Project Name:	Eastern and Southern Africa Higher Education Centers of Excellence Project (ACE II)
Project ID:	P151847
Credit/Grant No.:	Cr. 57980
Implementing Agency:	Egerton University, Moi University and Jaramogi Oginga Odinga University with coordination of Ministry of Education
Effectiveness Date:	**Cr. 57980:** February 01, 2017
Closing Date:	December 31, 2022
Application Deadline:	April 30, 2023
Period Covered by Review:	February 01, 2017 to June 30, 2018
Original Signed Amount:	XDR 12,800,000 (US$ 18,000,000) (for the whole project)
Disbursed Amount:	XDR 2,400,000 (US$ 3,288,864.01) (for the whole Project as at 25 July 2018) 18.75%
Cancelled Amount	**NIL**
Previous ISR	**N/A**
Current ISR	**Moderately Satisfactory (S)**
Previous FM Risk	**N/A**
Current FM Risk	**Moderate (M)**

INTRODUCTION

The World Bank Financial Management team conducted a Financial Management (FM) Supervision of The Kenya Eastern and Southern Africa Higher Education Centers of Excellence Project in accordance with the Bank's Financial Management Practices Manual issued on March 1, 2010 and Financial Management Policy OP/BP 10.00.

The project is implemented by three institutions of higher learning under the Ministry of Education as follows:

Name of ACE Center	**Institution**
Centre of Excellence in Sustainable Agriculture & Agribusiness Management (CESAAM)	Egerton University
Sustainable Use of Insects as Food and Feed (INSEFOODS)	Jaramogi Odinga Oginga University of Science & Technology (JOOUST)

Centre of Excellence in Phytochemicals Textiles and Renewable Energy (PTRE)	Moi University

Executive Summary

The FM Supervision covered the Project Coordinating Units (PCU), at Egerton University, Moi University, Jaramogi Oginga Odinga University and Ministry of Education. The review covered the period from February 01, 2017 (the project effectiveness date) to June 30, 2018. The entity was provided with a de-brief of its review findings. The ISR rating for financial management arrangements is rated as Moderately Satisfactory while the risk assessment rating is Moderate. The review noted some areas of improvements as follows:-

Mapping of project in the SAGE accounting system for Moi University has been done under one budget line hence not easy to monitor budget and financial reporting from the accounting system. This would require revisions so as to input the approved budget per the key activities from which recording of expenditure will be made and monitored. The centre continue to attract financing from other sources of funds hence coding in the accounting system should be enhanced to be able to categorize expenditure for different financiers appropriately to avoid mix-up of expenses and errors of reporting same costs to different financiers.

In regards to management of funds, Moi University was noted to have transferred an amount of Kshs 80,000,000 to a fixed deposit account on 12 January 2018 leaving a balance of Kshs 10,835,970 in the project account. The running cash balance continued to reduce based on continued payments and as at 10 May 2018, the balance in the account was Kshs 1,964,944 before some funds from another financiers were received in the account. Transfers of funds for investments in fixed deposit accounts may exposes the project to loss of funds especially if these are done outside the approved banking institutions and also lead to tying of funds which should only be used for the purpose for which it was deposited.

Eligible Expenditure Programs (EEP) should only comprise of expenditure incurred and paid; if they are not paid out they should not be eligible hence should not be included in EEP report. The salaries amounts reported under EEP by the three universities comprised of the gross payroll expenses for the universities and included PAYE and other statutory deductions which are part of Gross Personal Emoluments whether paid out or not hence resulting to inclusion of non-eligible amounts in the EEP figures.

From our verifications of Financial Management Disbursement Linked Results (DLRs) – DLI # 3, we noted all the actions to be completed have been met except for DLR#3.1: “Timely withdrawal applications supported by interim unaudited financial reports for each ACE”. This was noted not to have been fully met since there have not yet been any withdrawal application by the project except for the initial funds that were processed at commencement of the project yet there were however some DLR that were either partially or fully complete. The delay is attributable to the fact that there has not been any independent verification of achieved results which is a pre-requisite to processing of the withdrawal application.

The final report for the payroll audit for Moi University carried out by KPMG is yet to be issued out due to unpaid fees of Kshs 7 Million as per the audit agreement. However, the University sent the management comments on the issues noted via letter dated 12 February 2018 and thereafter on 21 February 2018 there was a meeting between KPMG and Moi University to discuss the comments provided earlier.

1. Accounting

1.1. Accounting Staff

The accounting capacity for the implementation of the project was noted to be adequate. The financial management teams at Moi universities are headed by qualified and experienced finance teams. The team has sufficient accounting capacity with qualified accountants and assistant accountants supporting the managers.

1.2. Accounting system

1.2.1. Moi University

At Moi University, SAGE ACPAC accounting system is used for payment processing. The system is not able to support the project effectively, hence financial transactions are also recorded in Ms Excel. The following issues were noted with the configuration and maintenance of project financial information:-

a. Extraction of expenditure per each funding source

The centre has managed to attract funding from other donors to finance some of the activities as expected which is commendable. However, the accounting system has not been configured such that financial transactions/ reports can be posted and extracted for each funding sources separately. The segregation between different funding sources is done manually in Ms-Excel by the project accountant. As at 30 June 2018, there was an amount of Kshs 21,127,948.60 received from other donors and there were 7 payment vouchers for an amount of Kshs 6,225,266 paid out for activities mapped to these other donors. With the expected rise in project activities, manual separation when preparing financial reports can lead to errors. There is need to ensure the coding in the accounting system is able to segregate between different source of funds.

b. Errors in the accounting system

A listing of expenditure from the accounting system shows the expenditure for the period ended 30 June 2018 as Kshs 47,057,509.88 whereas the financial statement prepared from cash book maintained in Ms Excel shows a total of Kshs 54,138,218.00 inclusive of amounts incurred for other donors financing through ACE II. A reconciliation is yet to be done to establish the causes of errors.

c. Monitoring of imprests in the accounting system

Due to the way configuration for the project was done in the accounting system, it is not easier to extract outstanding imprests for the project. From the accounting system, outstanding imprests can only be extracted per university centre/campus. It from the overall listing that outstanding for the project can be manually prepared which is tedious. In the financial report, the project was noted to include imprest that are yet to be surrendered.

d. One lump sum budget line mapped for budget tracking in the accounting system:

The accounting system was also mapped with only one budget line for posting the project expenditure. Tracking in the vote book within the accounting system is done for the lump sum overall funds and not per activity. It is therefore easy to over-spend on a certain activity without detecting. The budget vs actual is done manually when preparing financial statements.

Recommendations

i) The mapping of the project in the accounting system should be enhanced so as to input the approved budget per the key the activities from which recording of expenditure will be made. This will enhance financial reporting and budget monitoring to mitigate on spending on unrelated activities or budget overrun.

ii) The issues with the accounting system should be resolved to enhance integrity of financial records maintain and support finance teams in financial management.

iii) Coding in the accounting system should be enhanced to be able to categorize expenditure for different financiers appropriately to avoid mix-up of expenses and errors of reporting of same costs to different financiers.

Management Comments:

Management is in the process of acquiring a new ERP. The new system will be able to mitigate on the system challenges noted. Meanwhile, the mapping of accounting system with budget breakdown and coding to enhance mapping of expenditure to various sources of finance will be done.

2. Budgeting

Each implementing centre develop annual work plans of activities expected to be undertaken during the financial year from which the budget for the project activities is prepared. The project budget are incorporated in the implementing institution's annual budget which is approved by the University Council. MoE is expected to develop consolidated budget for the project which would be included in the budget estimates for the ministry to allow the project draw funds from the ministry. We however noted there is disconnect in chain of budgeting since MoE budget for the project is based on a random estimate. For the FY 2018/2019, MoE has provided a budget of Kshs 480,000,000 for

There was no documented cash flow projections mapped with achievable DLIs and independent verifications timelines for DLIs for the budget period to support the source of funds for the budgeted activities.

Budget Execution

The budget execution for the three centres in FY 2017/2018 was as follows:-

Institution	Budget (Kshs)	Actual (Kshs)	Variance (Kshs)	% Variance
Moi University	113,454,301	47,912,952	65,541,349	58%

The amounts that was received by each ACE in FY 2017/2018 was Kshs 111,595,000 in June 2017 and an additional amounts of Kshs 259,166.65 disbursed in June 2018.

The low absorption rate was attributable to delayed commencement of activities including students' admission since this was the first year of project operation even though it had become effective earlier.

Recommendations

The centre should ensure there are cash flow projections for each budget period to support budgeted amounts to ensure that budgeted activities will be sufficiently funded as planned. The cash flow projections should be mapped to achievable DLIs and independent verifications timelines and keenly monitored to ensure its carried out as planned.

Management Comments:

The cash flow projections for the budget period will be prepared and keenly monitored to ensure there are sufficient funds to carry out planned activities.

3. Internal Controls

3.1. Management of bank balances

The University maintains a project dedicated local account where IDA funds are deposited and payments for project activities are made from. A dedicated account is maintained with three categories of signatories as follows:

Category A: Vice Chancellor and Deputy Vice Chancellor
Category B: Finance Officer and Chief Accountant

Category C: Centre Leader

One signature in category A and B is required while category C is mandatory. The following issues were noted:-

a) Investments of project funds in fixed deposit account

An amount of **Kshs 80,000,000** was transferred to a fixed deposit account on 12 January 2018 leaving a balance of **Kshs 10,835,970** in the project account. The running cash balance continued to reduce based on continued payments and as at 10 May 2018, the balance was **Kshs 1,964,944** before some funds from another financiers were received in the account. The funds from the fixed deposit account were refunded to the account on 25 May 2018 with an interest of **Kshs 286,904**. Transfers of funds for investments in to fixed deposit accounts exposes the project to loss of funds especially if these are done outside the approved banking institutions and also lead to tying of funds which should only be used for the purpose for which it was deposited. As noted above, in May 2018, the funds had run down to an amount of **Kshs 1,964,944** which imply that significant payments may not have been paid out.

b) Bank Reconciliations

Bank reconciliations are prepared by the cash unit of the finance department. As at 23 July 2018, the bank reconciliations were noted to have been done for the period up to May 2018. The bank reconciliations for June 2018 was yet to be done.

The bank reconciliations are also not indicated with date when prepared. They are also not signed for approval by Finance Officer.

Recommendations

i) ***Project management should avoid making fixed deposits from the project funds as it results in tying project funds rather than utilizing the funds for the intended purpose and further exposes the funds to loss.***

ii) ***Project management should ensure bank reconciliation are promptly carried out by 15th of the following month as required. They should be well dated with the date prepared and approved.***

Management Comments:

- The fixed deposit investments were made as an effort to utilize the idle funds to generate some interest. This will not happen going forward.
- Bank reconciliations will be promptly prepared and signed for preparation and approval accordingly.

3.2. Management of imprests

The following issues were noted:-

a) **Delays in accounting for imprest:** Imprest is required to be accounted for within 7 days after the event for which it was advanced. There were however minor delays in accounting of imprest noted. Below are some of the cases noted:-

Staff	**Date issued**	**Amounts**	**Date of activity**	**Date accounted**	**Delay in days**
Naomi Nkonge	5-Sep-17	482000	14-19 Sep 2017	13-Nov-17	55
Rose Ramuat	2-Nov-17	550440	7-9 November 2017	11-Dec-17	32
Jayne Njenga	28-Feb-18	34000	2-Mar-18	3-Apr-18	32

b) **Inclusion of unaccounted imprest in financial reports**

The following unaccounted imprest were noted to have been expensed in the interim financial reports (IFR) for the period ended 31 December 2017 and draft IFR for the period ended 30 June 2018 as expenditure.

<u>For period ended 31 December 2017</u>

Date of Imprests	**Payee**	**Cheque No**	**Amounts (Kshs)**
12/7/2017	Njuguna David	71	356,069
10/17/2017	Prof Nathan Ogechi	42	55,105
Total			**411,174**

The two imprests were subsequently accounted for after the period end.

<u>For period ended 30 June 2018</u>

Date of Imprests	**Payee**	**Cheque No**	**Amounts**
5/29/2018	Ocholla Jerry	190	158,000
6/19/2018	Nyamwala Fredrick	209	551,800
	Nyamwala Fredrick	210	551,800
6/22/2018	Keino J Monica	213	71,200
6/19/2018	Njuguna David	212	410,500
6/29/2018	Makokha Augustine	244	28,100
6/29/2018	Milton M. Muthoni	255	160,800
6/29/2018	Kiprotich Cheruiyot	261	60,800
			1,993,000

This may lead to overstatement of expenditure since imprests may not be fully utilized and funds returned.

3.3. Fixed Assets Management

Fixed asset register is maintained in Ms Excel. The following areas of improvements were noted:-

- The assets purchased are yet to be tagged whereas they include various furniture which don't have serial numbers hence lacking a unique identifier.
- In the asset register, similar assets purchased together are lumped up together under one line in the asset register eg 3 multi-function copier purchased in Feb 2018, for Kshs 152,000 each among others. This may limit inclusion of other details asset tag numbers, location and other individual asset unique details.

Recommendations

The project should consider tagging of assets to enable them have a unique identifier especially the furniture acquired. Individual assets should be listed separately in the asset register to enable inclusion of other asset specific details for instance asset tag numbers, location, condition among others.

Management Comments: The asset listing will be revised to have each asset listed separately. We will organize for tagging of project asset and update the assets register accordingly.

4. Internal Audit, Audit Committee and Corruption Prevention Committee (CPC)

4.1. Internal Audit and Audit Committee

The university was noted to have Internal Audit Departments headed by Chief Internal Auditors. The department carries out the internal audit of the ACE project. The following were noted.

Internal audit has only been done for the period June – December 2017. The audit for the period January – June 2018 was scheduled to be carried out from 18 July 2018. The following were the issues noted from the audit of the period June – December 2017:-

i. Project account was opened and operated as per requirements
ii. Asset register was maintained but was yet to be posted to the general ledger account
iii. Procurement method used was tender process adopted from contract agreement between Ministry

of Transport and M/s Toyota Kenya ltd for supply of pick-ups tender no SB/4/2016-2017. There was no circular from Ministry of Transport to state corporations to use contract agreements as per PPAD Act 2015

iv. Procurement records were not easily retrievable and LPOs were not filed in sequence which is non-compliance to the PPAD Act, 201 section 68. Procurement records relating to ACE II project were transferred to the project office to resolve on this.

v. Quotation for procurement of air tickets for ACE project launch visitors was sent to four bidders as per procurement quotation register but only one responded. There was a risk noted where lack of competitive prices may lead to lack of value for money.

Recommendations

The project should ensure the audit for the period January – June 2018 is carried out and the report shared with IDA accordingly.

Management Comments:
The audit was planned to be carried out from 23 July 2018. This will be finalized promptly and report shared with the World Bank.

4.2. Audit Committee

The university was noted to have Audit, Governance and Risk (AGR) Management Committee which are sub-committees of the University Council. As per the AGR charter, it should comprise at least five non-executive members of the Council with the Chief Internal Auditor as the Secretary. From our review of minutes, the AGR has meet regularly and the internal audit issues for the project discussed though there were no comments from AGR about the audit.

4.3. Corruption Prevention Committee (CPC)

The university has in place Corruption Prevention Committee (CPC) that meets regularly, at least on quarterly basis or as may be needed. There are also reports prepared and submitted to EACC on quarterly basis that also list all contracts/ tenders issued out in the period that are an amount equal to or above Kshs 500,000. Procurement of vehicle for Kshs 7,400,000 in December 2017 was noted not to have been included in any of the report to EACC.

Recommendations

For transparency, it is critical for all procurements including those for the project to be included in the reports to EACC.

Management Comments:

The omission was an oversight. Management will ensure that the omitted procurement for the vehicle is included in the next report to EACC.

5. Financial Reporting

Interim Financial Report

The project is required to prepare IFRs that include Eligible Expenditure Program (EEP) report every six months. During the period under review the university had submitted the IFRs and EEP reports within the due dates of 45 days after the end of the six months.

Eligible Expenditure Programs (EEPs)

This should comprise of university staff salaries or other non-procurable operational costs of the program. For the period ended 31 December 2017, the university included the salaries as follows:-

Particulars	**Amounts (Kshs)**
Moi University	
Salaries	2,098,899,760
Non-procurable operational costs of the program	-

The salaries amounts reported under EEP comprise of the gross payroll expenses for the university and included PAYE and other statutory deductions which are part of Gross Personal Emoluments whether paid out or not. EEP should only comprise of expenditure incurred and paid; if they are not paid out they should not be eligible. Use of unpaid expenditure under EEP may further pose a reputational risks to the project. The deduction from payroll comprises of statutory deductions among them PAYE, NHIF, NSSF and other social deductions like university SACCO contributions, loan repayments to university SACCO etc.

There have not yet been any withdrawal application made and supported by the above mentioned EEPs except for the initial disbursements for year 0. In accordance with the PAD, for the initial disbursements, the ACE were to submit the report of the achievement of results for DLI 1 for Year 0 to IUCEA for verification regarding the achievement of institutional readiness for implementation. All disbursements (reimbursement) made upon achievement of DLIs should be supported by eligible expenditures for an amount at least equal to the amount to be disbursed and following the formats agreed in the Disbursement Letter /Guidelines for IPFs with DLIs. At the time of requesting the first disbursement upon the achievement of DLR 1.1 and 1.2, EEP report was not submitted to the Bank; however, those expenditures will be reviewed by external audit -as part of entity's audit- and related audit report for the periods ending 30 June 2018 will be submitted to the Bank.

For each subsequent semester disbursement (every six months), this is expected to be as follows:

a) The ACE will compile the achieved results and certify that it has the required background information in its archives to document the achievements of the results.
b) The ACE will submit the Independent Verification Agency report to the NSC, IUCEA and the Bank regarding the achievement of the project results for that year (Year 1-5). The report should consist of two parts: (i) ACE results in the form of the DLIs/DLRs, and (ii) expenditures in the Eligible Expenditure Program (EEP) - EEPs incurred for the period preceding the withdrawal request.
c) IUCEA, the National Steering Committee (NSC), together with the World Bank, will verify the achievements of the agreed results, sometimes on a sample basis. This will be done after the Independent Verification Agency verifies the DLIs/DLRs results.
d) Thereafter, the World Bank will disburse the agreed funds for that semester's results to the project's bank account. The disbursement will be made through submission of the withdrawal application with supporting evidence of EEPs to be reimbursed for the achieved DLIs/DLRs.

Audit Reports

In regards to Audit Reports, the universities are expected to submit audit report for the ACE II project 6 months after the period end and the audit reports for the entire universities 9 months after the period end. The first audited report and management letter for each of the ACEs will be for FY ending 30 June 2018 and is due by 31 December 2018. The ACEs are therefore expected to prepare and submit to Office of the Auditor General (OAG) the accounts for the project by 30 September 2018.

The Audit report for universities for the period ending 30 June 2018 will be expected to be submitted by 31 March 2019.

Recommendations

i. **ACE management should note that for EEP to be eligible, the expense must have been incurred and paid. The EEP reports should therefore be revised to only include only expenditure that has been paid out.**

ii. **The universities should liaise with Office of the Auditor General (OAG) to ensure the external audit for the project and for the entire universities are carried out and audited reports submitted to the Bank by 31 December 2018 and 31 March 2019 respectively.**

Management Comments:

The ACE management has noted requirements for EEP to include only expenses that have been paid and will ensure the EEP reports are updated accordingly. Management will ensure the external audits are carried out and reports submitted to World Bank as required.

6. External Audit

The first audited report and management letter for each of the ACEs will be for FY ending 30 June 2018 and is due by 31 December 2018. The audit will be carried out by the Office of the Auditor General (OAG). As noted above, the following audit reports are expected for each of the ACE:-

External audit of the ACE Project: The audit reports and management letters for the ACEs should be received by the Bank within six months after the end of the financial year. This ensure that the resources planned to be received under the project are audited as well as the expenditure in relation to the activities agreed with the Bank in the Project Implementation Plan.

Audit report of the university hosting the ACE: This will ensure the EEPs are audited. The audit reports and management letters of the universities should be submitted to the Bank within nine months after the end of the financial year. There should be a special opinion in addition to the usual one on EEP

7. Transaction Review and Eligibility

There were some trainings carried out also even though there was no approved training plan. Below are the details:-

Date	Staff Name	Particulars	Cheque No.	Amounts (Kshs)
8/21/2017	Kerich Anastacia	Training for Accountant	6	29,600
9/8/2017	Chirchir Kirwa	Training for Accountant	12	147,200
9/8/2017	KSG	Fees - Training for Accountant at KSG	13	71,500
9/8/2017	Commissioner of Domestic tax	Training for Accountant	14	3,900
9/29/2017	Okello Silvester	Procurement Training at KIM Nakuru	18	26,400
9/29/2017	Kenya Institute of Supplies Mgt	Procurement Training at KIM Nakuru	19	86,800
9/29/2017	Commissioner of Domestic tax	Procurement Training at KIM	20	4,800
4/27/2018	Nkonge Naomi	Project Management Training at KSG	148	151,600
4/27/2018	Kenya School of Government	Project Management Training at KSG	149	69,300
4/27/2018	Commissioner of Domestic Tax	Project Management Training at KSG	150	3,780
Total				**594,880**

Recommendations

Project management should ensure that future trainings are included in training plans (staff development plan) and submitted to IDA for approval before carrying out those trainings.

Management Comments:

We will ensure this is adhered to.

8. Funds Flow

The project is funded under Cr. 57980. The World Bank has disbursed XDR 2,400,000 (US$ 3,288,834.01) for the whole project as at 25 July 2018 which represent an absorption rate of 18.75%. Although the project effectiveness date was February 01, 2017, the initial funds were disbursed to the ACE centres in June 2017 as there were delays in finalization of initial activities.

From the amounts of USD 3,288,834.01 disbursed by IDA to the USD account at CBK for the 3 ACEs, the funds transferred from the Designated Account to the Ministry of Education for disbursement to the three implementing entities was USD 3,250,000 which was equivalent to KShs 335,562,500. Due to Budget Limitation, as the Ministry had a budget of KShs 334,785,000 for the ACE II Project that Financial year, the ministry transferred the amount in the budget divided by three for each implementing entity. The implementing entities therefore received KShs 111,595,000 each. The remaining balance of Kshs 777,500 was transferred in disbursed in June 2018. The balance at the Designated account of USD 38,834 was yet to be transferred to the implementing entities due to budget issues.

9. Follow up with Moi University on issues relating to the payroll audit by KPMG

The University sent the management comments on the issues noted via letter dated 12 February 2018. Thereafter on 21 February 2018, there was a meeting between KPMG and Moi University to discuss the draft report and the comments provided earlier. KPMG have not yet issued out the final report due to unpaid fees of Kshs 7 Million as per the audit agreement.

We reviewed the comments and the following were mainly the responses provided by the University:-

- Differences between TB and payroll of Kshs 811,296,296.54 caused by the fact that payments for casual wages and PSSP service providers are made outside the payroll, while in the trial balance they are posted as part of personal emoluments.
- Files and documents initially missing were indicated to have been submitted by the University for review.
- Part of salaries payments for Kshs. 445,706.90 paid after staff exiting the University were recovered.
- Missing Kenya Authority Tax Exemption Certificates for two staff exempted from paying taxes due to disabilities.
- Violation of one third rule in deduction of wages where 45 staff members received less than a third of their basic pay was indicated to have been caused by deductions like unaccounted

imprests, 20% deduction for staff on study leave and instances where staff were taking welfare loans as well as bank loans.

- The HR Department at Moi University maintained employee details on Excel sheets - Plans are underway to procure a new integrated ERP with various relevant modules including human resource module to

The responses on the other sections of the report including Procurement processes and procedures, Inventory and stock control, Financial Management Systems and Processes,
Imprest Management, Hostel accommodation and PSSP Fee collection programme,
Bank Accounts and Financial transactions between Moi University and Rivatex East Africa Ltd were also provided.

10. Verification of Financial Management Disbursement Linked Results (DLRs) – DLI # 3

Disbursement Linked Indicators #3: Timely, transparent and institutionally reviewed Financial Management

Action to be Completed	Definition (As per PAD)	Verification Evidence	Verification Findings & Conclusion (Fully Met, Partially Met or Not Met)
DLR#3.1: Timely Withdrawal applications supported by interim unaudited financial reports for each ACE	The DLR will be disbursed if the ACE submits timely withdrawal applications supported by interim unaudited financial reports showing how funds have been utilized.	Timely withdrawal application means submission through the appropriate government channels of a withdrawal application on or before the date in the agreed schedule. The schedule will be submission of withdrawal application every 6 months after the date of the project effectiveness. The withdrawal application must be complete with the required information regarding each of the results achieved and the required information regarding the Eligible Expenditure Program (EEP). EEPs can be included as part of the Interim Financial Reports that accompany the Withdrawal Application.	The project received the first disbursement in June 2017 hence prepared the first IFR for the period ended 31 December 2017. The IFR was well submitted within the required time and was supported by an EEP Spending report. However, as at the date of our review (July 2018), there were not yet any withdrawal application by the project except for the initial funds that were processed at commencement of the project. There were however some DLR that were either partially or fully complete. The delay is attributable to the fact that there has not been independent verification of achieved results which is a pre-requisite to processing of the withdrawal application. **Conclusion: The DLR has not been fully met.**
DLR#3.2: Functioning audit	The DLR will be disbursed if the	**For the first withdrawal application requesting**	There is a function audit committee which was noted to be meeting at least on a quarterly basis. The audit

Action to be Completed	**Definition (As per PAD)**	**Verification Evidence**	**Verification Findings & Conclusion (Fully Met, Partially Met or Not Met)**
committee under each Eastern and Southern African Higher Education Institutions	university under the university council has a functioning audit committee that will amongst other assignments follow up audit issues related to the ACE.	**funding for this result:** • Guidelines/ ToRs/ Charter for the audit committee constituted under the governing body of the university. • Members of the audit committee. • Evidence (report or minutes of meeting) that the Committee has met and discussed the audit for the ACE, the committee's role in the project, and risks associated with the project. **For subsequent withdrawal applications**: • Evidence (report or minutes of meeting) that the Committee has met and discussed the external audit for the ACE, any internal audit reports, and following up on issues raised to ensure management's attention and correction. • If changes to the Guidelines / ToRs/ Charter have been made, the revised ToRs or Guidelines should be included.	committee was noted to have discussed internal audit issues related to ACE Project. **Conclusion: The DLR has been fully met.**

Action to be Completed	Definition (As per PAD)	Verification Evidence	Verification Findings & Conclusion (Fully Met, Partially Met or Not Met)
		Note, the Audit committee should in principle carry out an institutional review of the audits and follow-up. However, the term functioning will be interpreted only regarding review of the ACE part of the university.	
DLR#3.3: Functioning internal audit unit for each Eastern and Southern African Higher Education Institution	The DLR will be disbursed if a functional internal audit department conducts audits on the project based on a risk based approach.	**For the first withdrawal application requesting funding for this result**: • Guidelines/ ToRs/ Charter for the internal audit unit for the university (or college/school depending upon the structure of the university). • Staff members of the internal audit unit. • Evidence (report or minutes of meeting) that the internal audit unit has audited the university's participation and responsibilities under the Africa Centers of Excellence project, the unit's role in the project, and risks associated with the project. **For subsequent withdrawal applications**:	The university has an internal audit department that carries out Internal Audit for the period on a semi-annual basis. The audit for the period ended 31 December 2017 and 30 June 2018 has been carried out and the internal report issued. **Conclusion: The DLR has been fully met.**

Action to be Completed	**Definition (As per PAD)**	**Verification Evidence**	**Verification Findings & Conclusion (Fully Met, Partially Met or Not Met)**
		• Evidence (report) that the internal audit unit has audited the ACE accounts and internal control systems using a risk based approach. • If changes to the Guidelines / ToRs/ Charter of the internal audit unit have been made, the revised ToRs or Guidelines or Charter should be included. Note, the internal audit should in principle carry out institutional audits of the financial management. However, the result refers only to the audit of the ACE part of the university.	
DLR#3.4: Transparency of financial management (audit reports, interim unaudited financial reports, budgets and Annual Work Programs are all web accessible)	The DLR will be disbursed if all FM related reports (audit, IFRs, budgets, work programs) are published on ACE websites to promote transparency and accountability.	A link to the institutional website where the following project reports are publicly available: • All external audit reports for the project, all interim financial reports, the past year's and the current budget, as well as the current annual work-plan. • The trail of webpages (breadcrumb trail) from the institutional home page to the	The university has created a project website URL : https://excellencecenter.mu.ac.ke/ It has a portal where the following have been published:- – Annual Work plan - FY 2017/18 – Implementation Plan - FY 2017/18 – Procurement Plan - FY 2017/18 – Semi-Annual Financial Statements – Period up to Dec 2017 – Internal Audit Report_ December 2017 – Minutes of the Audit, Risk and Compliance Committee

Action to be Completed	Definition (As per PAD)	Verification Evidence	Verification Findings & Conclusion (Fully Met, Partially Met or Not Met)
		page with the above reports (institutional Home page > Section page > Subsection page > etc.).	The external audit is yet to be carried out hence not published. **Conclusion: The DLR has been fully met.**

Recommendations

The Centre should ensure there are regular annual withdrawal applications for the DLR that are either partially or fully complete. The independent verifications of results should be commenced promptly for the related period to enhance timely withdrawal applications.

Management Comments: The centres are following up on independent verifications of results to enhance processing of withdrawal applications.

Annex 1 - FM Action Plan

With respect to the current FM supervision and implementation review the following recommendations have been made and timelines discussed with management

	Recommendation	Responsibility	Due Date	Management Comments
	Accounting System			
1.	i) The mapping of the project in the accounting system should be enhanced so as to input the approved budget per the key the activities from which recording of expenditure will be made. This will enhance in financial reporting and budget monitoring to mitigate on spending on unrelated activities or budget overrun. Further, the coding in the accounting system should be enhanced to be able to categorize expenditure for different financiers appropriately to avoid mix-up of expenses and errors of reporting of same costs to different financiers. ii) The problematic issues noted with the accounting system should be resolved to enhance integrity of financial records maintain and support finance teams in financial management.	Centre Director, Finance Officer	30 September 2018	• Management is in the process of acquiring a new ERP. The new system will be able to mitigate on the system challenges noted. Meanwhile, the mapping of accounting system with budget breakdown and coding to enhance mapping of expenditure to various sources of finance will be done.
	Management of bank balances			
2.	i) Project management should avoid making fixed deposits from the project funds as it results in	Centre Director	Continuous	• The fixed deposit investments were made as an effort to utilize the idle funds to

	Recommendation	Respon sibility	Due Date	Management Comments
	tying project funds rather than utilizing the funds for the intended purpose and further exposes the funds to loss. ii) Project management should ensure bank reconciliation are promptly carried out by 15th of the following month as required. They should be well dated with the date prepared and approved.	, Finance Officer		generate some interest. This will not happen going forward. • Bank reconciliations will be promptly prepared and signed for preparation and approval accordingly.
	Fixed Assets Management			
3.	The project should consider tagging of assets to enable them have a unique identifier especially the furniture acquired. Individual assets should be listed separately in the asset register to enable inclusion of other asset specific details for instance asset tag numbers, location, condition among others.	Centre Director , Finance Officer	31 Dec 2018	The asset listing will be revised to have each asset listed separately. We will organize for tagging of project asset and update the assets register accordingly.
	Internal Audit			
4.	The project should ensure the audit for the period January – June 2018 is carried out and the report shared with IDA accordingly.	Chief Internal Auditor; Centre Director	30 September 2018	The audit was planned to be carried out from 23 July 2018. This will be finalized promptly and report shared with the World Bank.
	Corruption Prevention Committee (CPC)			
5.	For transparency, it is critical for all procurements including those for the project to be included in the reports to EACC.	Integrity Officer	30 September 2018	Management will ensure that the omitted procurement for the vehicle is included in the next report to EACC.
	Financial Reporting			
6.	i) ACE management should note that for EEP to be eligible, the expense must have been incurred and paid. The EEP reports should therefore be revised to only include only	Centre Director , Finance	Continuous	The ACE management has noted requirements for EEP to include only expenses that have been paid and will ensure the EEP reports are updated accordingly.

	Recommendation	Respon sibility	Due Date	Management Comments
	expenditure that has been paid out. ii) The universities should liaise with Office of the Auditor General (OAG) to ensure the external audit for the project and for the entire universities are carried out and audited reports submitted to the Bank by 31 December 2018 and 31 March 2019 respectively.	Officer, Chief Internal Auditor		Management will ensure the external audits are carried out and reports submitted to World Bank as required.
	Transaction Review and Eligibility			
7.	Project management should ensure that future trainings are included in training plans (staff development plan) and submitted to IDA for approval before carrying out those trainings.	Centre Director , Finance Officer	Continuous	We will ensure this is adhered to.
	Verification of Financial Management Disbursement Linked Results (DLRs) – DLI # 3			
8.	The ACE centers should ensure there are regular withdrawal applications for the DLR that are either partially or fully complete. The independent verifications of results should be commenced promptly for the related period to enhance timely withdrawal applications.	Centre Director , Project Manage rs	30 Sep 2018	The centers are following up on independent verifications of results to enhance processing of withdrawal applications.