

<b>Project Name:</b>	Eastern and Southern Africa Higher Education Centers of Excellence Project (ACE II)
<b>Project ID:</b>	P151847
<b>Credit/Grant No.:</b>	Cr. 57980
<b>Implementing Agency:</b>	Egerton University, Moi University and Jaramogi Oginga Odinga University with coordination of Ministry of Education
<b>Effectiveness Date:</b>	<b>Cr. 57980:</b> February 01, 2017
<b>Closing Date:</b>	December 31, 2022
<b>Application Deadline:</b>	April 30, 2023
<b>Period Covered by Review:</b>	July 01, 2018 to August 31, 2019
<b>Original Signed Amount:</b>	XDR 12,800,000 (US\$ 18,000,000) (whole credit amount)
<b>Disbursed Amount:</b>	XDR 5,297,819 (US\$ 7,260,929) (as at 30 September 2019) - 41.4%
<b>Cancelled Amount</b>	<b>NIL</b>
<b>Previous ISR Rating:</b>	<b>Moderately Satisfactory (S)</b>
<b>Current ISR Rating:</b>	<b>Moderately Satisfactory (S)</b>
<b>Previous FM Risk</b>	<b>Moderate (M)</b>
<b>Current FM Risk</b>	<b>Moderate (M)</b>

## 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(retrofitted on February 4, 2015).

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

<b>Name of ACE Center</b>	<b>Institution</b>
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 July 1, 2018 to August 31, 2019. Each entity was provided with a de-brief of its review findings now incorporated in this consolidated report. The review noted some areas of improvements as follows:-

- Moi University has rolled out a new ERP called Navision that encompasses all MIS requirements for the university which is expected to resolve rampant system weaknesses noted in the prior FM review. The project accounting module is however yet to be rolled out hence not yet benefiting from the new system. This is expected to be rolled out by Q2 of FY 2019/20.
- In FY 2018/19, GoK counterpart budget was Kshs 30,000,000 of which Kshs 28,354,433 was spent mainly on project coordination unit assets like vehicles. This was in fulfillment of financing agreement provision that require the project to provide counterpart financing of up to 5% of credit amount.
- The ACEs, especially JOOUST and Moi had low absorption of funds against their budget. The absorption in FY 2018/19 was 76%, 58% and 42% for Egerton, JOOUST and Moi University respectively.
- Adequate internal controls are maintained at ACEs. However, the following areas of improvement were noted:-
  - JOOUST
    - Some cases of recording of expenditure for student stipends based on advance taken noted.
    - Large cash handling related to payments of students stipends.
    - Student stipends in some cases was drawn from bank based on a copy of scholarship allocation schedule resulting to some manual alterations to payment schedules and re-banking of unpaid cash. Also, the schedule in some cases were not prepared for a specific month but based on a copy of the prior month.
    - There were some cases where the acknowledgement schedules for payments to students did not bear the dates paid.
    - There were also some minor delays in accounting of imprests taken.
  - Moi University: There was a long outstanding unaccounted imprest of Kshs 63,392. This has been recommended for recovery from payroll.
  - Egerton University: There were long outstanding unbanked cheques for student stipends which have gone stale. These should be investigated to establish why they were not banked and further be reversed and re-issued.
- As at 30 June 2019, there was a balance of USD 154,690 in the DA and Kshs 284,628 held in Ministry's development account that could not be transferred out of development account due to budget cuts after supplementary budget adjustment while funds was in transit.
- There were challenges noted at ACEs in reconciliation of withdrawal applications made and the

amounts received from MoE due to lack of notifications from MoE on exchange rates used and partial transfers. It was agreed notifications with all requisite information would be made henceforth.

- There were challenges and delays noted in verifications of DLR which is adversely impacting on funds flow to the project. Across all the three ACEs, DLR # 2.1 on timely annual implementation of the plans has never been verified. There other challenges noted for instance for JOOUST, verification of DLR 2.2 has had challenges since verification guidelines rely on access to modern information technology (emails) and language proficiency (telephone calls done in English) by trained students while most of the farmers who have undertaken related short courses do not have active emails and/or are not conversant in English language. Partnership collaborations verifications has also delayed significantly as the submission were made in July 2018, and more than one year later have not yet been verified.
- There were challenges encountered by the Bank's FM team in review of audited EEP amounts from the institutional audit reports due to the fact that i) institutional audit reports are prepared on accrual basis of accounting, while for EEP, it was previously agreed they would only include expenditure paid out since use of unpaid EEP may pose a reputational risks to the project, and ii) the institutional audit reports are prepared for use by a wider stakeholder and were noted to have different presentation and categorization of expenditure hence challenges in identifying exact EEP amounts from the audit report. Due to these challenges, the Bank's FM team had a meeting with OAG and ACE staff and it was agreed that starting with the period ended 30 June 2019, ACEs would include the EEP as part of project's annual financial statement which would be audited by OAG.
- For the financial year ended 30 June 2019, all the three ACEs fully met all the Financial Management Disbursement Linked Results (DLRs) – DLI # 3. All the three universities have Internal Audit Departments headed by Chief Internal Auditors, Audit, Governance and Risk (AGR) Management Committee which are sub-committees of the Universities Council and Corruption Prevention Committee (CPC) that are active and meeting/ carrying out their roles as required.

The ISR rating for financial management arrangements is rated as **Moderately Satisfactory** while the risk assessment rating is **Moderate**.

## 1. Accounting

### 1.1. Accounting Staff

The accounting capacity for the implementation of the project at all the 3 ACEs was noted to be adequate. The finance teams for all the ACE Centres attended a financial management training in January 2019 at KSMS which was facilitated by the Bank's FM team.

### 1.2. Accounting system

#### 1.2.1. JOOUST

At JOOUST, SAGE ACPAC accounting system is used for payment processing. The institution is in the process of acquiring an ERP system that will assist in resolving the following weaknesses noted in accounting system in the last FM review that still persist:-

- **Manual preparation of financial statements:** Posting in the accounting system is done under one account line. The classification to various budget lines for financial reporting is done manually in excel worksheet when preparing financial statements which is tedious and prone to errors.
- **Errors in display of outstanding imprests:** The accounting system has system issues where imprest may be issued but does not display in the personal account of the staff who has taken up the imprests. However, it was reported that while processing an additional imprest for the same staff, it would not go through until the prior imprests have been surrendered.

These system functionality errors will be rectified with the new ERP. Due to the noted accounting system weaknesses, the project finance team maintains parallel cashbook in Ms-Excel that is extended to have additional columns for allocating expenditure against the budgeted expenditure categories and sub-categories.

#### *Recommendations - JOOUST*

*Management should ensure the planned acquisition of an ERP system is carried out within this financial year go on as planned to enhance integrity in financial transactions recording and reporting.*

#### ***Management Comments:***

The shortlisted vendors have made presentations on various ERP system capabilities that they could offer. The IT department is working with user departments in selection of appropriate ERP system that will be rolled out.

### 1.2.2. Moi University

At Moi University, a new ERP called Navision was rolled out with effect from 1 July 2019 (FY 2019/20). The prior SAGE ACPAC accounting system was stopped on 30 June 2019, after close of financial year. The new ERP encompasses all management information system requirements for the university and is integrated to banking platform and mapping all related transactions for instance online course selection and payments, accommodation payments and allocation of hostel etc. The system weaknesses noted in prior review are expected to be resolved with this roll out.

The project accounting module is yet to be rolled out. The project is still mapped as one line in the new ERP, hence not yet benefiting from the new system. With the roll out of the project accounting module, the project team will be able to create adequate accounting analysis codes to be able to analyse expenditure per sources of finance, per expenditure areas, per AWPB line etc. We checked and noted the finance team has already developed a mapping schedule for analysis code to be created, which has already been forwarded to system developer for developing the project module.

#### *Recommendations – Moi University*

*Management should hasten the roll out of the project module to ease the financial reporting and analysis of expenditure for various use by the team.*

#### **Management Comments:**

The roll out of project module delayed in order to focus on student admission and related modules since the students were being admitted in August 2019. The admission and all related modules have been finalized and now the focus will be on projects' module which should be finalized within Q2 of FY 2019/20.

### 1.2.3. Egerton University

At Egerton University, SAGE ACPAC accounting system is used for payment processing and financial reporting. The budget per activity has been input in the accounting system such that budget monitoring is controlled from the accounting system at any given time when payments are being made to ensure that expenditure is within the budgeted amounts.

## 2. Budgeting

The budget preparation process for the project follows regular government procedures. There are two levels of budgeting as follows:-

### 2.1. Budgeting at the line ministry (MoE)

MoE obtains estimates of the amounts planned to be drawn by the ACEs during a financial year and incorporates it in the ministry’s budget which is then forwarded to the National Treasury for inclusion in the Printed Estimates by April 30 every year. The Ministry’s budget also includes counterpart financing for the project. For the FY 18/19, the budget and expenditure at MoE were as follows:-

Particulars	Amounts in printed estimates	Supplementary estimates	Net Approved Estimates	Total payments	% absorption
IDA – Transfer to ACEs	450,000,000	(170,000,000)	280,000,000	279,999,999	99.99%
GoK Counterpart	30,000,000	-	30,000,000	28,354,433	94.5%
<b>Total</b>	<b>480,000,000</b>	<b>(170,000,000)</b>	<b>310,000,000</b>	<b>308,354,432</b>	

GoK counterpart finance was mainly spent on acquisition of project vehicles at Kshs 22,180,900, printer at Kshs 435,000, IT equipment at Kshs 293,233, furniture at Kshs 128,480 among other expenses. The GoK counterpart financing was in fulfillment of financing agreement provision that require the project to provide counterpart financing of up to 5% of credit amount.

The budget line for IDA transfer was reduced during supplementary budget which led MoE not to be able to disburse all amounts that were requested by ACEs as elaborated below under funds flow. For FY 19/20, the printed estimates amounts is Kshs 450,000,000 and Kshs 30,000,000 for IDA and GoK counterpart finance respectively.

**2.2. Budgeting at the ACE level**

Each ACE develop annual work plans and budget of activities expected to be undertaken during the financial year. The project budget are incorporated in the implementing institution’s annual budget which is approved by the University Council. The ACEs, especially JOOUST and Moi had low absorption of funds against their budget as summarized below:-

Institution	Budget (Kshs)	Actual (Kshs)	Variance (Kshs)	% Variance
Egerton University	135,781,912	102,539,602	33,242,310	24%
Jaramogi Odinga Oginga University of Science & Technology (JOOUST)	113,003,278	65,541,901	47,461,377	42%
Moi University	214,781,912	89,291,071	125,490,841	58%

The low absorption rate under JOUST and Moi University were attributed to delays in planned

procurement activities.

**Recommendations**

***ACEs and moreso JOOUST and Moi University should thoroughly review their budget, ensure that procurement activities are mapped appropriately against periods when payments are expected to be made to ensure the budgeted activities are realistic and carefully monitor execution.***

**Management Comments:**

- *Moi University: The low absorption was partly attributable to procurement items which were to be imported. There were delays in clearance at the port due to the enhanced checks by the Government that led to low absorption. The budget execution will be carefully monitored.*
- *JOOUST: As recommended, the future budgets will be thoroughly reviewed and monitored for implementations within the planned timelines.*

**3. Internal Controls**

**3.1. JOOUST**

Adequate internal controls is maintained. However, the following weaknesses were noted in regards to payments of student stipends:-

- Some cases of recording of expenditure based on advance taken as highlighted below.
- Large cash handling related to payments of students stipends.
- Student stipends in some cases was drawn from bank based on a copy of scholarship allocation schedule resulting to some manual alterations to payment schedules and re-banking of unpaid cash. Also, the schedule in some cases were not prepared for a specific month but based on a photocopy of the prior month.
- There were some cases where the acknowledgement schedules for payments to students were not indicated with the dates paid.
- There were also some minor delays in accounting of imprests taken.

The cases noted are summarized below:-

<b>Cheque No</b>	<b>Date received</b>	<b>Payee</b>	<b>Purpose for payment</b>	<b>Amounts (Kshs)</b>	<b>Remarks</b>
216	9-Nov-18	Silas Menge Osero	Stipend for Dec for 16 students	310,000	<ul style="list-style-type: none"> <li>- The total amounts paid was Kshs 305,000 with Kshs 5,000 re-banked. Expenditure was recorded based on withdrawn amounts.</li> <li>- The withdrawal schedule was based on students awarded scholarship. During the payment, an MSc student from Tanzania</li> </ul>

Cheque No	Date received	Payee	Purpose for payment	Amounts (Kshs)	Remarks
					<p>whose payment was not factored was paid Kshs 20,000 and another PhD student for whom the schedule provided for Kshs 25,000 was not paid as was yet to arrive, hence the refund of Kshs 5,000.</p> <ul style="list-style-type: none"> <li>- Imprest accounted for on 28 Nov 2018, hence some delays in accounting.</li> <li>- Acknowledgement schedule signed by students did not have a provision for indicating date received.</li> </ul>
284	21 Dec 2018	Silas Menge Osero	Stipend for January 2019	352,000	<ul style="list-style-type: none"> <li>- The total amounts paid out was Kshs 351,000 with Kshs 1,000 re-banked. Expenditure was recorded inclusive of refund.</li> <li>- Some two students that had zero provisions in the printed payment schedule were paid out Kshs 3,000 each from common room hire allocation of Kshs 7,000 and Kshs 1,000 re-banked.</li> <li>- Imprest Accounted on 31 January 2019 hence some delays</li> <li>- Acknowledgement schedule signed by students did not have a provision for date.</li> </ul>
256	6-Dec-18	Ayieko Monica A.	Stipend for Students	599,000	<ul style="list-style-type: none"> <li>- The amounts includes rent paid on behalf of students of Kshs 147,000 and deducted from stipend. It was withdrawn from project bank account in Equity Bank and deposited to landlord account in Coop Bank. This large cash handling exposes the project to loss of funds. The rent paid on behalf could have been processed via cheque/ EFT.</li> </ul>
375	21-Mar-19	Dickson Owuor	Stipend for Students	597,400	<ul style="list-style-type: none"> <li>- From student stipend of 379,000, rent of Kshs 70,000 was paid to landlord on behalf. (The rent amount is Kshs 7,000 per student per month). This large cash handling exposes the project to loss of funds. The rent paid on behalf could have been processed via cheque/ EFT.</li> </ul>
<b>Total</b>				<b>1,858,400</b>	

**Recommendations**

- i. *Management should reduce large cash handling as it can lead to loss of cash or irregular payments. Students should be encouraged to hasten opening of bank accounts to avoid making cash payments for stipends. Payments made on behalf of students eg rent should be made via cheque or EFT.*
- ii. *To avoid cases of over or erroneous payments, project management should ensure they have a specific schedule prepared for the related month, printed afresh and reviewed before any withdrawals are made to ensure accuracy. The payments acknowledgement schedule should include provision for dates paid, which would be filled-in by the students to acknowledge receipt of funds.*
- iii. *The expenditure recorded should be based on amounts paid out and not withdrawals made from the bank.*

**Management Comments:**

Project management will implement the recommendations immediately. The University has designated a new and well experienced project accountant to ensure all required finance procedures are followed to the letter.

**3.2. Moi University**

- There were two outstanding imprests at close of the financial year (as at 30 June 2019). One of the imprests for Kshs 63,392 was issued on 28 May 2019 for an activity that was to be carried out immediately. As at time of FM mission (Sep 2019), the staff had not accounted for these funds. The Project Management has recommended the case for recovery from payroll.
- There was a long outstanding reconciling item noted on bank reconciliation as follows:

Date	Cheque No.	Name	Amounts - Kshs	Remark
02 January 2019	518	Itec Technologies	29,397	Stale at June.

**Recommendations**

- i. *The long outstanding unaccounted imprest should be recovered from payroll as proposed by project management and the recovered amounts be deposited to the project account.*
- ii. *The long outstanding reconciling cheque item should be investigated to establish why the cheque was not banked. Since the cheque has already gone stale, it should be reversed and re-issued.*

**Management Comments:**

Project management will recover the long outstanding imprest and deposit the funds to the project account. The stale cheque will be followed up and reversed.

### 3.3. Egerton University

There were long outstanding reconciling items in the bank reconciliations related to student stipends as summarized below:-

Cheque No.	Date	Name	Amounts Kshs
849	26 February 2019	Charity Ngamau Mbithe	36,000
850	26 February 2019	Richard Oduor	36,000
851	26 February 2019	Abel Mbega Mwembe	36,000
852	26 February 2019	Erick Ochieng	36,000
853	26 February 2019	Norah Chepkirui	36,000
854	26 February 2019	Jael Mwangoe	36,000
862	26 February 2019	Linnet Kerubo Ogato	36,000
<b>Total</b>			<b>252,000</b>

### Recommendations

*The long outstanding reconciling cheques should be investigated to establish why they were not banked. Since the cheques have already gone stale, they should be reversed and re-issued.*

#### **Management Comments:**

Project management will follow up with the cash office and the student payees to establish why the cheques were unbanked. The cheques are now stale hence will also be reversed.

### 3.4. Management of bank balances

All the three ACEs maintains a project dedicated Kshs account where IDA funds disbursed through MoE are deposited and payments for project activities are made from. During the previous mission, there were cases where project funds were used to make payments for non-project activities at JOOST while in Moi University funds were invested in fixed deposit. There were no such cases noted during the current mission. Under Moi University, there was a transfers from MoE of Kshs 28,561,744 that was erroneously deposited to the project account on 31 June 2019 and later transferred out.

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

### 4.1. Internal Audit and Audit Committee

All the three universities have Internal Audit Departments headed by Chief Internal Auditors. The department carries out the internal audit of the ACE project. The following were noted for each

university.

## **4.1.1. JOOUST**

The following were the upcoming issues noted from the internal audit reports:-

### **a) Internal Audit report for the period July to Dec 2018**

- Imprest issued out but not reflected in individual imprest holder's account from the ERP system
- Bank debits not supported by payments documents. The issue was afterward cleared by the auditor on provision of required documents.
- Low absorption of funds: The total expenditure for the two quarters amounted to Kshs 19,799,484.16 against its budgeted expenditure of Kshs 96,715,216, which represented 20.47%. Explained to be mainly as a result of procurements items for Kshs 31,726,633, which had not been actualized.

### **b) Audit report for the period January to March 2019**

- Overlapping DSA paid for 3 members of staff which may result in loss of funds
- Payments not signed by payees. These were subsequently signed-off.
- Inadequate supporting documents where a payment for website design was lacking GRN, attendance register for participants during team building exercise not attached. These were later provided and cleared by auditor.
- Surrender of imprests for Kshs 199,350 not yet availed at the time of audit.

## **4.1.2. Moi University**

The Internal Audit department has carried out the audit of the period July – December 2018, while that for the period January to June 2019 was scheduled to commence in September 2019. The following were the observation from the internal audit report finalised:-

- There were differences between cashbook and ledger balances. The cashbook had a balance of Kshs 51,036,391 while the ledger had Kshs 55,286,834. This was attributable to 38 cashbook transactions listed which were not traced to the ledger. Project Management indicated they were working with general ledger and ICT teams to resolve the issues which were attributable to accounting system errors.
- Accounting for an imprest of Kshs 201,120 to a staff attending workshop on research in Zambia for 4 days lacked boarding pass to evidence travel. The project management responded by submitting the boarding pass to audit team for verification.
- Low absorption of funds which may lead to overall objectives of the project not met.

## **4.1.3. Egerton University**

The Internal Audit department has carried out the audit of the period July – December 2018, while that for the period January to June 2019 was scheduled to commence in September 2019. The following were the observation from the Internal Audit Report shared:-

**a. Laws and Regulations:-**

- i. That relevant laws and regulations were adhered to by the University in the implementation of the project plans as per financing agreement
- ii. That there was fulfilment of DLIs and DLRs set forth in the schedule 4 of the agreement

**b. Project performance and execution:-**

- i. That the project executed the planned activities but not satisfactory since most of the activities were not achieved as scheduled in the set out budget plan.
- ii. That the outputs observed includes recruitment and award of scholarship to PhD and MSc student given to both Kenyans and Non-Kenyans

**c. Financial Activities**

- Funds absorption rate: That the actual usage of the funds for the period under audit was USD 577,336 against planned expenditure of USD 1,101,500 which indicated absorption of 52.4%
- Externally generated funds: That the project generated a total of USD 16,768 externally to support the project.
- Project Expenditure:
  - Design and construction of CESAAM complex: A down payment of Kshs 400,000 was paid for contract signed between faculty of engineering and CESAAM for design of CESAAM complex. There was no timelines provided about when and where the complex will be constructed. Also there was no contract agreement of government to government was provided to confirm that outsourcing was not required for construction of CESAAM complex.
  - Some imprests surrender takes more than 3 months which is against university financial regulation which states that it must be surrendered within 48 hours.

Project management responded that the project used the force account method of procurement for the design of the CESSAM complex since the University has the capacity at the faculty of engineering and that delayed imprests related to students who went for field research, which shall be surrendered within 48hrs after completion of activities.

## **Recommendations**

**ACE Project Management teams should ensure internal audit recommendations are continuously implemented to strengthen financial management.**

***Management Comments:***

Project Management ensures recommendations arising from internal audit reviews are implemented as noted described in management responses to the internal audit reports.

## **4.2. Audit Committee**

All the three universities have Audit, Governance and Risk (AGR) Management Committee which are sub-committees of the Universities 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 of auditee committees, the AGRs have meet regularly and the internal audit issues for the project were discussed. There was also evidence of follow up of implementations of auditee committee recommendations.

## **4.3. Corruption Prevention Committee (CPC)**

All the three universities have 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.

## **5. Financial Reporting**

### **5.1. 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 3 universities had submitted the IFRs and EEP reports within the due dates of 45 days after the end of the six months.

### **5.2. Eligible Expenditure Programs (EEPs)**

The project EEPs comprises of university staff salaries paid out by the universities as provided in the Financing Agreement. EEP amounts are usually included in EEP reports as part of Interim Financial Reports submitted by ACEs on semi-annual basis. Previously, the EEP have been audited as part of institutional audit reports. There were challenges encountered by the Bank's FM team in review of audited EEP amounts from the institutional audit reports due to the following:

- The institutional audit reports are prepared using accrual basis of accounting, while for EEP, it was previously agreed they would only include expenditure paid out since use of unpaid EEP may pose a reputational risks to the project.
- The institutional audit reports are prepared for use by a wider stakeholder and were noted to have differences in presentation and categorization of expenditure in the audited financial statements hence challenges in identifying exact EEP amounts from the audit report.

Due to these challenges, the Bank's FM team had a meeting with OAG staff based in Nakuru to explore how best EEP would be presented in the audit reports. It was agreed that for the period ended 30 June 2019, ACEs finance teams led by CFO would include the EEP as part of project's annual financial statement which would be audited by OAG. The inclusion would be as a note to the project's financial

statements. The audit opinion would cover project’s financial statements including all disclosures and notes to the financial statements inclusive of the EEP amounts. Ultimately, OAG will further explore and design a specific audit opinion of EEP amounts that would be issued for EEP amounts in the project’s financial statements.

### 5.3. Audit Reports

In regards to external 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. There were delays noted in submission of project’s audit reports across all the ACEs and institutional audit report for Moi University as summarized below:-

ACE	Submission date for Project’s audit report (Deadline was Dec 31, 2018)	Submission date for institutional audit report (Deadline was Mar 31, 2019)
Egerton University	Jan 14, 2019	March 29, 2019
JOUST	Jan 02, 2019	March 29, 2019
Moi University	Jan 10, 2019	April 01, 2019

The timelines for submission of project’s audit report and institutional audit report is within 6 and 9 months after the period end respectively.

### Recommendations

- i. **ACEs finance teams should ensure EEP amounts are included in the project annual financial statements, starting with the period ended 30 June 2019.**
- ii. **ACEs should ensure the audited financial statements for the project and institution are submitted to the Bank within the timelines stipulated in the financing agreement.**

#### ***Management Comments:***

As was agreed during the mission, ACEs management will include EEP in the project’s annual financial statements for the period ended 30 June 2019. The CFOs will lead to ensure this is done. We will also ensure the external audits are carried out and reports submitted to World Bank within the timelines stipulated in the financing agreement.

## 6. External Audit

The first audited report and management letter for each of the ACEs was for FY ending 30 June 2018. The audits were carried out and submitted to the Bank. The following were the audit results for the project’s audit

### 6.1. PTRE - Moi University

The auditor issued **unqualified opinion** on the financial statements and Special Account Statement for the FY ended June 30, 2018. The following other matter was noted in the audit opinion:

**Budget absorption:** During the year under review, the project had a total budget of Kshs 119,769,567 against actual expenditure of Kshs 52,095,618 resulting in under absorption of Kshs 82,486,634.

**Report on lawfulness and effectiveness in use of public money:** The auditor reported that a term deposit of Kshs. 80,000,000 was made to Kenya Commercial Bank contrary to article II section 2.05 of the subsidiary grant agreement between the government of Kenya and Moi University dated 27 October 2016 which states that the proceeds of the Grant shall be applied exclusively for financing of Moi University's respective part of the project in accordance with this Grant Agreement. In addition, no procurement records were availed for audit review to confirm that the investment was competitively sourced and the University got the best interest. Further, no evidence was provided for audit review to confirm that the investment was approved by the University Council.

### 6.2. CESAAM – Egerton University

The auditor issued **unqualified opinion** on the financial statements and Special Account Statement for the FY ended June 30, 2018. The following other matter was noted in the audit opinion:

**Non approval of the Project Budget by the University Council:** Section 3(b) (i) of the Egerton University rules and regulations requires the University Council to approve the budget, administer the property and funds of the University in a manner that promotes the best interests of the University. However, the project did not comply with this requirement during the year.

### 6.3. INSEFOODS - JOOUST

The auditor issued **unqualified opinion** on the financial statements and Special Account Statement for the FY ended June 30, 2018 with an emphasis of matter based on the following findings:

- i) **Lack of government counterpart funding:** Included in the financial statement under statements of receipts and payments in Note 8.2 transfer from the International Development Association (IDA) being the amount the project received of Kshs. 111,854,166.55 as grant. However, there was no evidence to prove that counterpart funding was received or budgeted for as per grant agreement which had stated that counterpart funds of up to five percent of the credit (Equivalent to a maximum of US\$ 900,000) over the project duration of five years to support activities of the project. Failure to receive budgeted funds may affect the operations of the project and non adherence to provisions of relevant laws may lead to the donor withdrawing project funding.
- ii) **Budget execution and performance:** Included in the financial statement under statement of comparative budget and actual amounts are approved budget totalling Kshs. 189,109,594. However only 19% of the budget was utilized, 81% remained unutilized. Further, receipts during the year amounted to Kshs 115,626,464 against a budget figure of Kshs 189,109,594. Underutilization of budgeted amounts impacts negatively on the timely implementation of project activities and financing

timeliness.

## **Other matter**

### **Investment of Project Funds**

- i. Included in other receipts is an amount of Kshs 2,140,602.71 being interest earned as a result of on call deposit, on the project amount. However, the following anomalies were observed:
- ii. The transfer were made from the project bank account and the approvals to withdrawal the funds from the project account to the call and deposit bank accounts were not availed for audit review.
- iii. The opening of call and fixed deposit bank accounts were not supported by authority from National Treasury.
- iv. Interest earned was not budgeted for during the period under review
- v. Supporting documents were not availed to confirm closure of the ban accounts and as a result the accuracy and completeness of interest on investment earned or receivable could not be confirmed.
- vi. Out of the total interest earned of Kshs 2,140,602 an amount of Kshs 324,863 was banked in the implementing Agency bank account, therefore going against the subsidiary agreement section 2.06 between JOOUST and Government of Kenya.

Section 82 (4) of Public Finance Management (National Government) Regulations 2015, states that except with the prior authority of the National Treasury, no accounting officer may open a bank account for the deposit, custody or withdrawal of public moneys or other moneys for which he or she is responsible in his or her official capacity or for the transaction of official banking business. Consequently, the management was in breach of the law and regulations.

All the ACEs Management responded to the issues raised in the project's audit report have taken actions to address the auditor's recommendations. The Institution's audit reports were also submitted and except for the challenges noted above, they were acceptable to the Bank.

## **7. Transaction Review and Eligibility**

Except for internal controls weaknesses noted during the review as highlighted under section 3, our transaction reviews for the sampled items did not reveal any ineligible expenditure.

## **8. Funds Flow**

The project is funded under Cr. 57980. Funds from the World Bank are disbursed to a common designated account managed by MoE, which further disburses to Project Accounts held by ACEs. The following were noted in regards to funds flow:-

### **8.1. Undisbursed funds in DA and development account**

As at 30 June 2019, there was a balance of USD 154,690 in the DA and Kshs 284,628 held in Ministry's development account. The amounts of Kshs 284,628 was the balance that could not be transferred out of development account due to budget cuts after supplementary budget adjustment while funds was in transit. This amount of USD 154,690 that remained in DA and Kshs 284,628 in development account are balances

to Moi and Egerton Universities and are expected to be transferred to the ACEs together with additional Withdrawal applications made in September 2019.

**8.2. Challenges in reconciling amounts received by ACEs and withdrawal applications made**

At the ACEs, it was noted the finance teams were not able to accurately reconcile withdrawal applications made and the amounts received due to the following:-

- Lack of information on exact exchange rates used during the transfers from DAs. Withdrawal applications are made in USD while funds is received in Kshs. The exchange rate is determined by CBK at the time of transfer from the DA.
- Partial transfer of amounts applied due to budget limits, as with the case highlighted above.
- Lack of notification from MoE, to highlights the amounts transferred and exchange rate applied.

**8.3. Delays in DLRs verifications affecting cash flows**

Disbursements to ACEs are based on DLR achieved and verified by the respective verification agent. There were delays noted on verifications of some DLR which affects cash flows to the ACEs. Across all the three ACEs, DLR # 2.1 on timely annual implementation of the plans has never been verified. Below is a summary for JOOUST noting other challenges and delays noted in verification of DLRs.

Category	ACE's Estimated achievement not yet verified (USD)	JOOUST comments
DLR# 2.1 Timely annual implementation of the plans	112,000	<ul style="list-style-type: none"> <li>• Years 1 and 2 have been achieved but not yet verified.</li> </ul>
DLR #2.2: Newly enrolled students in the ACE of which at least 20% must be regional (African) students.	198,000	<ul style="list-style-type: none"> <li>• Data was submitted in September 2018 and second submission done in April 2019. In Both verifications, only 8 out 109 trained farmers have been verified.</li> <li>• The verification guidelines rely on access to modern information technology (emails) and language proficiency (telephone calls done in English) by trained students. Some farmers who have taken related short courses do not have active emails and/or are not conversant in English language.</li> </ul>
DLR#2.4: Partnerships for collaboration in applied research and training.	150,000	<ul style="list-style-type: none"> <li>• Six (6) Partnerships were submitted for verification and only one (1) was verified. Center submitted MoUs in July 2018. Follow ups/resubmissions have been made on various dates including; September 2018, November 2018, June 2019 July 2019, and September 2019 to IUCEA.</li> </ul>

		<ul style="list-style-type: none"> <li>Only industry partner was verified while the other five MoUs have not been verified to date.</li> </ul>
<b>Total</b>	<b>460,000</b>	

The delays in verifications of DLRs achievements subsequently affects funds flow which may adversely affect achievement of PDOs.

**Recommendations**

- i. **MoE should ensure the undisbursed amounts of USD 154,690 and Kshs 284,628 is disbursed to the ACEs as there is adequate budget in the current financial year.**
- ii. **MoE should ensure notifications are sent to ACEs for every transfer made showing the amounts transferred, reference to the related withdrawal application for which the transfer is made, exchange rate at the time of transfer and any other relevant information so that ACEs can accurately reconcile their records.**
- iii. **There is need to ensure DLR achieved are promptly verified so that ACEs does not run out of cash flow. MoE should follow up with IUCEA to ensure the issue is resolved.**

**Management Comments:**

*MoE – The undisbursed amounts will be disbursed together with other withdrawal applications made as there is adequate budget to disburse. Notifications will be sent to ACEs for every transfer made.*

*The challenges on verifications of DLRs was presented during the project’s steering committee meeting. Challenges in verification mechanisms are expected to be resolved during the upcoming MTR.*

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

For the period under review, i.e financial year ended 30 June 2019, all the three ACEs were noted to have fully met all the Financial Management Disbursement Linked Results (DLRs) – DLI # 3 as summarized below.

<b>Action to be Completed</b>	<b>Definition ( As per PAD)</b>	<b>Verification Findings &amp; Conclusion (Fully Met, Partially Met or Not Met)</b>
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.	For the period under review, all the ACEs submitted IFRs showing how funds have been utilized semi-annually within the required timelines.  <b>Conclusion: The DLR has been fully met across all the three ACEs</b>

Action to be Completed	Definition ( As per PAD)	Verification Findings & Conclusion (Fully Met, Partially Met or Not Met)
DLR#3.2: Functioning audit committee under each Eastern and Southern African Higher Education Institutions	The DLR will be disbursed if the university under the university council has a functioning audit committee that will amongst other assignments follow up audit issues related to the ACE.	There are functioning audit committee across all the ACEs which were noted to be meeting at least on a quarterly basis. The audit committee was noted to have discussed internal audit issues related to ACE Project. <b>Conclusion: The DLR has been fully met across all the three ACEs</b>
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.	All the three ACEs have an internal audit department that carries out Internal Audit the university including the project. Internal audit department presents audit findings to the Audit Committee at least on quarterly basis. During the period under review, the Internal Audit departments across the three ACEs were noted to have carried out audit for the project as required. <b>Conclusion: The DLR has been fully met across all the three ACEs</b>
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.	All the three ACEs were noted to have developed ACE website and uploaded the FM related report. The websites are as follows:- <ul style="list-style-type: none"> <li>• Egerton University (CESAAM): <a href="http://www.cesaamegerton.org/">www.cesaamegerton.org/</a></li> <li>• Moi University (PTRE): <a href="https://excellencecenter.mu.ac.ke/">https://excellencecenter.mu.ac.ke/</a></li> <li>• JOOUST (INSEFOODS): <a href="http://www.insefoods.jooust.ac.ke/">www.insefoods.jooust.ac.ke/</a></li> </ul> <b>Conclusion: The DLR has been fully met across all the three ACEs</b>

**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*

	<b>Recommendation</b>	<b>Responsibility</b>	<b>Due Date</b>	<b>Management Comments</b>
	<b>Accounting System</b>			
1.	JOOUST: Management to ensure the planned acquisition of an ERP system within this financial year go on as planned to enhance integrity in financial transactions recording and reporting.	DVC - Finance & Administration	30 June 2020	The shortlisted vendors have made presentations on ERP system capabilities that they could offer. The IT department is working with user departments in selection of system to ensure smooth selection and roll out.
2.	MOI University: Management to hasten the roll out of the project module to ease the financial reporting and analysis of expenditure for various use by the team.	CFO	31 Dec 2019	The roll out of project module will be finalized within Q2 of FY 2019/20.
	<b>Budgeting</b>			
3.	ACEs and more so Moi University should thoroughly review their budget, ensure that procurement activities are mapped appropriately against periods when payments are expected to be made and monitor execution to ensure the budgeted activities are realistic and in as far as planned executed as planned.	ACEs Project Directors	Continuous	The budgets will be thoroughly reviewed and monitored for implementations within the planned timelines
	<b>Internal Control</b>			
4.	<b>JOOUST</b> i. Reduce large cash handling as it can lead to loss of cash or irregular payments. Students should be encouraged to hasten opening of bank accounts to avoid making cash payments for stipends. Payments made on behalf of students eg rent	Project Director	Immediately	<i>Project management will implement the recommendations immediately. The University has designated a new and well experienced project accountant to ensure all required finance procedures are followed to the letter.</i>

	<b>Recommendation</b>	<b>Responsibility</b>	<b>Due Date</b>	<b>Management Comments</b>
	<p>should be made via cheque or EFT.</p> <p>ii. Project management should ensure they have a schedule prepared for the specific month, printed afresh and reviewed before any withdrawals to ensure accuracy. The payments acknowledgement schedule should include provision for dates paid, which would be filled-in by the students to acknowledge receipt of funds.</p> <p>iii. The expenditure recorded should be based on amounts paid out and not withdrawals made from the bank.</p>			
<b>5.</b>	<p><b>Moi University</b></p> <p>i. The long outstanding unaccounted imprest of Kshs 63,392 should be recovered from payroll as proposed and the recovered amounts deposited to the project account.</p> <p>ii. The long outstanding reconciling cheque item should be investigated to establish why the cheque was not banked. Since the cheque has already gone stale, it should be reversed and re-issued.</p>	Project Director	Immediately	<i>Project management will recover the long outstanding imprest and deposit the funds to the project account. The stale cheque will be followed up and reversed.</i>
<b>6.</b>	<p><b>Egerton University:</b> The long outstanding reconciling cheques should be investigated to establish why they were not banked. Since the cheques have already gone stale, they should be reversed and re-issued.</p>	Project Director	Immediately	<i>Project management will follow up with the cash office and the student payees to establish why the cheques were unbanked. The cheques are now stale hence will be reversed.</i>
	<b>Internal Audit</b>			
<b>7.</b>	ACE Project Management teams should ensure internal audit recommendations are continuously implemented to strengthen financial management.	ACEs Project Director	Continuous	<i>Project Management always ensures recommendations arising from internal audit reviews are implemented as noted described</i>

	<b>Recommendation</b>	<b>Responsibility</b>	<b>Due Date</b>	<b>Management Comments</b>
		s		<i>in management responses to the internal audit reports</i>
	<b>Financial Reporting</b>			
8.	<p>i. ACEs management should ensure EEP amounts are included in the project annual financial statements, starting with the period ended 30 June 2019.</p> <p>ii. ACEs should ensure the audited financial statements for the project and institution are submitted to the Bank within the timelines stipulated in the financing agreement.</p>	CFOs – All ACEs	31 Dec 2019	<i>ACEs management will include EEP in the project’s annual financial statements for the period ended 30 June 2019. The CFOs will lead to ensure this is done. We will also ensure the external audits are carried out and reports submitted to World Bank within the timelines stipulated in the financing agreement.</i>
	<b>Funds flow</b>			
9.	<p>i. MoE to ensure the undisbursed amounts of USD 154,690 and Kshs 284,628 is disbursed to the ACEs as there is adequate budget in the current year.</p> <p>ii. MoE should ensure notifications are sent to ACEs for every transfer made showing the amounts transferred, reference to the related withdrawal application for which the transfer is made, exchange rate at the time of transfer and any other relevant information so that ACEs can accurately reconcile their records.</p> <p>iii. There is need to ensure DLR achieved are promptly verified so that ACEs does not run out of cash flow. MoE should follow up with IUCEA to ensure the issue is resolved.</p>	MoE Project Coordinator	Immediately	<p><i>MoE – The undisbursed amounts will be disbursed together with other withdrawal applications made as there is adequate budget to disburse. Notifications will be sent to ACEs for every transfer made.</i></p> <p><i>ACEs – The challenges on verifications of DLRs was presented during the project’s steering committee meeting. Challenges in verification mechanisms are expected to be resolved during the upcoming MTR.</i></p>

**Annex II – Follow up of prior FM review action plan**

	<b>Recommendation</b>	<b>Status of implementation</b>
	<b>Accounting System</b>	
	<b>JOOUST</b>	
1.	<ul style="list-style-type: none"> <li>i) Mapping of the project in the SAGE accounting system so as to input the approved budget per the key the activities from which recording of expenditure will be made.</li> <li>ii) 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.</li> <li>iii) Resolve challenging issues noted with the accounting system to enhance integrity of financial records maintained and support finance teams in financial management.</li> <li>iv) The expenditure of Kshs 1,609,000 incurred from Insects to Feed the World conference in Wuhan China should be allocated to DANIDA and the balance being the cost under INSEFOODS – IDA.</li> </ul>	Partially implemented. A new ERP system is expected to be acquired within the year which would resolve various system errors noted and enable inputting analysis code per category, financier, components etc.
	<b>Moi University</b>	
2.	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>	Partially implemented. The University has acquired a new ERP which is expected would resolve rampant system issues noted. The project module is however not yet rolled out.
	<b>Budgeting</b>	
3.	MoE should ensure there is coordinated approach in formulation of project budget to avoid cases of under/over budgeting. The project budget should be based on a consolidated amounts for the ACE II budgets which is added with any counterpart financing to be incurred at MoE level.	Partially implemented. Current budget noted to have been derived based on informal consultation. It was agreed this will be well

	<b>Recommendation</b>	<b>Status of implementation</b>
		documented in future and communicated either in emails or signed Memo.
4.	ACE centres should ensure their budget are realistic and achievable to avoid having significant underspent. Egerton University should adjust the budget for audit since this will be carried out by Office of the Auditor General and the payments will not come from the project.	Partially implemented. There were significant under spend especially at PTRE which is partly attributable to unrealistic budget.
	<b>Management of bank balances</b>	
	<b>JOUST</b>	
5.	<ul style="list-style-type: none"> <li>i) Management should follow up to ensure the bank account signatories is promptly updated to incorporate the new Director and remove the former Director to enhance financial management of the project.</li> <li>ii) Project management should be cautious when making payments to ensure that payments are only made for project related activities to mitigate on ineligible expenditure. Payments of non-project related expenditure on behalf of the University and investment in fixed deposits should be avoided.</li> <li>iii) The funds earned from the fixed deposit before rectification of the issue should be retained in the project account to cater for other project related activities since they have already been earned under the project.</li> </ul>	Implemented
	<b>Moi University</b>	
6.	<ul style="list-style-type: none"> <li>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.</li> <li>ii) Project management should ensure bank reconciliation are promptly carried out by 15<sup>th</sup> of the following month as required. They should be well dated with the date prepared and approved.</li> </ul>	Implemented
	<b>Egerton University</b>	
7.	Project management should avoid handling significant cash even for payments from imprests	Implemented

	<b>Recommendation</b>	<b>Status of implementation</b>
	issued out. The payments for a case like that referred above should be made by bank transfer from the project account to avoid loss and security exposure of the project funds.	
	<b>Management of imprests</b>	
	<b>Egerton University</b>	
8.	<p>i) Management should consider issuing imprest for research activities that takes long period of time in phases to mitigate on long outstanding imprests and ensure expenditure is recognized promptly as it is incurred. Imprests for activities that will be carried out in a far future period but with a component to be paid out earlier should also be processed in batches to avoid imprests funds being held out in personal accounts for long.</p> <p>ii) Management should urgently follow up for surrender of the imprest of Kshs 2,456,575 issued out in April 2018 but yet to be accounted.</p>	Implemented
	<b>Internal Audit</b>	
9.	Egerton University: Internal Audit should ensure that detailed review are carried out and all key issues are highlighted to ensure there adequate oversight for the project.	Continuously being implemented.
10.	JOOUST: The University should ensure there is follow up for rectifications of systems issues noted to ensure integrity of the accounting system.	Partially implemented. The University is in the process of acquiring a new ERP that will resolve various systems issued noted.
	<b>Corruption Prevention Committee (CPC)</b>	
11.	Moi University: For transparency, it is critical for all procurements including those for the project to be included in the reports to EACC.	Implemented.
	<b>Financial Reporting</b>	
12.	<p>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.</p> <p>ii) The universities should liaise with Office of the Auditor General (OAG) to ensure the external</p>	Implemented

	<b>Recommendation</b>	<b>Status of implementation</b>
	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.	
	<b>Transaction Review and Eligibility</b>	
	<b>Egerton University</b>	
13.	<ul style="list-style-type: none"> <li>i) Management should ensure that subsistence allowances for working overtime are not paid from the project as they are ineligible.</li> <li>ii) Management should consider having internal audits carried from the local offices where the documents and accounting staff are located to mitigate on avoidable costs.</li> <li>iii) 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.</li> </ul>	Implemented
	<b>Moi University</b>	
14.	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.	Implemented
	<b>JOOUST</b>	
15.	<ul style="list-style-type: none"> <li>i) 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.</li> <li>ii) Project management should ensure payment vouchers are stamped as “paid” after processing of payments. The memo for payment requisition should be indicated with budget line under which the activity is planned and whether there is funds available for utilization under that budget line to ensure that unbudgeted activities are not paid for.</li> <li>iii) Project management should further ensure there is systematic filing of documents to enhance easy retrieval for future reviews.</li> </ul>	Implemented
16.	<b>Funds Flow</b>	
	The Ministry of Education should transfer the remaining amounts in the DA to the implementing entities since there is now a budget provision for project to enable the transfer.	Implemented. There were however similar case noted during the current review.