees**

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

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER  
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)**  
*Annual Reports and Financial Statements for the financial year ended 30 June 2023*  
**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 payment in the period in which they incurred and paid for.

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

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

**v) Acquisition of fixed assets**

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

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

**f) In-kind donations**

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

**g) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to

***SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)***  
***Annual Reports and Financial Statements for the financial year ended 30 June 2023***  
**Significant Accounting Policies (Continued)**

known amounts of cash and are subject to insignificant risk of changes in value. Bank accounts include amounts held at the Central Bank of Kenya and at various commercial banks at the financial year. For the purposes of these financial statements, cash and cash equivalents include short term cash imprests and advances to authorised public officers and/or institutions which were surrendered or accounted for at the end of the financial year.

**h) 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 stipulated. Amounts maintained in deposit bank accounts are restricted for use in refund deposits.

**i) Imprests and Advances**

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

**j) Contingent Liabilities**

A contingent liability is:

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

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER  
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)**  
*Annual Reports and Financial Statements for the financial year ended 30 June 2023*  
**Significant Accounting Policies (Continued)**

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

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

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

**k) Contingent Assets**

The project does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

**l) Pending bills**

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

**m) 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

***SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER  
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)  
Annual Reports and Financial Statements for the financial year ended 30 June 2023  
Significant Accounting Policies (Continued)***

statements. The Project's budget is normally approved as required by Law and National 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 by various Ministries, Departments and Agencies (MDAs) but receive budgeted funds as transfers and are reported on them separately. These transfers are recognised as inter-entity transfers and are eliminated on 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. During the year under review, the project had no budget allocation.

**n) Third party payments**

Included in the receipts and payments, are payments made on its behalf by to third parties for 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 under review, there were no loan disbursement received in form of direct payments to third parties.

**o) Exchange rate differences**

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

**p) Comparative figures**

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

**q) Subsequent events**

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



***SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER  
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)  
Annual Reports and Financial Statements for the financial year ended 30 June 2023***

**Significant Accounting Policies (Continued)**

**r) Errors**

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

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER  
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)**  
*Annual Reports and Financial Statements for the financial year ended 30 June 2023*

**12. Notes to the Financial Statements**

**1. Transfer from Government of Kenya**

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

	2022/23	2021/22	Cumulative date from inception
	KShs	KShs	
<i>Counterpart funding through Ministry of Education</i>			
Counterpart funds Quarter 1	-	-	
Counterpart funds Quarter 2	-	-	
Counterpart funds Quarter 3	-	-	
Counterpart funds Quarter 4	-	-	
<b>Total</b>	-	-	

**2. Loan from External Development Partners**

During the 12 months to 30 June 2023 we did not receive any funding from development partners of loans negotiated by the National Treasury as can be seen in the table below:

Description		2022/23				2021/22
Name of Donor	Date received	Amount in loan currency	Loans received in actual amount	Loans received as direct payment*	Total amount in Kshs	Total amount in Kshs
			Kshs	Kshs	Kshs	Kshs
Loans received from Multilateral Donors (International Organizations)						
African Development Bank	FY22/23	-	-	-	-	-
<b>Total</b>		-	-	-	-	-

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)**  
**Annual Reports and Financial Statements for the financial year ended 30 June 2023**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**3. Purchase of Goods and Services**

	2022/2023			2021/22	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments	Total Payments	
	KShs	KShs	KShs	KShs	
Domestic travel and subsistence	-	-	-	-	17,402,620
Printing, advertising and information supplies	-	-	-	-	1,361,416
Training payments	-	-	-	-	637,666,778
Consultancy	-	-	-	-	131,402,233
Other operating payments	-	-	-	-	68,923,009
<b>Total</b>	<b>=</b>	<b>=</b>	<b>=</b>	<b>=</b>	<b>856,755,956</b>

**4. Acquisition of Non-Financial Assets**

	2022/23			2021/22	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments	Total Payments	
	KShs	KShs	KShs	KShs	
Construction of Buildings and structures	-	-	-	-	549,678,334
Purchase of Transport equipment	-	-	-	-	11,716,188
Purchase of specialised plant, equipment and machinery	-	-	-	-	2,617,434,820
Purchase of Office Furniture and general equipment	-	-	-	-	754,824
Purchase of computers & office equipment	-	-	-	-	3,155,403
<b>Total</b>	<b>=</b>	<b>=</b>	<b>=</b>	<b>=</b>	<b>3,182,739,569</b>

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)**  
**Annual Reports and Financial Statements for the financial year ended 30 June 2023**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**5. Cash and Cash Equivalents**

	2022/23	2021/22
	KShs	KShs
Bank accounts (Note 5.A)	-	138,568
Cash in hand (Note 5.B)	-	-
Cash equivalents (Short term- deposits) (Note 5.C)	-	-
<b>Total</b>	<b>=</b>	<b>138,568</b>

**5.A Bank Accounts**

The project has no dedicated bank account opened for its operations. The balances in the bank accounts depicted above relate to performance bonds for the project which were recovered for breach and deposited in the State Departments' deposit account in the central bank of Kenya. Account number: 1000302747

Of these funds Kshs 86,957,696.35 was refunded to the contractors, Kshs 15,000,000 was refunded to the construction of Wangari Mathai Institute of Peace and Kshs 36,610,791 was refunded to the

**Special Deposit Accounts**

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

**5.B Cash in Hand**

	2022/23	2021/22
	KShs	KShs
Location 1	-	-
<b>Total cash balances</b>	<b>=</b>	<b>-</b>

**5.C Cash equivalents (Short term- deposits)**

	2022/23	2021/22
	KShs	KShs
Kenya Commercial Bank [A/C No.....]	-	-
Co-Operative Bank of Kenya [A/C No.....]	-	-
<b>Total</b>	<b>=</b>	<b>-</b>

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER  
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)  
Annual Reports and Financial Statements for the financial year ended 30 June 2023  
NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**6. Accounts Receivables**

<i>Description</i>	<b>2022-2023</b>	<b>2021-2022</b>
	<b>Kshs</b>	<b>Kshs</b>
Government Imprests	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

**7. Accounts Payables**

<i>Description</i>	<b>2022-2023</b>	<b>2021-2022</b>
	<b>Kshs</b>	<b>Kshs</b>
Rockey Africa Limited	-	13,985,209
Eva-Top Agencies)	-	10,315,262
Beta Trading Company	-	25,164,584
Beta Trading Company	-	27,002,395
Sony Commercial Agencies	-	12,425,613
Sony Commercial Agencies	-	11,278,458
Aerospace Aviation	-	15,500,422
Madujey Global Services	-	22,896,093
<b>Total</b>	<b>-</b>	<b>138,568,038</b>

**8. Fund Balance Brought Forward**

	<b>2022-2023</b>	<b>2021-2022</b>
	<b>KShs</b>	<b>KShs</b>
Bank accounts	-	138,568,038
Cash in hand	-	-
Cash equivalents (Short term- deposits)	-	-
<b>Total</b>	<b>-</b>	<b>138,568,038</b>

***SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER  
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)  
Annual Reports and Financial Statements for the financial year ended 30 June 2023***

**13. Annexes**

**Annex 1: Prior Year Auditor-General's Recommendations**

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

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)**  
**Annual Reports and Financial Statements for the financial year ended 30 June 2023**

<b>Reference No. on the external audit Report</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Focal Point person to resolve the issue (Name and designation)</b>	<b>Status: (Resolved / Not Resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>
333.	<b>Inaccuracies in the Financial Statements</b>	The error was noted and financial statements amended to reflect the correct cumulative figures for the financial year ended 30 June 2021.	Management	Resolved	
334.	<b>Defects and Delays in Delivery of Equipment to Various Universities</b>	The matter was discussed by the Public Accounts Committee (PAC) in the 2016/2017 and 2017/2018, 2018/2019, 2019/2020 and 2020/21 financial years report of the Auditor General on the audited financial statements of this State Department and the matter the issue was resolved	Management	Awaiting PAC	

**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)**  
**Annual Reports and Financial Statements for the financial year ended 30 June 2023**

335.	<b>Uncorrected Prior Periods Error on Recall of Performance Securities</b>	The figures mentioned have always been disclosed to the Auditors and the African development Bank as these were performance securities that were released in the financial year 2022 - 2023. The funds were reflected and disclosed in the State Department's financial statements	Management	Awaiting PAC
336.	<b>Undisclosed Pending Accounts Payables</b>	As the Project did not have a budget in 2021/2022 financial year the payments/refund requests could not be presented for payment as there were no funds to settle them. The State Department sought allocation for budget to fund the payments during the period but was unsuccessful. Provision of Budget for the project was successful in the financial year 2022/2023	Management	Awaiting PAC



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

*Annual Reports and Financial Statements for the financial year ended 30 June 2023*

337.	<b>Late Submission of Financial Statements</b>	<p>In the financial year under review there were no financial transactions as the Project was not allocated any budget. The State Department requested for Allocation of budget under Supplementary Budget II of 2021/2022 financial year but was not successful. As such there were no financial transactions to be reported in the year. The Auditor General wrote to State Department on 13th October 2022 seeking confirmation whether the Project had closed. Upon the State Department response on the matter sent to Auditor General on 7th November, 2022, the Auditor General directed those financial statements be prepared and submitted. The State Department complied and submitted the financial statements on 29 November, 2022</p>	Management	Awaiting PAC	
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**SUPPORT TO ENHANCEMENT OF QUALITY AND RELEVANCE IN HIGHER  
EDUCATION SCIENCE AND TECHNOLOGY (HEST PROJECT)  
Annual Reports and Financial Statements for the financial year ended 30 June 2023**

338.	<b>Irregular Signing of Contract</b>	The African Development Bank required that the State Department forwards all documents for review at every stage of the procurement process of the consultancy for consideration and approval before proceeding to the next stage thereby leading to overall delay in the final contract signing	Management	Awaiting PAC
339.	<b>Failure to Open and Maintain a Separate Project Bank Account</b>	The project was designed to allow direct payments by the donor and the expenditure were being journalized and the payment documents submitted to the National Treasury. The Gok counter funds were channeled through the State Department development account.	Management	Awaiting PAC



.....  
**Dr. Beatrice M. Inyangala**  
Principal Secretary



.....  
**James M. Kiburi**  
Project Coordinator

**Annex 2: Summary of Fixed Assets Register**

Asset class	Opening Cost (KShs) 2022/23	Donations in form of assets (KShs) 2022/23	*Purchases/ Additions in the Year (KShs) 2022/23	**Disposals in the Year (KShs) 2022/23	Transfers in/(out) Kshs 2022/23	Closing Cost (KShs) 2023
	(a)	(b)	(c)	(d)	(d)	(e)= (a)+ (b)+c)-(d)+(-)d
Purchase of Transport equipment	11,716,188	-	-	-	-	11,716,188
Construction of Buildings and structures	549,678,334	-	-	-	-	549,678,334
Purchase of Office Furniture and general equipment	754,824	-	-	-	-	754,824
Purchase of Specialized Plant, Equipment and Machinery	2,617,434,820	-	-	-	-	2,617,434,820
Purchase Computers and office equipment	3,155,403	-	-	-	-	3,155,403
<b>Total</b>	<b>3,182,739,569</b>		=			<b>3,182,739,569</b>

Notes

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

\*\* The disposal amount to be disclosed in this register is the cost that the asset was acquired at and not the price at which it has been sold. The balance as at the end of the year is the cumulative cost of all assets bought and inherited by the Ministry, Department or Agency. Additions during the year should tie to note 18 on acquisition of assets during the year. Ensure this section is complete covering all the entities assets. Ensure the complete fixed asset register is separately prepared as per circular number 5/2020 and follow up reminder of circular No. 23/2020 of The National Treasury.

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