

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

*Parfer laid  
By the Members Whip  
Hon. Benjamin Wadhvani  
Wednesday Morning  
Sitting  
7/11/2018*



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
KARATINA UNIVERSITY**

**FOR THE YEAR  
ENDED 30 JUNE 2017**









*Inspiring Innovation and Leadership*

**KARATINA UNIVERSITY**

**ANNUAL REPORT  
AND  
FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDING 30<sup>TH</sup> JUNE 2017**

---

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

---



## Table of Content

I.	KEY UNIVERSITY INFORMATION AND MANAGEMENT.....	iii
II.	MEMBERS OF THE UNIVERSITY COUNCIL .....	vi
III.	MANAGEMENT TEAM .....	viii
IV.	COUNCIL CHAIRMAN'S REPORT .....	x
V.	VICE CHANCELLOR'S REPORT.....	xii
VI.	CORPORATE GOVERNANCE STATEMENT.....	xiv
VII.	MANAGEMENT DISCUSSION AND ANALYSIS.....	xxii
VIII.	CORPORATE SOCIAL RESPONSIBILITY STATEMENT.....	xxvi
IX.	REPORT OF THE COUNCIL MEMBERS .....	xxix
X.	STATEMENT OF COUNCIL MEMBERS' RESPONSIBILITIES .....	xxxii
XI.	STATEMENT OF FINANCIAL PERFORMANCE.....	1
XII.	STATEMENT OF FINANCIAL POSITION .....	2
XIII.	STATEMENT OF CHANGES IN NET ASSETS.....	3
XIV.	STATEMENT OF CASH FLOWS.....	5
XV.	STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS.....	6
XVI.	NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 <sup>TH</sup> JUNE 2017.....	13
XVII.	PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS .....	28
	Appendix 1: PROJECTS IMPLEMENTED BY THE UNIVERSITY .....	29
	Appendix 2: INTER-ENTITY TRANSFERS.....	30



## **I. KEY UNIVERSITY INFORMATION AND MANAGEMENT**

### **a) Background**

Karatina University is public chartered institution of higher learning as provided for in the Universities Act of 2012. The University operates within the mandate of the Ministry of Education which provides the general policy and strategic direction on Kenya's higher education.

### **b) Principal Activities**

The principal activities of the University are stipulated in its mission and vision statements stated below:

#### **Mission**

To conserve, create and disseminate knowledge through, training, research, innovation and community outreach.

#### **Vision**

To be a University of global excellence, meeting the dynamic needs and development of society

### **c) Registered Place of Business**

Karatina University  
P.O BOX 1957 - 10101,  
KARATINA

### **d) Contacts**

Telephone nos: +254-(0)729-721-200 / 020-2176713  
Web: [www.karu.ac.ke](http://www.karu.ac.ke)  
Email: [vc@karu.ac.ke](mailto:vc@karu.ac.ke)

### **e) University Bankers**

Kenya Commercial Bank  
P. O. BOX, 192-10101  
KARATINA

Co-operative Bank of Kenya  
P.O .BOX, 931-10101  
KARATINA

Equity Bank of Kenya  
P.O. Box 855 – 10101  
KARATINA



**f) Independent Auditors**

Auditor General  
 Kenya National Audit Office  
 Anniversary Towers, University Way  
 P.O. Box 30084 - 00100  
 Nairobi, Kenya

**g) Principal Legal Adviser**

The Attorney General  
 State Law Office  
 Harambee Avenue  
 P.O. Box 40112, City Square 00200  
 Nairobi, Kenya.

**h) Key Management**

The University's day-to-day management is under the following key organs:

- i) Vice Chancellor's Office
- ii) Planning, Finance and Administration Division
- iii) Academic, Research and Student Affairs Division

**i) Fiduciary Management**





The key management personnel who held office during the financial period ending 30<sup>th</sup> June 2017 and who had direct fiduciary responsibility were:

<b>S no.</b>	<b>Designation</b>	<b>Name</b>	<b>Functions</b>
1	Vice Chancellor	Prof. Mucai Muchiri	Is the overall administrative head and accounting officer of the University
2	Deputy Vice Chancellor (P,F&A)	Prof. Linus Gitonga	Is the head of the planning, finance and administration division and responsible for human resource, administrative, financial, infrastructural and development matters of the University
3	Deputy Vice Chancellor (ARSA)	Prof. Peninah A. Obudho	Is the head of the academic division and in charge of all academic, research and student affairs of the University






**j) Fiduciary Oversight Arrangements**

The Council has the overall mandate of ensuring the sound management of the University. This includes: - approving statutes and policies; strategic planning; reviewing management implementation of strategies, policies and plans; risk assessment and management, approving budgets and enhancing sound financial management; promoting quality assurance and recommending for appointment Instruments of Governance. For effective operation of the Council governs through clearly mandated council committees, accompanied by monitoring and reporting systems. Each standing council committee has specific terms of reference as set out in the corporate governance statement on pages (xiv) to (xxi).





**II. MEMBERS OF THE UNIVERSITY COUNCIL**




Title	Names	Qualification
Council Chairman	Dr. John Kobia Ataya 	Ph.D. - University of Birmingham, UK M.A, Translation Studies - University of Birmingham, UK Bachelor of Divinity - St. Paul's United Theological College, Kenya Certificate of Higher Religious Studies - University of Nairobi
Vice Chancellor / Secretary	Prof. Mucai Muchiri 	Ph.D. - University of Leicester B.Sc. (Hons) - University of Nairobi
Member	Ms. Reba Chabeda-Ouko 	Master of Laws Degree (LLM)- University of Cape Town, South Africa Bachelors of Law Degree (LLB) - University of Nairobi, Kenya
Member	Mr. Dan Nguri Nguchu 	Masters of Business Administration -USIU PGD. Agriculture Economics -Wales BSc. Agriculture Economics - Addis Ababa



Title	Names	Qualification
Member	Mr. Felix Owaga Okatch 	MBA (Finance and Marketing) - Assam Don Bosco University, India Bachelor of Commerce – University of Nairobi
Member	Dr. Doris N. Mutta 	Ph.D. in Environmental Studies - University of Strathclyde, Scotland, UK MSc. Botany - University of British Columbia, Canada BSc. Forestry - Moi University, Kenya
Rep. Principal Secretary – State Department of University Education, Ministry of Education	Dr. Tabby Mungai 	Ph.D. in Education Administration and planning M. Ed HND. In Public Relations and Personnel Management
Rep. Cabinet Secretary, The National Treasury	Ms. Lucy Kariuki 	Masters of Business Administration - Maastricht School of Management / ESAMI CPA(K)
Member	Mr. John Kanyakiri 	MSc. in Entrepreneurship -JKUAT BSc. in Horticulture – JKUAT

**III. MANAGEMENT TEAM**

S No.	Names	Key Professional/ Academic Qualification	Area of responsibility
1.	Prof. Mucai Muchiri 	Ph.D. - University of Leicester B.Sc. (Hons) - University of Nairobi	Vice Chancellor
2.	Prof. Linus M. Gitonga 	PhD –JKUAT M.Sc. - Kenyatta University B. Ed (Sc.) - Kenyatta University	Deputy Vice Chancellor (Planning, Finance and Administration)
3.	Prof. Peninah Aloo- Obudho 	PhD - Kenyatta University M.Sc. – University of Nairobi B.Ed. (Sc.) – University of Nairobi Cert. Higher Ed. Mgt -Kassel	Deputy Vice Chancellor (Academics, Research and Student affairs)
4.	Dr. Wangari Gathuthi 	D.Phil. – Moi University M. Ed – University of Nairobi MBA - Moi University B. Ed (Arts)- Moi University MKIM	Registrar (Academics, Research and Student affairs)

S No.	Name	Key Professional/ Academic Qualification	Area of responsibility
5.	<p>Dr. Humphrey R. Omondi</p> 	<p>D.Phil. - Moi University                      M. Phil - Moi University                      B. Ed (Arts) - Moi University</p>	<p>Registrar (Planning, and Administration)</p>
6.	<p>Ms. Grace G. Kakiya</p> 	<p>Masters of Business Administration- Egerton University                      BBM - Moi University                      CIFA , CPA (K),</p>	<p>Deputy Finance Officer</p>
7.	<p>Ms. Anne Mumbi</p> 	<p>LLB - University of Nairobi                      Dip. Law –Kenya School of Law                      CPS (K)</p>	<p>Legal Officer</p>



#### IV. COUNCIL CHAIRMAN'S REPORT

I am pleased to present annual report and financial statements for the year that ended 30<sup>th</sup> June 2017. This was the fifth year in operation as a fully-fledged University. The year marked a transition from the first Council to the new Council which was appointed on 10<sup>th</sup> March, 2017. The new Council was taken through induction by both the Ministry of Education and the State Corporations Advisory Committee (SCAC) to understand and discharge its mandate. Following these induction workshops, council members are well versed with skills to review financial matters of the institution among others.

I wish to thank the outgone University Council for the achievements made during the financial year. Some of the key achievements included:

- i. Progress in the construction of the Resource Centre and Hostel. They are at 91% and 92% completion respectively and the Resource Centre was occupied partially. This has helped reduce the challenge of teaching facilities. It is hoped that both projects will be concluded by March, 2018;
- ii. Purchase of additional laboratory equipment and especially the Absorption Spectrophotometer and the UV Spectrophotometer. The equipment will go a long way in ensuring that our students are equipped with relevant skills therefore increasing their marketability;
- iii. Recruitment of additional lecturers to boost the capacity of the teaching staff;
- iv. Increase in internet bandwidth to enable students access more learning materials for both students and staff; and
- v. Transfer of assets from Moi University.

The Council appreciates the significant growth of the University assets and capital base that has promoted a conducive environment for learning and teaching to both students and staff.

While we are proud of the above achievements, the University also faced the following challenges that have impacted on the financial status:

- i. Reduction in appropriation-in-aid (A-I-A) generated by the University. This was occasioned by a reduction in the number of students admitted under the PSSP programme; and
- ii. Increase in food prices that led to an operating deficit for the catering unit.

As a way forward, the University Council is working on income generating strategies as guided by Karatina University Strategic Plan 2015-2020 so as to boost A-I-A. These efforts will enable the organization meet its financial obligations. We are grateful that so far, the Government has supported the University by remitting both recurrent capitation and development grants in time. I however appeal for more funds from the government to complete the ongoing and other projects the University wishes to undertake.

I wish to thank members of Council who have provided useful insight to the University Management making it possible to collectively make progress. I also wish to thank the University Management for the efforts they have made to ensure there is prudent use of resources. This is evidenced by the reports given by the external auditors. Finally, I wish to thank parents, guardians and students for their continued support and dedication, even as we together strive to achieve greater heights of excellence.

The new Council remains committed to building on the foundation laid by the first Council and will work closely with the University management led by the Vice-Chancellor in order to realize further development.

**Dr. John Kobia Ataya, PhD**  
**Chairman, Karatina University Council**

## V. VICE CHANCELLOR'S REPORT

I hereby present the Annual Report and Financial Statements of Karatina University for the year that ended 30<sup>th</sup> June 2017 as required by the Universities Act 2012, Karatina University Charter and the Public Financial Management Act 2012.

During the year under review, the University's financial performance improved from a deficit of Kshs 33 Million reported in 2015/16 financial year to a surplus of Kshs 4.9 Million in 2016/17 FY. This success is attributed to cost management measures instituted to reduce the University's expenses as a result of the dwindling internally generated funds. The University Management appreciates Government contribution of Kshs. 100,475,662 to support its capital infrastructure and Kshs. 565,481,942 for recurrent expenditure.

The University has continued with its core business of disseminating knowledge through, training, research, innovation and community outreach. By the end of the year, student population stood at 6,834 while members of staff stood at 409 at the close of financial year 2016/2017. Out of these, 157 were academic staff. During the 4<sup>th</sup> graduation ceremony held within the year, the University graduate a total of 1,209 marking a significant increase from the last academic year. Other significant achievements included:

- i. The University organized several workshops for members of staff to equip them with skills especially in proposal writing. Arising out of the workshops, several funding proposals were submitted and there is hope the University will generate more research income. So far, proposals worth Kshs. 40,442,950 have been shortlisted;
- ii. The University was audited by the Commission for University Education and found to be operating in line with standards and guidelines issued. The few recommendations for improvement are being implemented;
- iii. The University undertook several community outreach activities such as mentorship of high school students. These initiatives are expected to increase visibility and thereby attract more students to enroll.

Some of the challenges faced by the institution during the financial year include:

- i. Declining enrollment for the PSSP programme thereby reducing A-in-A. The University is reviewing its marketing strategies to reverse this trend;
- ii. The second semester commencing January, 2017 was affected by staff unrest because of the 2013-17 Collective Bargaining Agreement (CBA). The interruption affected incomes expected from fees as well as what was generated from the catering unit;
- iii. There was increased drought leading to reduction in farm income as well as rise in food prices that affected operations in the catering department.



Going forward, the University Management is working on strategies to generate additional income such as:

- i. Developing and implementing an Income Generating Unit (IGU) policy;
- ii. Operationalization of the endowment fund;
- iii. Enhancing staff members' capacity in writing fundable proposals; and
- iv. Reviewing of academic curriculums to be more market oriented.

On behalf of Karatina University management and staff, I wish to take this opportunity to thank the government, our development partners and all the stakeholders for their continued support.

Finally, I would like to express my sincere gratitude to the University Council for providing policy and strategic guidelines; the entire University staff and students who worked conscientiously to ensure smooth and successful operations of the University.

Thank you.

A handwritten signature in black ink, appearing to read 'Mucai Muchiri', with a horizontal line drawn underneath it.

**Prof. Mucai Muchiri, PhD**  
**Vice Chancellor**

## **VI. CORPORATE GOVERNANCE STATEMENT**

Karatina University's corporate objective is to create long-term value in the Academic and Research sub-sector through the creation, conservation and dissemination of knowledge. This is realized by using innovation, training and community outreach as prescribed by the mission statement and through the discovery, development and conversion of talent and natural resources, and the provision of innovative customer and market- focused academic programmes.

### **Corporate Governance Principles**

In pursuit of the corporate objective, we have committed to the highest level of governance and strive to foster a culture that values and rewards exemplary academic excellence within clear ethical standards, personal and corporate integrity and respect for others. The University council's governance role, basis and conduct of business are guided by the Universities Act no. 42 of 2012; the Karatina University Charter, 2013; Mwongozo Code, 2015; Commission for University Education regulations and standards, 2014 and Karatina University Statutes, 2013.

### **Size and composition of Council**

The council consists of nine (9) council members who possess extensive experience in a variety of disciplines all of which are applied in the overall management of the University as shown on page vi & vii.

### **Appointment, Removal from Office and Succession Plan**

Council member are appointed by the Cabinet Secretary Ministry of Education through a competitive process advertised to the public. The appointment process takes to consideration the following; development of university education, balanced competencies, gender equity, and the inclusion of stakeholders, persons with disabilities, the marginalized and other minority groups.

Appointed council members are required during the first meeting to determine by lot which two of their number shall vacate office after a period of three and four years respectively to ensure continuity in the activities of the Council. Council Members were appointed on 10<sup>th</sup> March 2017 a period of three years, except Ms. Lucy Kariuki who was appointed on 14<sup>th</sup> October 2015 and Dr. Tabby Mungai who was appointed on 25<sup>th</sup> May 2017. The different appointment dates provide room for successful transition period. The members will exit from office at the end of their service tenure.

### **Induction and capacity building for Council members**

The council members appointed on 10<sup>th</sup> March 2017 have undergone two induction programmes. The first one was organized by the Ministry of Education to sensitize members on governance issues within the University Education Sector. Further, State Corporations Advisory Committee

(SCAC), in response to the Executive Order No. 7 of 25<sup>th</sup> March 2015 organized induction for boards of corporations and university councils. The objective of the induction programme was to enhance the understanding of operations carried out in State Corporations. Karatina University Council participated fully in the induction and has been applying knowledge gained in discharging of its functions.

### **The Role and functions of Council**

The role and functions of council have been indicated on page (xxviii)

### **Council Remuneration**

Board members are remunerated as per guidelines set out in State Corporations Advisory Committee circulars and National Treasury directives in respect to sitting allowance, transport and accommodation costs.

### **Council Charter and meetings**

The Council has a board charter which defines the role, functions and responsibility of the board in governance of the institution. The Council has committees whose roles are clearly defined and reviewed annually. Council meets at least once in a quarter unless urgent matters call for a special meeting. These regular meetings are intended to receive reports from the committees of Council that will have considered the matters in detail. Members receive adequate notice and board papers in advance to enable them review and prepare for the meeting.

### **Council meetings and attendance**

The University Council during the financial year had five standing committees that assisted in discharging its functions. The committees listed below were as provided in Karatina University Statutes in statute VII paragraph 7: -

1. Executive Committee of Council
2. Finance, Planning and Resource Mobilization Committee
3. Sealing, Statutes & Recognitions Committee
4. Audit and Risk Management Committee (ARMC)
5. Research, Innovation and Enterprise Development Committee

However, Mwongozo Code of Governance provides for establishment of a maximum of four (4) standing committees. Therefore, with the appointment of new council members on 10<sup>th</sup> March 2017 and seeking compliance to Mwongozo Code of Governance, the University Council reconstituted its committees to three (3) whose respective membership are listed below:



Name of the Committee	Members
1. Academic, Research and Enterprise Development Committee	i). Dr. Doris N. Mutta (Chairman) ii). Prof. Mucai Muchiri iii). Mr. Felix Owaga Okatch iv). Mr. Dan Nguri Nguchu v). Dr. Tabby Mungai vi). Ms. Reba Chabeda- Ouko
2. Finance, Planning and Resource Mobilization Committee	i) Mr. Dan Nguri Nguchu (Chairman) ii) Prof. Mucai Muchiri iii) Dr. Doris N. Mutta iv) Mr. John Kanyakiri v) Dr. Tabby Mungai vi) Ms. Lucy Kariuki
3. Audit and Risk Management Committee	i) Mr. Felix Owaga Okatch (Chairman) ii) Ms. Reba Chabeda- Ouko iii) Mr. John Kanyakiri iv) Ms. Lucy Kariuki

During the year, first Council held a total of five (5) meetings (before the new Council took over). Individual attendance is tabulated below:

S. No	Name	No of meetings attended
1	Prof. Charles O. Okindi – <b>Chairman</b>	5
2	Prof. Mucai Muchiri – Vice Chancellor/ Secretary	5
3	Ms. Jane Weru	5
4	Mr. Charles Obiero - Rep. Principal Secretary, Ministry of Education	5
5	Ms. Lucy Kariuki - Principal Secretary, The National Treasury	5
6	Ms. Grace J. Kemei	3
7	Mr. Musau Anthony Kiilu	5
8	Mr. Tejpal S. Bedi	2
9	Mr. Silas Laimaru	5

Note:

- Ms. Grace Kemei was appointed to the Judiciary and therefore did not attend two meetings.
- In instances where Mr. Obiero did not attend but was represented by Mr. Evans Atambo, we have considered that he was present.

### Executive Committee of Council

The executive committee of council sets the agenda for the full council and attends to all urgent and emergency issues. The roles of the Executive Committee are to: develop and review Terms and Conditions of Service for the Vice Chancellor and Deputy Vice Chancellors; and dispense with urgent matters that require immediate attention in the best interest of the University. The committee whose members are listed below did not hold any meeting during the year.

- i) Prof. Charles O. Okidi (**Chairman**)
- ii) Prof. Mucai Muchiri
- iii) Ms. Jane Weru
- iv) Mr. Charles Obiero
- v) Mrs. Lucy Kariuki

### Finance, Planning, Resource Mobilization and Committee

The committee critically scrutinizes the budgets and other financial requirements before they are presented to the full council. It oversees the University's financial affairs on behalf of Council; develops strategies to guide the growth of the University and monitors its implementation; advises the University Council on all human resource matters including recruitment and staffing levels.

The committee held four (4) meetings and the number each member attended is tabulated below:

S. No	Name	No of meetings attended
1	Ms. Jane Weru – <b>Chairman</b>	4
2	Prof. Mucai Muchiri – Vice Chancellor	4
3	Ms. Grace J. Kemei	1
4	Mr. Musau Anthony Kiilu	4
5	Mr. Charles Obiero - Rep. Principal Secretary, Ministry of Education	4
6	Ms. Lucy Kariuki - Principal Secretary, The National Treasury	4

#### Note:

1. Ms. Grace Kemei was appointed to the Judiciary and therefore did not attend three meetings.
2. In instances where Mr. Obiero did not attend but was represented by Mr. Evans Atambo, we have considered that he was present

### Sealing, Statutes & Recognitions Committee

The Committee was established to undertake the following functions;- review Charter and Statutes of the University from time to time; review and recommend to Council all documents requiring authentication with the seal of Karatina University; review and recommend to the Council various corporate policies to assist in the overall management of the University; receive and recommend to Council for approval qualified students to be conferred with degrees and awarded diplomas and certificates of the University that the Senate may refer to the Committee; consider and make recommendations to the Council for the conferring of such titles as Emeritus Professor and Honorary degrees on candidates who meet the established criteria; and to receive, consider and recommend to Council any other matters concerning other forms of recognition which the Senate may refer to the Committee.

The committee held two (2) meetings and the individual attendance is tabulated below:

S. No	Name	No of meetings attended
1	Ms. Grace J. Kemei – <b>Chairman</b>	2
2	Prof. Mucai Muchiri – Vice Chancellor	2
3	Ms. Jane Weru	1
4	Mr. Tejpal S. Bedi	0
5	Mr. Silas Laimaru	2
6	Mr. Charles Obiero - Rep. Principal Secretary, Ministry of Education	1
7	Ms. Lucy Kariuki - Principal Secretary, The National Treasury	2

### Audit and Risk Management Committee (ARMC)

Karatina University Council aspires to use the public resources at its disposal in an efficient and accountable manner. In line with the Treasury Circular No. 16/2005, an audit committee was established to provide independent advice and assurance on the University's strategy, performance and compliance to the different statutes.

The committee is required to:- review and report to the Council on the comprehensiveness, reliability and integrity of internal controls measures; recommend to the Council quality assurance and standards needed to provide effective monitoring of processes; monitor and recommend to Council action in respect of the University's management of risks; consider, review and recommend to the Council policies in respect to management and control systems on internal business processes, including accounting policies, anti-fraud and whistle-blowing; consider and approve annual audit plans including any audit reviews that the Council may request from time to time; consider and advise the University Council on matters relating to the security of the University, staff and students; and Review and advise the Council on all matters relating to the risk management framework and internal audit function of the University. The committee held four (4) meetings.



The committee members and number of meetings held during the year are tabulated below: -

S. No	Name	No of meetings attended
1	Mr. Musau Anthony Kiilu – <b>Chairman</b>	4
2	Ms. Grace J. Kemei	3
3	Mr. Tejpal S. Bedi	2
4	Mr. Silas Laimaru	4
5	Mr. Charles Obiero - Rep. Principal Secretary, Ministry of Education	4
6	Ms. Lucy Kariuki - Principal Secretary, The National Treasury	4

Note:

1. Ms. Grace Kemei was appointed to the Judiciary and therefore did not attend one meeting.
2. In instances where Mr. Obiero did not attend but was represented by Mr. Evans Atambo, we have considered that he was present

#### **Research, Innovation and Enterprise Development Committee**

The committee was established to promote innovation and good practice in research and to monitor and evaluate research initiatives across the University. Specifically, the committee is required to do the following: Receive and consider reports from the Research and Outreach Committee of Senate and to transmit such reports to the Council; Consider and advise on policy and plans for the exploitation of the University's Intellectual Property and other commercial activities flowing from its research; advise council on budgetary allocation of research funds and their effective administration for the support of research and enterprise activities; and monitor the current research activities and future plans for research and research-related commercial activities, to ensure that such activities embrace and reflect the University's strategic vision and mission.

The committee did not hold any meeting during the financial year.

The membership is as follows:

- i). Mr. Tejpal Bedi (Chairman)
- ii). Prof. Mucai Muchiri - Vice Chancellor
- iii). Mr. Silas Laimaru
- iv). Mr. Musau Anthony Kilu
- v). Mr. Charles Obiero - Rep. Principal Secretary, Ministry of Education, Science and Technology Education
- vi). Ms. Lucy Kariuki - Rep. Principal Secretary, The National Treasury

## 2<sup>ND</sup> UNIVERSITY COUNCIL

The second University council was appointed in March, 2017 and has held the following meetings: -

### Council

S.No	Name	No of meetings attended
1	Dr. John Kobia Ataya – <b>Chairman</b>	2
2	Prof. Mucai Muchiri – Vice Chancellor/ Secretary	2
3	Mr. Felix Owaga Okatch	2
4	Mr. Charles Obiero - Rep. Principal Secretary, Ministry of Education	2
5	Ms. Lucy Kariuki - Principal Secretary, The National Treasury	2
6	Ms. Reba Chabeda-Ouko	2
7	Mr. Dan Nguri Nguchu	2
8	Dr. Doris N. Mutta	1
9	Mr. John Kanyakiri	1

### Finance, Planning and Resource Mobilization and Committee

S.No	Name	No of meetings attended
1.	Mr. Dan Nguri Nguchu- <b>Chairman</b>	2
2.	Prof. Mucai Muchiri – Vice Chancellor/ Secretary	2
3.	Mr. Charles Obiero - Rep. Principal Secretary, Ministry of Education	1
4.	Dr. Tabby Mungai - Rep. Principal Secretary, Ministry of Education *	1
5.	Ms. Lucy Kariuki - Principal Secretary, The National Treasury	2
6.	Mr. John Kanyakiri	1

NB/ \*Dr. Tabby Mungai was appointed to replace Mr. Charles Obiero as the Rep. Principal Secretary, Ministry of Education

### Audit and Risk Management Committee

S. No	Name	No of meetings attended
1.	Mr. Okatch Felix Owaga – <b>Chairman</b>	1
2.	Ms. Reba Chabeda-Ouko	1
3.	Mr. John Kanyakiri	1
4.	Ms. Lucy Kariuki - Principal Secretary, The National Treasury	1

**Academic, Research and Enterprise Development Committee**

S. No	Name	No of meetings attended
1.	Dr. Doris N. Mutta – <b>Chairman</b>	1
2.	Prof. Mucai Muchiri – Vice Chancellor/ Secretary	1
3.	Mr. Felix Owaga Okatch	1
4.	Mr. Dan Nguri Nguchu	1
5.	Ms. Reba Chabeda-Ouko	1
6.	Dr. Tabby Mungai - Rep. Principal Secretary, Ministry of Education	1

**Council evaluation**

During the year, the first Council conducted a self-evaluation as provided for in law under the guidance of officials from the State Corporations Advisory Committee (SCAC). The evaluation provided Council members with an opportunity to interrogate their performance and point out issues that require the attention of both individual members and the Council as a whole.

**Ethics and Conduct**

Council has approved two policies which govern general conduct persons interacting with the institution; Karatina University Code of Ethics and Conduct and Karatina University Whistle Blowing Policy. There was no breach to provisions given by the two policies during the financial year that required sanction. In addition, members of Karatina University fraternity are required to declare any conflict of interest while conducting matters that pertain to the institution.

The council governs the University consistent with the stated business strategy indicated in the university's values of equity, team work, meritocracy, Academic freedom accountability, excellence, and probity all contributing to commitment with respect to transparency and high-quality governance system.

## VII. MANAGEMENT DISCUSSION AND ANALYSIS

### SECTION A

#### **Karatina University operational and financial performance**

The University has reported a surplus of Kshs 4.9M as at 30<sup>th</sup> June 2016. This is an improved performance from a deficit of Kshs 33.2M reported in the previous year. During 2016/2017 FY the University reduced its administration and operational expenses expenditures from 968M to 909M as a result of cost management measures undertaken to fit within the available revenue streams. On the downside, the University did not meet the budgeted target of A-I-A incomes with respect to tuition fees, catering services, farm income, research and consultancies. The projected number of privately sponsored students was not attained as a result of policy changes in the Education sector. This resulted to low tuition income generated. Catering, research and consultancies incomes were affected by fewer activities during the lecturers strike while farm income was low due to the unfavourable weather conditions and the pruning of the tea bushes.

The University expects an improvement in cash in-flows from the Government because University funding will be pegged on programme unit costs which is favourable to the institution. In terms of A-I-A, the institution may experience some decline in student related revenue streams because the decrease in numbers of students who qualified for University admission during 2017/18 FY across the country. This will adversely affect incomes from privately sponsored programmes being offered by the institution. In addition, the University is expected to finance signed collective bargaining agreement with the Unions. This may have a negative impact to the financial performance of the institution if supplementary funds are not provided by National Treasury.

Pertaining to trends within the Education sector, the government has increased access to higher education by having more learning institutions. This policy has affected the number of students enrolling for privately sponsored programmes in the University due to increased competition for the same market. In addition, the decline of KCSE candidates who meet the minimum University entry requirements will affect the number of potential students to be enrolled. Consequently, expected A.I.A income from tuition fees will decline. More so, CUE requirements on the extension of time for studies for school based programmes in Universities has led to a significant decline in enrolment by such privately sponsored students.



**SECTION B****Compliance with statutory requirements**

During the reporting period the University has complied with all statutory requirements. The institution has no non-compliance that may expose it to potential contingent liabilities.

The University has one ongoing court case and is exposed to the following charges: -

	Suit No and details	Subject Matter	Implication/ contingency
1	Nyeri Court of Appeal no. 52 of 2014- Oindi Zaipeline vs Karatina University	The student contested being conferred with Karatina University degree instead of Moi University	479,073/-

**SECTION C****Key projects and investment decisions the University is planning/implementing**

The institution has two on-going key projects; i.e. 750 bed capacity Students Hostel and modern Resource Centre which are expected to be completed by the end of 2017/2018 financial year. The completion rate for both projects is at 92% and 91% respectively.

The Resource Centre will provide space for lectures, laboratories, offices, specialize library collection, boardrooms and other learning facilities. This will increase access to education by providing space and facilities for quality teaching, learning and research which is in line with the Government of Kenya strategic objective of increasing access to University education in support of Vision 2030. Consequently, the University will be able to increase the number of students it admits.

Whereas accommodation of students is not a core function of universities, Karatina University Council and Management Board have deemed it necessary to provide affordable accommodation to especially first years who come from all over the country. In subsequent years the students are able to identify accommodation developed by investors within the neighborhood of the University. The proposed hostel will provide accommodation facilities to a large number of students affording them time to adjust to their new environment.

The two projects are being financed by the Government of Kenya. The completion of the two projects is subject to allocation of funds by National Treasury.

## SECTION D

### **Major risks facing the University**

The University's activities are exposed to a variety of financial risks including credit and liquidity risks, effects of changes in foreign currency and changes in market prices. The University's overall risk management framework focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The specific details of each risk component have been discussed on pages 14 and 15 of this report.

## SECTION E

### **Material arrears in statutory and financial obligations**

The University has significant amount outstanding relating to part-time lectures payments and loan due to the GoK in respect to acquisition of the institution by Moi University. Karatina University is awaiting consent from National Treasury in order to take up the obligation for payment of principal amount of Kshs 194M and accrued interest of Kshs 33M. In respect to the part-time lectures payment, the University has Kshs 189M outstanding of which University Management Board is developing a road map for settling the bills. Meanwhile the claimed amounts are being paid using available funds.

## SECTION F

### **Financial probity and serious governance issues**

During the financial year, the University underwent internal audit reviews and systems audit by auditors from Kenya National Audit Office. There were no cases of financial improbity reported. The University management has had a cordial working relationship with the members of Council. No governance issues have been raised.

## SECTION G

### Graphical Presentation of the Financial Statements

Figure1: Trend of the University's financial performance

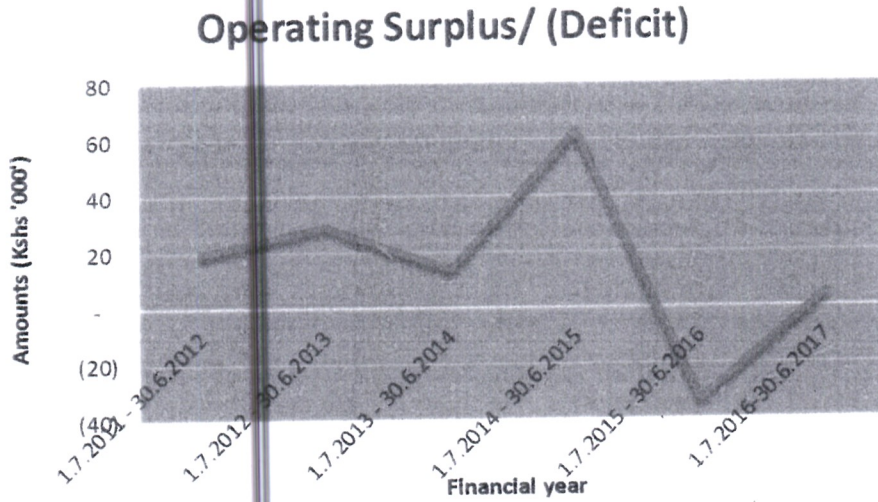
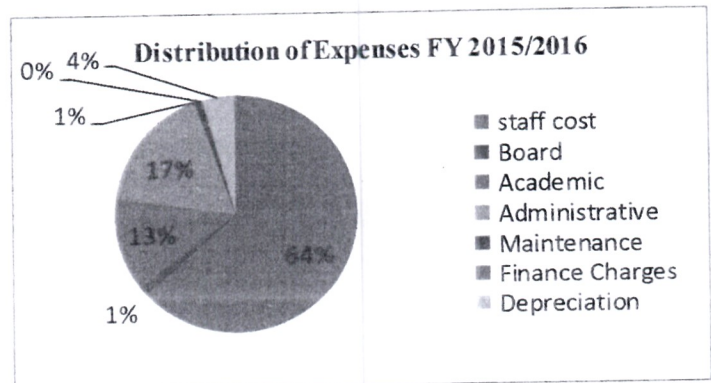
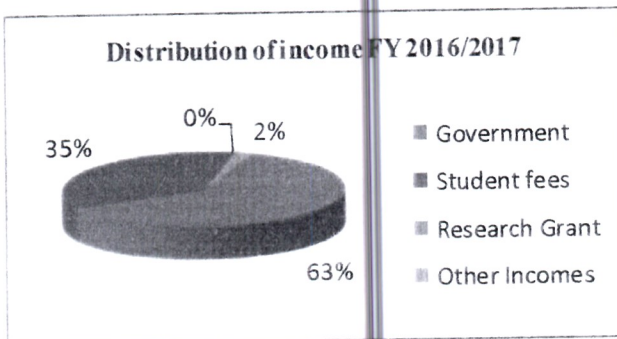


Figure2: Distribution of Incomes and Expenses during the FY 2016-17





## VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The University is committed to improving the lives of the underprivileged by making contributions of both time and resources to their courses. The Council and University Management has anchored CSR activities its strategic plan under the key result area of community outreach. CSR programmes carried out should be relevant, sustainable and in line with institutions mandate. During the financial year, a team of Karatina University Staff and students participated in several CSR activities which have been categorized below:

### 1. Education

The University has undertaken the following community outreach programmes in education as follows:

#### a) **Mentorship Programme of High School Girls in Mathira East Sub-County**

Karatina University in partnership with the office of Mathira East Sub-county Director of Education held a mentorship seminar for girls in boarding and day/mixed schools on 18<sup>th</sup> March 2017 and 20<sup>th</sup> March 2017. The girls' mentorship program has been going on for the last four years and according to Mathira East Sub-county Director of Education Mr. Githongo, the program has contributed greatly in improving academic performance among the girls in the sub-county. The mentorship program among the high schools girls is an annual event organized through the office of the DVC (A,R&SA).

This year, the seminar for girls in boarding schools was held at Gatondo Girls High School on 18<sup>th</sup>, March, 2017. A total number of 320 girls participated. The girls were drawn from six Girls' Boarding Schools in Mathira East Sub-county. The schools included: Karatina Girls High School, Gikumbo Secondary School, Gatondo Girls High School, Mt. Carmel Girls High School, Mathaithi Girls High School and Magutu Girls High School. The seminar for girls in day/mixed schools was held on 20<sup>th</sup> March 2017 at Ihwagi Secondary School. A total number 258 girls from 15 day schools participated. The 15 schools included Itundu, Miiri, Kangocho, Gatundu, Ndimaini, Gakuya, St. Augustine Kieni, Kiamabara, Ragati, Gitunduti, Kiamwangi, Gathehu, Muthea, Ihwagi and Gaturiri. The total number of 578 girls from boarding and day schools were mentored over the two days activity.

The girls were mentored on Academic Achievement, what it takes to be a woman of substance, how to excel in mathematics, career choice, Self-esteem & Self-worth, Relationship and Assertive Skills, Deviant Behaviors and their Consequences, and other life skills. The academic programs available at Karatina University were explained to the girls which sparked a lot of interest from the girls who wanted to know the specific requirements for certain courses.

Other stakeholders who attended the seminar includes the Mathira East Sub-county Director of Education, Principals and teachers from the participating schools. The director commended Karatina University for implementing the girls' mentorship program in Mathira East. He indicated that the mentorship program has contributed to high academic performance and decrease in risky behaviors among the girls.



### **b) Career Week 2017**

Karatina University hosted the Career Week from Wednesday 3<sup>rd</sup> May to Friday 5<sup>th</sup> May 2017. Career Week is one of the annual events in Karatina University almanac. This event has been successfully held over the last three years and serves as part of the extended engagement of community outreach activities.

The purpose of the Career Week is to provide a mentorship forum to our students who get exposure from professionals in the diverse industries. The students also are able to gain networking forums through interaction with the professionals thus up their employability levels. Students from the University are also encouraged to exhibit their innovations as is in tandem with our motto 'Inspiring *Innovation and Leadership*.' The forum also invites high school students from local schools who interact with invited stakeholders for career guidance. Moreover, the high school students are able to get exposure of the unique programmes offered by Karatina University thus the forum serves as our marketing venture. The University was privileged to have Dr. Ezekiel Mutua, the CEO Kenya Films Classification Board as the Chief Guest for this year. The theme for 2017 was *Youth Empowerment through Innovation and Entrepreneurship for Career Development*.

## **2. Environmental issues**

### **a) Participation in International Day of the Forest**

In recognition of the critical role the University plays in empowering local communities, Karatina University celebrated the World International Day of Forests on Tuesday 21<sup>st</sup> March, 2017 at Kiamwangi Primary School in Mathira East Sub-County, Nyeri County. This is a day earmarked by the United Nations to raise awareness of the importance of forests for the benefit of current and future generations under the theme '**Forest and Energy**'.

The University held the event in conjunction with Kenya Forest Services and the County Government of Nyeri. The ceremony also entailed awarding of the best Environmental Clubs in Mathira East Sub-County from ten (10) primary schools which have established the clubs through the support from Rufford Foundation (UK). This is part of the School Greening Project which the University has initiated. Top in the list was Gitunduti Primary School which has the best managed nursery and in the process of establishing a woodlot in the school that will enhance sustainable fuel energy use.

In 2016, similar and successful celebrations were held at Gatuanyaga Primary School in Kieni East where Environmental Clubs were launched. The clubs have been assisted to establish tree nurseries, maintain them, establish woodlots within schools and finally plant trees in their communities, thus contributing in expanding forest cover in the country. In addition, environmental education has been inculcated among the young people as they hold the key to environmental sustainability in the country. Further to this, the community was sensitized on increasing the forest cover in the schools, individual land and on every available land.

The event marked a testimony on recognition of the University's endeavour for community outreach activities as we endeavor to positively impact the communities around us and beyond especially on the agenda of forests and their sustainability for the betterment of our posterity.

### **3. Other charitable causes**

#### **a) Visit to the Nyeri Hospice**

In recognition of the noble role of serving the community, and especially the needy and vulnerable members of the society, Karatina University hosted a luncheon for cancer patients at the Nyeri Hospice on Saturday, 11<sup>th</sup> February 2017. The hospice is a charitable organization that offers palliative care to the terminally ill at an affordable cost with appropriate medical treatment coupled with nursing and psychological care.

The members of staff and some student leaders that visited the patients had interactive engagements with the patients by way of counselling activities, spiritual nourishment, meal sharing and donations. The patients, 25 in number were drawn from all the sub-counties of Nyeri with a few from Turkana and Samburu. Testimonies of hope given by the patients, their caregivers and the nurses showed inspirations and gave lessons of courage. A similar initiative had been done in 2016 by the Department and Social Sciences under the HoD, Dr. Margaret Mwenje. There is therefore need to partner with the Nyeri Hospice through subscribing for corporate and individual membership, offering donations, counselling support to the patients, promoting public awareness and other voluntary activities such as charity walks. Reaching out to the community will be of benefit to the University as we fulfil one of our mandates. We will mobilize the University community to be active on our proposed biennial visits to the Nyeri Hospice. Similar ventures will be undertaken to the immediate community that borders the University and other counties.

## **IX. REPORT OF THE COUNCIL MEMBERS**

Karatina University Charter provides for the objectives and functions of the Council under section 21 as follows: -

(1) Subject to this Charter, the Council shall be the governing body of the University through which the University as a body corporate shall act and—

(a) shall administer the property and funds of the University in a manner and for the purposes which shall promote the best interest of the University; but the Council shall not charge or dispose of immovable property of the University except in accordance with procedures laid down by the Government of Kenya.

(b) shall receive, on behalf of the University, donations, endowments, gifts, grants or other moneys and make disbursements there from to the University or other bodies or persons.

(c) shall approve the appointment criteria and the terms and conditions of service of staff;

(d) shall provide for the welfare of the staff and students of the University.

(e) may enter into association with other universities or other institutions of learning, whether within Kenya or otherwise, as the council may deem necessary and appropriate; and

(f) shall, after consultation with the Senate, make regulations governing the conduct and discipline of the students of the University.

(2) All documents, other than those required by law to be under seal, made on behalf of the Council, and all decisions of the Council may be signified under the hand of the Chairman, the Vice Chancellor or any other members of the Council generally or specifically authorized by the Council in that behalf.

(3) The Council shall ensure that a proper management structure is in place and make sure that the structure functions to maintain corporate integrity, reputation and responsibility.

(4) The Council shall monitor and evaluate the implementation of strategies, policies, and management criteria and plans of the University.

(5) The Council shall constantly review the viability and financial sustainability of the University and shall do so once every year

(6) The Council shall ensure that the University complies with all the relevant laws, regulations, governance practices accounting and auditing standards

## **Principal activities**

The principal activities of the University as stated in its mandate which are stipulated in the Karatina University Charter 2013, under section 6 include:

- a) Provide and advance university education and training to appropriately qualified graduates, leading to the conferment of degrees and award of diplomas and certificates and such other qualifications as the Council and Senate shall from time to time determine and in so doing contribute to national development and humanity;
- b) Assemble and provide resources for university level education, training and research, scholarship, and for the establishment of facilities, institutes, divisions, departments, centres and such other units as the University Council may deem necessary;
- c) Determine who may teach, what may be taught, to whom it may be taught and how it may be taught in the University;
- d) Establish colleges, schools, institutes, centres, departments and such other institutions as may be deemed necessary by the University Council;
- e) Conduct both applied and basic research geared towards local, national, regional and global development;
- f) Establish and maintain an Information Resource Centre including the collection of literature, films, information data bases and other materials relating to natural resources, agriculture, engineering, entrepreneurship, management, law, medicine, social and applied science theories and practices;
- g) Enter into collaborations, linkages, and consultancy network in promoting excellence meeting the dynamic needs and development of society;
- h) Provide balanced programmes and experiences including participation in natural and cultural conservation, commercial ventures and other activities to the benefit of the University, the community and stakeholders;
- i) Facilitate student mobility between programmes of study at different technical training institutions, polytechnics and universities;
- j) Foster the general welfare of all staff and students; and
- k) Carry out any other activity as may be permitted and approved by the University Council to further the vision, mission and philosophy of the University.

## **Results**

The results of the University for the period ending 30<sup>th</sup> June 2017 are set out on page 1



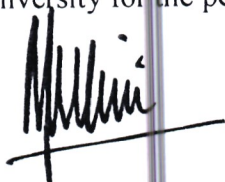
### **Council Members**

The members of Council who served during the period are shown on pages (vi) & (vii) in accordance with Karatina University Statutes and Universities Act 2012.

### **Auditors**

The Auditor General is responsible for the statutory audit of the University in accordance with Section 38 and 39 of Public Audit Act (2015). The Auditor General is empowered to nominate other auditors to carry out the audit on his behalf.

Kenya National Audit Office staff were nominated by the Auditor General to carry out the audit of the University for the period ending 30<sup>th</sup> June, 2017.



Prof. Mucai Muchiri  
**Council Secretary/ Vice Chancellor**

Date:.....

## X. STATEMENT OF COUNCIL MEMBERS' RESPONSIBILITIES

Section 81(1) of the Public Finance Management Act, 2012 and sections 14 &15(1) of the State Corporations Act, require the Council to prepare financial statements in respect of the University, which give a true and fair view of the state of affairs of the University at the end of the financial period and the operating results of the University for that period. The Act also requires the Council Members to ensure that the University keeps proper accounting records that disclose with reasonable accuracy, the financial position of the University. They are also responsible for safeguarding the University's assets.

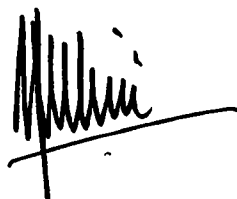
Council is responsible for the preparation and presentation of financial statements, which give a true and fair view of the state of affairs of the University as at the end of the financial period ended on 30<sup>th</sup> June, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that they are effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy the financial position of the University; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the University's assets; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable.

The Council accepts the responsibility for the Annual Report and Financial Statements, which have been prepared using appropriate accounting policies and supported by prudent judgments and estimates, in conformity with International Public Sector Accounting Standard (IPSAS) and requirements of the PFM Act (2012) and State Corporations Act (2012). The Council is of the opinion that the financial statements give a true and fair view of the state of financial affairs of the University as at 30<sup>th</sup> June, 2017 and the University's financial position. Council further confirms the completeness of the accounting records maintained for the University, which have been relied upon in the preparation of the University's financial statements as well as the adequacy of the internal financial control systems.

University Council is optimistic that the University will remain a going concern for at least the next twelve months from the date of this statement.

### **Approval of the annual financial statements**

Karatina University annual financial statements have been prepared in accordance with Section 83 of the PFM Act 2012 and were approved by the Board on 25<sup>th</sup> August, 2017 and signed on its behalf by:



**Prof. Mucal Muchiri, PhD**  
**Vice Chancellor**



**Dr. John Kobia Ataya, PhD**  
**Chairman of Council**



# REPUBLIC OF KENYA

Telephone: +254-20-342330  
Fax: +254-20-311482  
E-mail: [oag@oagkenya.go.ke](mailto:oag@oagkenya.go.ke)  
Website: [www.kenao.go.ke](http://www.kenao.go.ke)

P.O. Box 30084-00100  
NAIROBI



## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KARATINA UNIVERSITY FOR THE YEAR ENDED 30 JUNE 2017

---

#### REPORT ON THE FINANCIAL STATEMENTS

#### Opinion

I have audited the accompanying financial statements of Karatina University set out on pages 1 to 29, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net asset, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit

In my opinion, the financial statements present fairly, in all material respects, the financial position of Karatina University as at 30 June, 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Universities Act, 2012.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Other Matter section of my report, based on the procedures performed, I confirm that, nothing else has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

#### Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Karatina University in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

---

*Report of the Auditor-General on the Financial Statements of Karatina University for the year ended 30 June 2017*



## **Emphasis of Matter**

### **Working Capital Management**

We draw attention to the statement of financial Position on page 2 of the financial statement. According to the statement of financial position, total current assets as at 30 June 2017 amount to Kshs.155,692,184 while current liabilities amount to Kshs.166,593,660. The university therefore operated on a negative working capital of Kshs.10,901,476. This condition indicates the existence of a liquidity problem that may cast significant doubt about the university's ability to meet its obligations as and when they fall due. The preparation of the financial statements on a going concern basis is dependent on the ability by the university to generate sufficient cash flows from operations, reduce expenditure and continued support from National Government and creditors to enable it pay debts as and when they fall due.

### **Key Audit Matters**

Key Audit Matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no Key Audit Matters to communicate in my report.

### **Other Matter**

#### **1. Payments for Enterprise Resource Planning (ERP)System**

Note 22 to the financial statements for the year ended 30 June 2017 reflects intangible assets (computer software) additions figure of Kshs.5,106,208 paid to a consultant for Microsoft Dynamics NAV ERP system. Records indicate that on 14 February 2013 Karatina University entered into a contract with Coretec Systems and Solutions Limited a firm based in Nairobi for the supply, installation, testing, training, commissioning and maintenance of Enterprise Resource Planning (ERP) software at a contract sum of Kshs.11,900,000.

A review of implementation of the system and payments revealed that the total contract sum had been paid including an amount of Kshs.2,380,000 final payment made during the year under review. However, the consultant was paid additional amount of Kshs.1,856,000 for the ERP developer licence arrears for 2015 and 2016 which and for unexplained reasons was not included in the signed contract between the University and the consultant. The amount was to be paid to M/S Microsoft, failure to which would render the system obsolete. Further, during the year under review, the consultant was again paid an amount of Kshs.1,500,000 for service level and support for the Microsoft ERP system for a period of one (1) year commencing 22 June 2016. However tender documents including contract agreement and performance certificates were not provided for audit review.



In the circumstances, the validity and propriety of payments of Kshs.5,106,208 in respect of computer software and support services for the year could not be ascertained.

## **2. Construction of Proposed Resource Centre**

A review of records revealed that Contract No.KarUC/RC/01/2011-2012 for construction of Proposed Resource Centre at Karatina University was awarded on 26 January 2012 to a firm based in Nairobi at a tender sum of Kshs.624,429,200. According to signed contract agreement works commenced on 13 February 2012 and was scheduled to run for one hundred and fifty-six (156) weeks period, thus the expected completion date was 13 February 2015.

However, a review of the projects records and physical inspection of the works carried out revealed that the level of completion of works as at 30 June 2017 stood at approximately Kshs.556,533,466 or 89% against two hundred and eighty (280) weeks or 179% of the contract period elapsed thus implying that the contractor was one hundred and twenty six (126) weeks behind schedule. Although the management attributes the delay in completion to delayed disbursements of funds by the National Government, there was no pending payments to the contractor as at 30 June 2017, implying that payments were up to date and were made against certified and completed works.

No measures appear to have been put in place on how the University is addressing this clearly unsatisfactory performance.

## **3. Construction of Proposed 750 Students' Hostel Block**

Examination of records maintained in respect of contract No. KarUC/H/01/2011-2012 for construction of Proposed 750 students Hostel block at Karatina University revealed that the contract was awarded on 4 January 2012 to a construction company at a tender sum of Kshs.320,656,201.60 following a competitive tendering process. The works commenced on 16 January 2012 and were planned to run for a contract period of one hundred and four (104) weeks, thus the expected date of completion was set at 15 January 2014. However, an examination of project records indicated that the value of certified works and payments to the contractor as at 30 June 2017 stood at Kshs.313,158,880 representing approximately 98% of the contract sum against an elapsed contract period of two hundred and eighty four (284) weeks or 273%. The management has not provided satisfactory explanation for the slow progress of works which may lead to cost escalations.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management

determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the University's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going basis of accounting unless the management either intends to liquidate the University or to cease operations, or have no realistic alternative but to do so.

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

Those charged with governance are responsible for overseeing the University's financial reporting process.

### **Auditor-General's Responsibilities for the Audit of the Financial Statements**

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

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

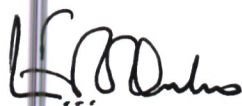
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the University's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the University's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the University to cease to continue as a going.
- Evaluate the overall presentation, structure and content of the financial statements including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the University to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

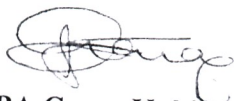
**16 October 2018**

XI. STATEMENT OF FINANCIAL PERFORMANCE

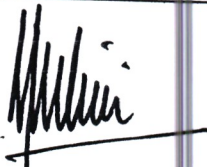
KARATINA UNIVERSITY  
STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30TH JUNE 2017

INCOME	Notes	2017 Kshs	2016 Kshs
<b>Revenue from Non Exchange Transaction</b>			
Government Grants	3	570,481,950	567,198,365
Amortization of Granted Assets	4	4,612,168	4,612,167
Donations	5	1,178,150	595,095
		<b>576,272,267</b>	<b>572,405,627</b>
<b>Revenue from Exchange Transaction</b>			
Tuition and Related Charges	6	322,925,585	340,184,253
I.G.A and Other Incomes	7	15,082,051	23,131,534
		<b>338,007,636</b>	<b>363,315,786</b>
<b>Total Income</b>		<b>914,279,903</b>	<b>935,721,414</b>
<b>EXPENDITURE</b>			
Administration Expenses	8	158,214,836	193,405,543
Employment Expenses	9	576,519,024	573,023,275
Academic Expenses	10	116,999,498	132,401,895
Repairs and maintenance	11	6,910,555	10,211,557
Board Expenses	12	9,708,413	10,236,494
Finance Expenses	13	677,740	720,686
Depreciation and amortization expense	14	40,390,247	48,921,889
<b>Total Expenditure</b>		<b>909,420,313</b>	<b>968,921,339</b>
<b>Surplus/ Deficit</b>		<b>4,859,590</b>	<b>(33,199,926)</b>

Notes set out on pages 19 to 27 form an integral part of these financial statements



CPA Grace Kakiya. Mno. 7315  
Deputy Finance Officer



Prof. Mucai Muchiri, PhD  
Vice Chancellor



Dr. John Kobja Ataya, PhD  
Chairman of Council

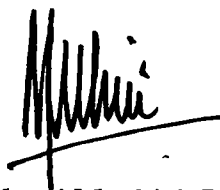


## XII. STATEMENT OF FINANCIAL POSITION

**KARATINA UNIVERSITY**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30TH JUNE 2017**

	Notes	2017	2016
<b>Current Assets</b>			
Cash & Bank Balances	15	36,742,666	43,997,380
Prepayments	16	8,303,667	7,601,032
Receivable from exchange transaction- Restated	17	98,315,100	28,465,013
Receivable from non-exchange transaction	18	5,000,000	-
Inventories	19	7,330,751	8,895,548
<b>Total Current Assets</b>		<b>155,692,184</b>	<b>88,958,973</b>
<b>Non-Current Asset</b>			
Biological Assets	20	5,917,196	6,097,140
Property, Plant & Equipment- Restated	21	351,807,459	295,684,801
Intangible Assets- Computer software	22	4,071,645	1,573,881
Capital Work in Progress	23	929,440,747	937,135,825
<b>Total Non Current Assets</b>		<b>1,291,237,047</b>	<b>1,240,491,647</b>
<b>Total Assets</b>		<b>1,446,929,231</b>	<b>1,329,450,620</b>
<b>Current Liabilities</b>			
Trade & Other Payables - Restated	24	136,549,153	119,723,507
Deferred Income - liability current	4	4,612,168	4,612,167
<b>Total Current Liabilities</b>		<b>141,161,321</b>	<b>124,335,674</b>
<b>Non-Current Liabilities</b>			
Deferred Income – Grant	4	114,263,032	118,875,200
<b>Total Non-Current Liabilities</b>		<b>114,263,032</b>	<b>118,875,200</b>
<b>Capital Funds</b>			
Accumulated Capital Fund	25	1,148,824,637	1,048,348,975
Revenue Reserve- Restated	26	42,680,242	37,890,772
<b>Total Capital Fund</b>		<b>1,191,504,878</b>	<b>1,086,239,746</b>
<b>Total Funds &amp; Liabilities</b>		<b>1,446,929,231</b>	<b>1,329,450,620</b>

The financial statements set out on this page were signed on behalf of Council by:



**Prof. Mucai Muchiri, PhD**  
**Vice Chancellor**



**Dr. John Kobia Ataya, PhD**  
**Chairman of Council**

## XIII. STATEMENT OF CHANGES IN NET ASSETS

**KARATINA UNIVERSITY**  
**STATEMENT OF CHANGES IN NET ASSET**  
**FOR THE YEAR ENDED 30TH JUNE 2017**

	Notes	Capital Fund	Revenue Reserves	Total
		Kshs	Kshs	Kshs
<b>Balance as at 30/6/15</b>		<b>905,011,550</b>	<b>120,486,952</b>	<b>1,025,498,501</b>
Surplus/Deficit for the year		-	(33,199,926)	(33,199,926)
Valuation of Biological Assets		-	285,140	285,140
Capital Grants		143,337,425.00	-	143,337,425
Prior year adj of student balances	1	-	(36,844,075)	(36,844,075)
Prior year adj of Moi University Debtors		-	(16,861,944)	(16,861,944)
Prior Year Adjustment on Trade Creditors	2	-	(5,463,643)	(5,463,643)
Prior Year Adjustment on Motor Vehicle - Depreciation	3(a)	-	4,120,922	4,120,922
Prior Year Adjustment on Computers- Depreciation	3(b)	-	5,367,346	5,367,346
<b>Balance as at 30/6/16</b>		<b>1,048,348,975</b>	<b>37,890,772</b>	<b>1,086,239,746</b>
Surplus/Deficit for the year		-	4,859,590	4,859,590
Valuation of Biological Assets		-	(70,120)	(70,120)
Capital Grants		100,475,662	-	100,475,662
<b>Balance as at 30/6/17</b>		<b>1,148,824,637</b>	<b>42,680,242</b>	<b>1,191,504,878</b>

**Notes**

1. Prior year adjustments on student balances relates to overstatement of tuition income for the financial year 2015/2016. This was caused by deferments of registered students not recognized in the respective student's statements at the close 2015/16 FY.
2. Prior year adjustment on Moi University debtors relates to reversal of tuition income i.e. student fees deposits and HELB monies that had been deposited into Moi University bank accounts before Karatina University become a separate legal entity from Moi University as per legal order 163 of October 2010. The amounts had erroneously been recognized in the books of accounts which is being corrected.

NB/ Explanations of notes 1 & 2 above have led to restating of receivables from exchange transactions appearing in the statement of financial position from Kshs. 82,171,032 to Kshs. 28,465,013.

3. Prior year adjustment on trade creditor relates understated creditors during the last financial year who were recognized at start of the year. This has led to restating of Trade

& Other Payables figure at the close 2015/16 FY appearing in the statement of financial position from Kshs. 114,259,863 to Kshs. 119,723,507.

4. Motor Vehicles and computers had charged excess depreciated during the FY 2015/2016 resulting to a lower net book value for the two classes of assets. This has resulted to prior year adjustments for the same categories of assets and restating of the net book value for property, plant and equipment in the statement of financial position from Kshs. 283,911,214 to Kshs. 295,684,801.

## XIV. STATEMENT OF CASH FLOWS

**KARATINA UNIVERSITY**  
**STATEMENT OF CASHFLOWS**  
**FOR THE YEAR ENDED 30TH JUNE 2017**

	Notes	2017	2016
	Notes	Kshs.	Kshs.
<b>Cash flow from Operating expenses</b>			
Surplus		4,859,590	(33,199,926)
<b>Adjustment For</b>			
Depreciation & Amortization	14	40,390,247	48,921,889
Loss of Biological Asset-Tea Bushes	8	31,824	195,936
Disposal / Loss of P,P&E, Cows	8	78,000	-
Amortization of Granted Assets	4	(4,612,168)	(4,612,167)
Adjustment on Moi University Debtors		-	(16,861,944)
Adjustment on Understated Creditors		-	(5,463,643)
Overstated student Income		-	(36,844,075)
		<b>40,747,493</b>	<b>(47,863,930)</b>
<b>Operating Activities</b>			
<b>Change in:-</b>			
Inventories	19	1,564,797	463,909
Receivable from exchange transaction	17	(69,850,087)	65,893,417
Receivable from non-exchange transaction	18	(5,000,000)	44,706,829
Prepayments	16	(702,635)	(1,006,623)
Accounts Payable	24	16,825,647	(33,860,709)
<b>Cash From Operating Activities</b>		<b>(57,162,279)</b>	<b>76,196,823</b>
<b>Net Cash from Operating Activities</b>		<b>(16,414,786)</b>	<b>28,332,893</b>
<b>Investing Activities</b>			
Property, Plant & Equipment	21	(93,409,461)	(31,858,878)
Capital Work-in-Progress	23	7,695,078	(124,552,225)
Intangible Assets- Computer software	22	(5,601,208)	-
<b>Net cash from investing activities</b>		<b>(91,315,591)</b>	<b>(156,411,103)</b>
<b>Financing Activities</b>			
Capital Reserve		100,475,662.00	143,337,425
<b>Net cash flow from financing activities</b>		<b>100,475,662</b>	<b>143,337,425</b>
Net increase/(Decrease) In Cash & Cash Equivalents		(7,254,715)	15,259,215
Cash & Cash Equivalent at Start of Year	15	43,997,380	28,738,165
<b>Cash &amp; Cash Equivalent at End of Year</b>	15	<b>36,742,666</b>	<b>43,997,380</b>
<b>Analysis of Cash &amp; Cash Equivalents</b>			
<b>Cash &amp; Bank Balances</b>		<b>36,742,666</b>	<b>43,997,380</b>



## XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

STATEMENT OF BUDGET Vs ACTUAL AMOUNTS AS AT 30TH JUNE 2017 (KSHS)								
S/No	DESCRIPTION	Original Budget 2016/17	Adjustments	Final Budget 2016/17	Actual Incomes/Expense for the year 2016/17	Variance		Explanation of material variances
						Kshs.	Kshs.	
	<b>INCOME</b>							
1	Exchequer grants	565,481,950	5,000,000	570,481,950	570,481,950	-	0	
2	Tuition fees and related charges	355,274,750		355,274,750	322,925,585	(32,349,165)	-9.11	2
3	Catering Services	15,356,880		15,356,880	8,740,625	(6,616,255)	-43.08	3
4	Research and Consultancies Income	7,000,000		7,000,000	2,627,940	(4,372,061)	-62.46	4
5	Farm Income	2,000,000		2,000,000	1,676,263	(323,737)	-16.19	5
6	Other income	2,500,000		2,500,000	3,164,560	664,560	26.58	
7	GOK Capital Grants	100,670,755		100,670,755	100,475,662	(195,093)	-0.19	
		<b>1,048,284,335</b>	<b>5,000,000</b>	<b>1,053,284,335</b>	<b>1,005,092,584</b>	<b>(43,191,751)</b>		
	<b>EXPENDITURE</b>							
	Personnel Emoluments							
1	Personnel Emoluments	603,996,249	(35,400,000)	568,596,249	559,700,325	8,895,924	1.56	
2	Casual Wages	15,000,000	2,400,000	17,400,000	16,818,699	581,301	3.34	
3	Gratuity							
	<b>TOTAL P.E</b>	<b>618,996,249</b>	<b>(33,000,000)</b>	<b>585,996,249</b>	<b>576,519,024</b>	<b>9,477,225</b>		
4	Board Expenses	8,000,000	2,000,000	10,000,000	9,708,413	291,587	2.92	
		<b>8,000,000</b>	<b>2,000,000</b>	<b>10,000,000</b>	<b>9,708,413</b>	<b>291,587</b>		
	<b>Operating/ Administrative Expenses</b>							
5	Stationery	5,000,000	2,400,000	7,400,000	6,521,137	878,863	11.88	6
6	Vehicle Repairs & maintenance	3,500,000	(400,000)	3,100,000	3,077,754	22,246	0.72	
7	Generator fuel & Maintenance	1,800,000	1,100,000	2,900,000	2,850,212	49,788	1.72	
8	Fuel – Vehicles	4,500,000	(400,000)	4,100,000	4,024,005	75,995	1.85	
9	Office entertainment expenses	480,000		480,000	423,365	56,635	11.80	7
10	Office expenses	1,960,000	(800,000)	1,160,000	763,136	396,864	34.21	
11	Postal expenses	200,000	50,000	250,000	253,745	(3,745)	-1.50	
12	Publishing & printing	1,200,000		1,200,000	1,200,250	(250)	-0.02	
13	Computer expenses & Maintenance	400,000	904,000	1,304,000	1,243,544	60,456	4.64	
14	ISO training & Implementation	1,500,000	(300,000)	1,200,000	688,239	511,761	42.65	8
15	Shows & Exhibition expenses	2,500,000	(500,000)	2,000,000	1,050,654	949,346	47.47	9
16	Performance Contracting	2,000,000	(400,000)	1,600,000	733,344	866,656	54.17	10
17	Legal expenses	750,000	(300,000)	450,000	191,322	258,678	57.48	11
18	Strategic Plan Implementation: & Monitoring & Review	500,000	(300,000)	200,000	-	200,000	100	



S/No	DESCRIPTION	Original Budget 2016/17		Adjustments		Final Budget 2016/17		Actual Expenses for the year 2016/17		Variance		Explanation of material variances- Notes
		Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	%		
	<b>EXPENDITURE</b>											
19	Subscription to Professional Bodies	500,000	100,000			600,000	533,330	66,670	11.11	12		
20	Professional Services	1,500,000	(500,000)			1,000,000	210,799	789,201	78.92	13		
21	Newspaper & journals	2,354,400	(500,000)			1,854,400	1,265,976	588,424	31.73	14		
22	Cleaning/sanitary materials	2,000,000				2,000,000	1,387,873	612,127	30.61	15		
23	Telephone expenses	2,928,000	(150,000)			2,778,000	2,755,100	22,900	0.82			
24	Insurance Expenses	4,000,000	1,500,000			5,500,000	4,985,235	514,765	9.36			
25	Open Day & cultural celebration	500,000	500,000			1,000,000	621,290	378,710	37.87	16		
26	Public celebrations & funerals	1,000,000				1,000,000	304,593	695,407	69.54	17		
27	Staff Training expenses	1,500,000	2,700,000			4,200,000	1,357,940	2,842,060	67.67	18		
28	Security services	8,939,520	1,500,000			10,439,520	9,745,035	694,485	6.65			
29	Water & Sewerage Expenses	11,500,000	(3,000,000)			8,500,000	7,714,966	785,034	9.24			
30	Electricity Expenses	11,500,000	(500,000)			11,000,000	9,718,392	1,281,608	11.65	19		
31	Rent & Rates	40,000,000	(3,000,000)			37,000,000	33,208,686	3,791,314	10.25	20		
32	Uniforms	750,000	(200,000)			550,000	260,020	289,980	52.72	21		
33	Medical expenses	14,000,000	2,050,000			16,050,000	14,187,599	1,862,401	11.60	22		
34	Advertising & publicity	7,000,000	(3,000,000)			4,000,000	3,293,390	706,610	17.67	23		
35	Internet services	18,500,000	1,000,000			19,500,000	19,452,290	47,711	0.24			
36	Farm expenses	1,200,000				1,200,000	1,158,965	41,035	3.42			
37	Catering expenses	14,000,000	500,000			14,500,000	14,073,827	426,173	2.94			
38	Audit fees	750,000	(54,000)			696,000	696,000	-	0.00			
39	Travelling & Accommodation	4,500,000	1,500,000			6,000,000	5,995,314	4,686	0.08			
40	External travelling	2,000,000	500,000			2,500,000	2,051,924	448,076	17.92	24		
		<b>177,211,920</b>	<b>2,000,000</b>			<b>179,211,920</b>	<b>157,999,250</b>	<b>21,212,670</b>				
	<b>Academic expenses</b>											
41	students activities	2,500,000				2,500,000	2,187,334	312,666	12.51			
42	Curriculum development/review	1,500,000	(500,000)			1,000,000	108,725	891,275	89.13	25		
43	External examiners	2,800,000				2,800,000	2,504,280	295,720	10.56			
44	Graduation Expenses	5,000,000	(1,000,000)			4,000,000	3,219,416	780,584	19.51			
45	Industrial Attachment/ Teaching Practice	7,000,000	9,950,000			16,950,000	16,865,040	84,960	0.50			
46	Games & Sports	1,925,000	550,000			2,475,000	2,447,598	27,402	1.11			
47	Library Subscription	1,000,000				1,000,000	704,531	295,469	29.55	26		
48	Dean & senate committees	350,000	250,000			600,000	307,290	292,710	48.79	27		
49	University Committees	1,500,000	1,500,000			3,000,000	2,695,208	304,792	10.16			
50	Teaching materials	2,000,000	(500,000)			1,500,000	865,409	634,591	42.31	28		
51	Field trip	5,000,000	3,900,000			8,900,000	8,853,095	46,905	0.53			
52	Research expenses	3,000,000	-			3,000,000	2,306,035	693,965	23.13	29		
53	PSSP Disbursement	28,970,611	33,000,000			61,970,611	61,666,160	304,451	0.49			

S/No	DESCRIPTION	Original Budget		Adjustments		Final Budget		Actual Expenses for the year		Variance		Explanation of material variances
		2016/17	Kshs.	2016/17	Kshs.	2016/17	Kshs.	2016/17	Kshs.	%	Notes	
	<b>EXPENDITURE</b>											
54	Examination materials	2,500,000		2,300,000	4,800,000	4,109,641	690,359	14.38	30			
55	Seminars & Conferences	3,500,000		3,500,000	3,500,000	2,887,266	612,734	17.51	31			
56	Placement Board charges	2,272,800		1,800,000	4,072,800	3,798,000	274,800	6.75				
57	Accreditation for Programmes	2,560,000		(2,000,000)	560,000		560,000	100	32			
58	Counselling services	500,000			500,000	163,820	336,180	67.24	33			
59	Tea Institute expense	3,000,000		(2,000,000)	1,000,000	937,459	62,541	6.25				
60	Botanical garden	500,000			500,000	373,190	126,810	25.36				
61	Nursing Skills lab	4,000,000		(2,500,000)	1,500,000		1,500,000	100	34			
		<b>81,378,411</b>		<b>44,750,000</b>	<b>126,128,411</b>	<b>116,999,498</b>	<b>9,128,913</b>					
	<b>Repairs and Maintenance</b>											
62	General Refurbishment	5,000,000		1,400,000	6,400,000	6,386,612	13,389	0.21				
63	Maintenance of building	3,000,000		(2,700,000)	300,000	281,245	18,755	6.25				
64	Maintenance of plant & Equipment	500,000		(300,000)	200,000	108,498	91,502	45.75				
65	Maintenance of play grounds	3,350,000		(3,300,000)	50,000		50,000	100				
66	Maintenance of Catering equipment	250,000			250,000	27,800	222,200	88.88	36			
67	Maintenance of Hostel equipment	250,000			250,000		250,000	100				
68	Water supply equipment	2,000,000		(1,600,000)	400,000	106,400	293,600	73.40				
		<b>14,350,000</b>		<b>(6,500,000)</b>	<b>7,850,000</b>	<b>6,910,555</b>	<b>939,446</b>					
	<b>Total</b>	<b>899,936,580</b>		<b>9,250,000</b>	<b>909,186,580</b>	<b>868,136,740</b>	<b>41,049,840</b>					
69	Purchase of computer	5,000,000		(2,000,000)	3,000,000	1,874,000	1,126,000	37.53				
70	ICT infrastructure	6,000,000		2,000,000	8,000,000	5,322,760	2,677,240	33.47				
71	Purchase of library books	8,000,000		(1,500,000)	6,500,000	1,678,079	4,821,921	74.18				
72	Purchase of Motor Vehicle-Ambulance	3,000,000		(3,000,000)				0.00				
73	Purchase of plant & equipment	4,630,000		(1,200,000)	3,430,000	127,301	3,302,699	96.29				
74	Purchase of Furniture	6,660,000		(1,000,000)	5,660,000	5,002,415	657,585	11.62				
75	Purchase of Medical equipment	450,000			450,000	420,000	30,000	6.67				
76	Purchase of Sports Equipment	750,000		(550,000)	200,000		200,000	100				
77	Purchase of lab equipment	13,187,000		(2,000,000)	11,187,000	7,285,740	3,901,260	34.87				
		<b>47,677,000</b>		<b>(9,250,000)</b>	<b>38,427,000</b>	<b>21,710,295</b>	<b>15,590,705</b>					
	<b>Development</b>	<b>947,613,580</b>			<b>947,613,580</b>	<b>889,847,036</b>	<b>56,640,544</b>					
78	Work in progress	100,670,755			100,670,755	89,436,428	11,234,327	11.16				
		<b>100,670,755</b>			<b>100,670,755</b>	<b>89,436,428</b>	<b>11,234,327</b>					
	<b>Total</b>	<b>1,048,284,335</b>			<b>1,048,284,335</b>	<b>979,283,464</b>	<b>67,874,871</b>					
	<b>Surplus</b>			<b>5,000,000</b>	<b>5,000,000</b>	<b>30,809,121</b>			<b>37</b>			



## Notes to the Statement of comparison of budget and actual amounts

### 1. Changes between the original and final budget

The changes between the original and final budget are as a result of re-allocation of votes to cater for the unseen events during the financial periods. Due to the lecturers strike in month of January and February 2017 teaching and learning activities were slowed while the prolonged draught increased the cost of goods and services necessitated re-allocation.

### 2. Tuition fees and related charges

Tuition fees generated by the University had unfavourable variance of Kshs 32M as a result of low turnout by the Privately Sponsored Students when compared to the projected numbers. This is as a result of changes in policies in the Education sector. In addition, there was high competition for the same market by similar institutions in the neighbourhood.

### 3. Catering services

There was unfavourable variance of Kshs. 6.6M for catering income during the FY 2016/17. This is because the University sold foodstuffs to students at subsidized rate despite of the increased food prices as a result of the prolonged drought. In addition, the income has been affected adversely by the lecturers strike in the month of January and February respectively leading to students being away from the University.

### 4. Research and Consultancies Income

The University did not attract research and consultancies incomes as expected resulting to unfavourable variance of Kshs 4.37M. During the reporting year, the University trained its members of staff on proposal writing for grants. However, several members' staff wrote proposals to National Research Fund (NRF) and won grants which are yet to be released and will be recognized in the FY 2017/2018.

### 5. Farm income

Incomes relating to farm had unfavourable variance of Kshs 0.32M due to pruning of tea bushes. In addition, the prolonged dry season did not provide for sprouting for new tea leaves resulting to a reduction of the expected revenue.

### 6. Stationery

The lecturers strike in the month of January and February 2017 led to low utilization of stationery as a result of students and staff being away from the University

### 7. Office entertainment and Office expenses

Expenditure in relation to office entertainment and office expenses went down as a result of cost management measures taken by the University Management during the financial period

### 8. ISO training & Implementation

The need to implement ISO 2001:2015 led to a reduction in ISO audit meetings thus favorable variance



9. Shows & Exhibition expenses

The University did not participate in CUE exhibitions held at Cooperative University while preparing for CUE inspection of campuses

10. Performance Contracting

The performance contracting meeting for PC vetting and negotiations were combined resulting the favorable variance

11. Legal expenses

The University legal officer represented the University in legal suits handled during the period. Thus the favorable variance

12. Subscription to Professional Bodies

The University has provided for subscription of more members of staff than those who were eligible during the year

13. Professional Services

The University rescheduled the timing for undertaking baseline surveys to 2017/18

14. Newspaper & journals

During the period of strike (Jan and Feb) the newspaper supplied was low leading to favorable variance

15. Cleaning/sanitary materials

There was low student activity during the period of strike (Jan and Feb) less cleaning/ sanitary materials were required

16. Open Day & cultural celebration

The University rescheduled one outreach activity in support of Cancer patients due to non-availability of some partners; medical experts

17. Public celebrations & funerals

There was a decline in deceased members of Karatina University fraternity leading to the favorable variance

18. Staff training expenses

The University carried out training to its Senate members at the end of the financial year which has been captured under un-surrendered imprest

19. Electricity Expenses

The closure of some the University campuses resulted to reduced electricity bills leading to favorable variance

20. Rent & Rates

Rent reduced due to closure of Riverbank Campus during the period

21. Uniforms

Some request were in the procurement process leading to favorable variance

22. Medical expenses

The University provided for medical services based on the increasing bills being presented to the University. The amounts were not fully utilized resulting to a favorable variance.

23. Advertising & publicity

The favorable variance during the period was brought by the University advertising through the government newspaper (My Gov) which less costly than the other medias

24. External travelling

External travelling was only approved if within the available budget provisions resulting to the favorable variance

25. Student activities related expenses

Activities planned for during the period of strike (Jan and Feb) did not take place thus favorable variance in these votes

26. Library Subscription

The cost of library subscriptions was reduced; based on the number of students per institution as compared to equal sharing among Universities

27. Dean & senate committees

Most of the senate meeting held to approve end year exams were pushed to 2017/18 FY as a result of the industrial action in the months of Jan and Feb

28. Teaching materials

The was procurement challenges for purchasing teaching material as a result of reservation groups being unable to make timely supplies

29. Research expenses

This vote had favorable variance by the end of fourth quarter. This is because the University had made commitments for expenditure which were yet to be realized by the end of the period

30. Examination materials

The favorable variance during the period was brought by purchasing examination materials in bulk which reduced cost

31. Seminars & Conferences

Approvals for attendance to seminars and conference were based on available budget amounts. This resulted to a favorable variance.

32. Accreditation for Programs

The process of accreditation of programs was in progress by the end of the period leading to favorable variance

33. Counselling services

The vote of counselling services has a favorable variance as a result of engaging internally recruited counsellors other than sourcing for external experts.

34. Botanical garden and Nursing Skills lab

This is because the University had made commitments for expenditure which were yet to be realized by the end of the period.

35. Repairs and Maintenance

The University management undertook cost managements measures to control costs on these expenditure lines resulting to favorable variable

36. Purchase of Assets

The University had made commitments of the assets in the procurement process by the process was not complete by end of financial period

### 36. Budget Surplus

The overall budget surplus of Kshs 25.8M reported in the statement of comparison of budget vs actuals is a result of cost managements measures undertaken by management to control costs on some expenditure lines as a result of the dwindling A-I-A. In addition, the institution had committed expenses but not completed the transactions thus resulting to imprest debtors.



**XVI. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30<sup>TH</sup> JUNE 2017**

**1. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

The financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) and do comply with the said standards. The University adopted IPSAS in the year 2014 following the gazettelement of Public Sector Accounting Standard Board (PSASB), which was established under the Public Finance Management (PFM) Act No. 18 of 24<sup>th</sup> July 2012. PSASB, issued financial reporting standards and guidelines to be adopted by all state organs and public entities, of which the University complies with.

The financial statements are prepared on accrual basis and presented in Kenya shillings, which is the functional and reporting currency of the University and all values are rounded to the nearest whole number. The accounting policies have been consistently applied to all the years presented.

In addition, figures have been reported on historical cost basis, unless stated otherwise. The cash flow statement is prepared using the indirect method.

**2. ADOPTION OF NEW AND REVISED STANDARDS**

**i) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017.**

<b>Standard</b>	<b>Effective date and impact:</b>
<b>IPSAS 39:</b> Employee Benefits	<b>Applicable: 1<sup>st</sup> January 2018</b> The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.

**ii) Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2017.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) Revenue recognition**

**i) Revenue from non-exchange transactions**

**Government grants**

Government grants are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis (IPSAS 23)

**Donations**

Donations have been recognized as income over the period they have been received to match with the related cost or assets intended to compensate for.

**Deferred income**

Deferred income recognized in the books is as a result of amortization of granted assets and the asset recognition criteria are met. Grants received for the purchase of fixed assets or donated assets are recognized as deferred income and transferred to the surplus or deficit over the expected useful lives of the respective assets.

**ii) Revenue from exchange transactions – IPSAS 9****Rendering of services**

The university has recognized incomes to include student tuition fees and related charges for the period in which it is earned

**b) Budget information – IPSAS 24**

The original budget for FY 2016-2017 was approved by the University Council in July 2016. Subsequent revisions or additional appropriations were made to the approved budget in accordance with approvals from Council. The additional appropriations are added to the original budget by the University upon receiving approval of National Treasury in order to conclude the final budget. Accordingly, the entity recorded additional appropriations of Kshs 5M on the 2016-2017 budget following Council's approval.

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the University. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts. The institution will provide an explanation of differences between actual and budgeted amounts under or above 10%.

**c) Property, Plant and Equipment - IPSAS 17**

Property, plant and equipment are stated at cost less any depreciation and impairment losses. Costs include expenditure that is directly attributable to the acquisition of the items. University land is freehold property and not subjected to amortization. Depreciation on other property is charged so as to write off the value of the assets during their estimated useful life, using straight line method. Assets are subjected to a full year's depreciation except those acquired within the last three months of the year. The annual rates are:

Buildings	2.5%
Furniture, Plant and Equipment	12.5%
Library Books	12.5%
Motor Vehicles	25%



Computers and peripheral devices

30%

**d) Intangible assets – IPSAS 31**

Computer Software has been recognized at cost as intangible assets. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. The useful life of the intangible assets is assessed finite for a period of three years. The assets are subjected to a full year's depreciation except those acquired within the last three months of the year at a rate of 30%

**e) Work in progress**

Work in progress represents properties (buildings) under construction. It is carried at cost, less any recognized impairment loss. Depreciation of these assets commences when the assets are ready for their intended use on the same basis as other buildings.

**f) Inventories –IPSAS 12**

Inventories are stated at lower of cost and net realizable value. Costs includes direct material and where applicable direct labour and those overheads that have been incurred to bring the inventories to their present location and condition. Costs of issues are calculated using 'First In First Out' (FIFO) method. Net realizable value represents the estimated selling prices less all estimated costs of disposal

**g) Biological assets**

Biological assets are measured on initial recognition at balance sheet date at its fair value less estimated point of sale costs as per IPSAS (27)

**h) Receivables**

Receivables are recognized when commitments are effected at their nominal value.

**i) Cash and cash equivalents**

Cash and cash equivalent are defined as Cash balances, Bank balances and short term investments (Fixed deposits). Bank balances entails amounts held at various banks at the end of the financial year. For the purposes of cash flow statement, cash and cash equivalent consist of cash and bank balances.

**j) Retirement benefits obligations (IPSAS 25)**

After Karatina University inherited the former Moi University Central Kenya Campus, the staff opted to remain in the Moi University Pension Scheme. The scheme is funded by defined contribution scheme based on the basic salary from both employees and employer at a rate of 7.5% and 15% respectively.

The University also contributes to the statutory National Social Security Fund (N.S.S.F.). This is a defined contribution scheme registered under N.S.S.F. Act. The University's obligations under this scheme are limited to specific contributions legislated from time to time and currently limited to a maximum of Kshs 200.00 per employee per month, while the employer contributes



Kshs 200.00 per month. The University's obligation to staff retirement benefit schemes are charged to income statement in the year to which they relate.

**k) Provisions – IPSAS 19**

Provisions are recognized when the University has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the University expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

***Contingent liabilities***

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

**l) Changes in accounting policies and estimates – IPSAS 3**

The University recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

**f) Related Party Disclosures – IPSAS 20**

The University regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the University, or vice versa. The National Government and Members of Council are regarded as related parties in preparation of these financial statements. National Government transactions have been disclosed under revenue from non- exchange transactions - government grants (note 3) while Members of Council have been disclosed under board expenses in the statement of financial performance (note 12).

**g) Comparative figures**

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

#### **4. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

In the process of applying the University's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key areas of judgment in applying the University's accounting policies are dealt with below:

##### ***Impairment losses***

At each year end, the University reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the University estimates the recoverable amount of the cash generating unit to which the asset belongs.

##### ***Property and equipment***

Critical estimates are made by the University council in determining depreciation rates for property and equipment.

##### ***Useful lives and residual values***

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

##### ***Subsequent events***

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

#### **5. FINANCIAL RISK MANAGEMENT**

The University's activities expose the institution to a variety of financial risks including credit and liquidity risks, effects of changes in foreign currency and changes in market prices. The University's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its

performance by setting acceptable levels of risk. The University does not hedge any risks and has in place practices to ensure that credit is extended to students and customers with an established credit history.

The university's financial risk management objectives and policies are detailed below:

**(i) Credit risk**

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the University. The University's credit risk is primarily attributable to its receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the University's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds with financial institutions is low, because the counter parties are banks with high credit-ratings.

<b>As at 30th June 2017</b>	<b>Performing Kshs</b>	<b>Non-Performing Kshs</b>	<b>Total Kshs</b>
KTDA Bonus Payment	625,420	-	625,420
Student Balances	38,282,679	-	38,282,679
Moi University	2,254,226	-	2,254,226
<b>Total</b>	<b>41,162,325</b>	<b>-</b>	<b>41,162,325</b>

**(ii) Liquidity risk management**

The University's financial liabilities are categorized as general creditors, part time payments, contractors' fees and retention amounts. The amounts disclosed in the financial position are the contractual undiscounted carrying amounts due within 12 months and the impact of discounting is not significant.

<b>As at 30th June 2017</b>	<b>Performing Kshs</b>	<b>Non-Performing Kshs</b>	<b>Total Kshs</b>	<b>Remarks</b>
Trade Creditors	19,553,714	-	19,553,714	Within one month
Part time Lecturers	30,946,909	-	30,946,909	Within one year
Contractors' Balance	1,103,910	-	1,103,910	Within one & half month
Contractors' Retention Fees	34,850,810	-	34,850,810	Within Contract period
	<b>86,455,343</b>	<b>-</b>	<b>86,455,343</b>	

The University has disclosed Kshs 30.9M being amounts owed to part-time lecturers who have claimed for payment. However, the University has an additional Kshs 138M owing to unclaimed and contested PSSP part-time payments being reconciled.

**(iii) Market risk**

There has been no change to the University's exposure to market risks or the manner in which it manages and measures the risk.



**Foreign exchange risk**

The University is exposed to foreign exchange risk because it has revenues and expenses denominated in foreign currency, primarily the US dollar. It also arises from exchange rate differences between when the currency is received from sponsors and when it is recognized in the books of accounts. The University bank accounts are denominated in Kenya Shillings and transaction will be reflected depending on the transaction day spot rate.

	<b>2017</b>	<b>2016</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Note 3: Government Grants</b>		
July	47,123,496	47,956,829
August	47,123,496	47,956,829
September	47,123,495	47,956,829
October	47,123,495	47,956,829
November	47,123,495	47,956,829
December	47,123,495	47,956,829
January	47,123,495	47,956,829
February	47,123,495	47,956,829
March	47,123,495	47,956,829
April	47,123,495	47,956,829
May	47,123,495	43,815,074
June	47,123,503	43,815,000
June- Supplementary funds	5,000,000	-
	<b>570,481,950</b>	<b>567,198,365</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Note 4: Deferred Income- Granted Assets</b>	123,487,367	128,099,534
Amortization of Granted Assets	(4,612,168)	(4,612,167)
Deferred Income C/Forward	<b>118,875,199</b>	<b>123,487,367</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Note 5: Donations</b>		
University Events	250,000	50,000
Library Books	273,750	173,095
Needy & Vulnerable Student Fund	654,400	372,000
	<b>1,178,150</b>	<b>595,095</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Note 6: Tuition and Related Charges</b>		
Tuition & Accommodation JAB	187,786,847	339,372,753
Tuition & Accommodation SSP	134,697,738	-
Student Application Fees	441,000	811,500
	<b>322,925,585</b>	<b>340,184,253</b>

	<b>2017</b>	<b>2016</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Note 7: I.G.A and Other Incomes</b>		
Kitchen Food Sales	8,740,625	13,423,332
Tea Farm	1,123,548	1,562,436
Farm & Milk Sales	552,715	466,376
Laundry	13,320	30,035
Photocopier	32,076	34,918
Conference Facilities	515,000	1,602,011
Hire of Facilities	585,052	540,227
Fines	223,491	103,575
Interest from deposits	88,301	-
Insurance & Deposit refund	252,553	-
Research funds	2,627,940	3,468,624
Consultancy & Survey works	-	1,900,000
Sale of Obsolete items	276,617	-
	<b>15,031,238</b>	<b>23,131,534</b>

**EXPENDITURE**

	<b>Kshs</b>	<b>Kshs</b>
<b>Note 8: Administrative costs</b>		
Stationery	6,521,137	7,069,581
Motor vehicle expenses	9,951,972	10,304,876
Office expenses	1,186,501	1,134,685
Postage	253,745	348,929
Printing and Publishing	1,200,250	1,617,328
Computer expenses	1,243,544	1,682,523
ISO	688,239	981,377
Shows and Exhibitions	1,050,654	2,582,603
Performance contracting	733,344	1,741,914
Legal expenses	191,322	231,571
Strategic Plan	-	1,436,348
Subscription to Professional Bodies	533,330	229,696
Professional Services	210,799	553,950
Newspapers and Journals	1,265,976	1,626,730
Cleaning materials	1,387,873	1,745,146
Telephone	2,755,100	2,673,940
Insurance	4,985,235	3,763,432
Open & Cultural Celebrations	621,290	421,404
Public celebrations and funerals	304,593	1,283,322
Training expenses	1,357,940	3,029,204
Security	9,745,035	7,882,000
Water & Sewer	7,714,966	13,962,014
Electricity	9,718,392	12,105,074

<b>Cont'd Note 8: Administrative Costs</b>	<b>2017</b>	<b>2016</b>
	<b>Kshs</b>	<b>Kshs</b>
Rent & Rates	33,208,686	44,923,649
Staff Uniforms	260,020	992,271
Medical Expenses	14,187,599	20,311,908
Advertising	3,293,390	2,806,167
Internet Charges	19,452,290	20,103,275
Farm Expenses	1,158,965	1,073,448
Catering Expenses	14,073,827	15,191,992
Audit Fees Expense	696,000	696,000
Loss of Tea bushes	31,824	195,936
Loss of assets	78,000	-
Traveling & Accommodation	5,995,314	6,142,288
External Travel & Accommodation	2,051,924	2,560,963
	<b>158,109,074</b>	<b>193,405,543</b>

<b>Note 9: Employment expenses</b>	<b>Kshs</b>	<b>Kshs</b>
Payroll expenses	559,700,325	558,455,458
Contract Staff expenses	16,818,699	14,567,817
	<b>576,519,024</b>	<b>573,023,275</b>

<b>Note 10: Academic Expenses</b>	<b>Kshs</b>	<b>Kshs</b>
Students activities	2,187,334	1,932,041
Curriculum development/review	108,725	1,192,425
External Examiners	2,504,280	2,719,227
Graduation	3,219,416	5,571,390
Industrial Attachments/ Teaching Practice	16,865,040	873,099
Games & Sports	2,447,598	2,352,990
Subscription to E-library	704,531	490,000
Deans & Senate expenses	307,290	1,070,020
University Committees	2,695,208	2,605,966
Teaching materials	865,409	1,450,093
Field trips	8,853,095	11,452,445
Research Program	2,679,225	3,864,057
PSSP Disbursement	61,666,160	89,271,654
Examination material	4,109,641	975,670
Seminars & Conferences	2,887,266	3,573,319
Placement Board charges	3,798,000	2,407,500
Accreditation for Programmes	-	600,000
Tea Institute Expenses	937,459	-
Counselling services	163,820	-
	<b>116,999,498</b>	<b>132,401,895</b>



	<b>2017</b>	<b>2016</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Note 11: Repairs &amp; maintenance costs</b>		
General Refurbishment	6,386,612	7,925,130
Maintenance of buildings	281,245	2,013,117
Maintenance of Catering / Hostel equipment	27,800	206,910
Maintenance of plant & Equipment	108,498	26,400
Water Supply Expenses	106,400	40,000
	<b>6,910,555</b>	<b>10,211,557</b>

	<b>Kshs</b>	<b>Kshs</b>
<b>Note 12: Boards Expenses</b>		
Sitting Allowance	5,616,774	5,480,000
Travelling & Subsistence	1,682,071	1,685,498
Accommodation	1,732,800	1,765,401
Other expenses	676,769	1,305,596
	<b>9,708,413</b>	<b>10,236,494</b>

	<b>Kshs</b>	<b>Kshs</b>
<b>Note 13: Finance Expenses</b>		
Bank Charges	677,740	720,686
	<b>677,740</b>	<b>720,686</b>

	<b>Kshs</b>	<b>Kshs</b>
<b>Note 14: Depreciation and amortization expense</b>		
Depreciation Buildings	7,247,844	5,455,365
Depreciation Computer & Accessories	11,644,707	19,549,011
Depreciation Library books	3,232,574	3,022,815
Depreciation Motor Vehicle	4,307,850	8,457,522
Depreciation Equipment & Furniture	10,853,828	9,072,734
Amortization of intangible assets-Computer Software	3,103,444	3,364,442
	<b>40,390,247</b>	<b>48,921,889</b>

	<b>Kshs.</b>	<b>Kshs.</b>
<b>Note 15: Cash &amp; Bank Balances</b>		
Co-operative Bank Of Kenya- Cash at bank	2,649,927	22,686,064
Kenya Commercial Bank - 1138274968	1,154,532	1,167,412
KCB - Cash at hand	-	23,055
Kenya Commercial Bank-1106185382	30,278,576	4,889,590
Equity Bank- Cash at Bank	1,539,631	14,111,259
Fixed Deposit (Bank Guarantee- Fuel)	1,120,000	1,120,000
<b>Total Cash &amp; Bank Balances</b>	<b>36,742,666</b>	<b>43,997,380</b>

	<b>2017</b>	<b>2016</b>
	<b>Kshs.</b>	<b>Kshs.</b>
<b>Note 16: Prepayments</b>		
Deposits : Rent (River Bank Campus)	1,010,730	1,385,396
Deposits : Rent (Town Campus)	1,058,085	1,058,085
Deposits :Fuel	1,026,750	1,026,750
Deposits : Rent (Nyeri centre)	596,070	741,849
Deposits : Rent (Nairobi Campus)	2,990,274	2,902,774
Deposits : Rent (Town Campus-Mathira)	211,523	25,073
Prepayment : Insurance	1,515,997	461,106
<b>Total Prepayments</b>	<b>8,409,429</b>	<b>7,601,032</b>

	<b>Kshs.</b>	<b>Kshs.</b>
<b>Note 17: Receivables from exchange transactions</b>		
KTDA Bonus Payment For year 2016/17 & Tea Farm sales for the month of June 2017	676,232	855,260
Student Balances	88,376,489	15,520,648
Moi University	2,254,226	2,254,226
Imprest Debtors	7,008,153	9,834,879
	<b>98,315,100</b>	<b>28,465,013</b>

	<b>Kshs.</b>	<b>Kshs.</b>
<b>Note 18: Receivables from non-exchange transactions</b>		
MoE - Capitation June	5,000,000	-
	<b>5,000,000</b>	<b>-</b>

	<b>Kshs.</b>	<b>Kshs.</b>
<b>Note 19: Inventories</b>		
Stores	7,330,751	8,895,548
	<b>7,330,751</b>	<b>8,895,548</b>

	<b>Kshs.</b>	<b>Kshs.</b>
<b>Note 20: Biological Assets</b>		
Tea Bushes	5,428,176	5,460,000
Cows	489,020	637,140
	<b>5,917,196</b>	<b>6,097,140</b>

Note (21)	KARATINA UNIVERSITY							TOTAL
	FIXED ASSET SCHEDULE							
	LAND	BUILDINGS	COMPUTER & ACCESSORIES	LIBRARY BOOKS	MOTOR VEHICLES	EQUIP & FURNITURE		
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	
<b>COST</b>								
BAL AS AT 30.6.15	39,796,000	199,270,030	50,663,098	17,286,208	46,447,792	68,555,959	422,019,087	
ADDITIONS			15,275,592	6,896,315	3,800,000	5,886,971	31,858,878	
GRANTED ASSETS								
BAL AS AT 30.6.16	39,796,000	199,270,030	65,938,690	24,182,523	50,247,792	74,442,929	453,877,965	
ADDITIONS		71,699,167	5,783,468	1,678,078	-	14,248,748	93,409,461	
DISPOSALS								
BAL AS AT 30.6.17	39,796,000	270,969,197	71,722,158	25,860,601	50,247,792	88,691,677	547,287,426	
<b>DEPRECIATION</b>								
ACCUMULATED DEPRECIATION 30.6.15		18,488,555	34,448,414	5,338,755	38,495,492	25,352,770	122,123,985	
AMORTISATION FOR THE YEAR		3,788,913	-	524,505	-	298,749	4,612,167	
DEPRECIATION FOR THE YEAR		1,666,452	14,181,665	2,498,311	4,336,600	8,773,985	31,457,012	
ACCUM DEPRE 30.6.16		5,455,365	14,181,665	3,022,815	4,336,600	9,072,734	36,069,179	
ACCUMULATED DEPRECIATION 30.6.16		23,943,920	48,630,079	8,361,570	42,832,092	34,425,504	158,193,164	
AMORTISATION FOR THE YEAR		3,788,913	-	524,506	-	298,749	4,612,168	
DEPRECIATION FOR THE YEAR		3,458,931	11,644,707	2,708,068	4,307,850	10,555,078	32,674,635	
ACCUM DEPRE 30.6.17		7,247,844	11,644,707	3,232,574	4,307,850	10,853,828	37,286,803	
ACCUMULATED DEPRECIATION 30.6.17		31,191,764	60,274,786	11,594,144	47,139,942	45,279,331	195,479,967	
Net Book Value 30.6.17	39,796,000	239,777,433	11,447,372	14,266,457	3,107,851	43,412,346	351,807,459	
Net Book Value 30.6.16	39,796,000	175,326,110	17,308,611	15,820,953	7,415,701	40,017,426	295,684,801	



**Note 22 :Intangible Assets**

**Computer Soft ware**

	<b>COST</b>
<b>BAL AS AT 30.6.15</b>	<b>11,214,806</b>
ADDITIONS	-
DISPOSALS	-
<b>BAL AS AT 30.6.16</b>	<b>11,214,806</b>
ADDITIONS	5,601,208
DISPOSALS	-
<b>BAL AS AT 30.6.17</b>	<b>16,816,014</b>
<b>ACCUMULATED AMORTIZATION 30.6.15</b>	<b>6,276,484</b>
AMORTIZATION FOR THE YEAR	3,364,442
<b>ACCUMULATED AMORTIZATION 30.6.16</b>	<b>9,640,925</b>
AMORTIZATION FOR THE YEAR	3,103,444
<b>ACCUMULATED AMORTIZATION 30.6.17</b>	<b>12,744,369</b>
<b>Net Book Value 30.6.17</b>	<b>4,071,645</b>
<b>Net Book Value 30.6.16</b>	<b>1,573,881</b>

	<b>2017</b>	<b>2016</b>
	<b>Kshs.</b>	<b>Kshs.</b>
<b>Note 23: Capital Work-In-Progress</b>		
Resource Center	598,552,170	551,112,824
Student Hostel 750 bed capacity	330,888,577	314,323,834
Tuition and Office Block	-	71,699,167
	<u>929,440,747</u>	<u>937,135,825</u>

NB/ Construction of Tuition and Office Block is complete. Therefore, the figure of Kshs 71,699,167 has been transferred from Capital Work- In- Progress to Property, plant and Equipment under the category of Buildings as reflected in note 21(a)

**Note 23 (b) WORK IN PROGRESS MOVEMENT FOR THE YEAR ENDING 30TH JUNE 2017**

	<b>RESOURCE</b>	<b>750</b>	<b>TUITION</b>	<b>TOTAL</b>
	<b>CENTRE</b>	<b>HOSTELS</b>	<b>BLOCK</b>	
<b>Opening Balance 1.7.16</b>	<b>551,112,824</b>	<b>314,323,834</b>	<b>71,699,167</b>	<b>937,135,825</b>
Add: Additions	47,439,346	16,564,743	-	64,004,089
Less: Transfer To Buildings	-	-	(71,699,167)	(71,699,167)
<b>Closing Balance 30.6.17</b>	<b>598,552,170</b>	<b>330,888,577</b>	<b>-</b>	<b>929,440,747</b>

	<b>2017</b>	<b>2016</b>
<b>Note 24: Trade &amp; Other Payables</b>	<b>Kshs.</b>	<b>Kshs.</b>
Trade Creditors	19,553,714	21,329,868
Part time Lecturers	30,946,909	36,089,057
Contractors' Balance	1,103,910	1,116,854
Contractors' Retention Fees	34,850,810	60,491,728
Audit Fees Expense	-	696,000
Students fee overpayments	50,093,810	-
	<b>136,549,153</b>	<b>119,723,507</b>

<b>Note 25: Accumulated Capital Fund</b>	<b>Kshs</b>	<b>Kshs</b>
Balance B/F	1,048,348,975	905,011,550
Capital Grants for the year	100,475,662	143,337,425
Balance as at 30/06/15	<b>1,148,824,637</b>	<b>1,048,348,975</b>

Accumulated Capital Fund comprise of Capital grants released by the Government for the financial years 2011/12- 2015/16 and granted Assets relating to current asset and liabilities with an exception of Biological assets which is non-current asset from the period the institutions existed under Moi University.

Capital Grants 2011/2012	157,120,452
Granted Assets from Moi University*	86,322,861
Capital Grants for FY 2012/2013	239,703,675
Prior year Adjustment- tea bushes	2,053,896
Capital Grants for FY 2013/2014	201,583,999
Capital Grants for FY 2014/2015	218,226,667
Capital Grants for FY 2015/2016	143,337,425
<b>Balance as at 30.6.16</b>	<b>1,048,348,975</b>

Note: These Granted Assets relate to opening balances B/f from operations carried out at Moi University as indicated below:

<b>*Granted Assets from Moi University</b>	
Cash & Bank balances	36,484,155
Biological Assets	9,364,000
Library Books	4,196,039
Tea Farm sales & bonuses for the month of June 2011	2,683,012
Student Balances	19,119,863
Moi University	19,116,170
	<b>90,963,239</b>
Trade Creditors	(4,640,378)
<b>Total Granted Assets</b>	<b>86,322,861</b>

#### **Additional disclosures**

The University will be taking up a loan of Kshs 194M that was used to acquire granted assets from Moi University once it gets consent from National Treasury. In addition, the loan had

accrued interest and penalties of Kshs 33M as at 30<sup>th</sup> June, 2016 which will be taken by the University upon approval by Council.

	<b>2017</b>	<b>2016</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Note 26: Revenue reserve</b>		
Surplus/Deficit B/F	37,890,772	120,486,952
Surplus/Deficit for the year	4,914,539	(33,199,926)
Valuation of Biological Assets	(70,120)	285,140
Prior year Adjustment on Moi University Debtors	-	(16,861,944)
Prior year Adjustment of student balances	-	(36,844,075)
Prior Year Adjustment on Trade Creditors	-	(5,463,643)
Prior Year Adjustment on Motor Vehicle – Depreciation	-	4,120,922
Prior Year Adjustment on Computers- Depreciation	-	5,367,346
<b>Surplus/ Deficit C/F</b>	<b>42,735,191</b>	<b>37,890,772</b>



**XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. The University has nominated focal persons to resolve the various issues as shown below with the associated time frame within which it is expected that the issues will be resolved.

Ref No.	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
1	Receivables from exchange transactions of Kshs 82,171,032 as at 30 <sup>th</sup> June 2016 included Kshs. 19,116,170 in respect to student fees balance sent to Moi University bank account. The amount has been outstanding for a long period and it was not possible to confirm recoverability of the same.	The University did a reconciliation of Kshs 19,116,170 with Moi University. It was agreed upon that the amounts reported in the financial statement related to the period before 2010, i.e. when Karatina University College was still a constituent college of Moi University. Therefore, the amounts should not be considered as current assets of Karatina University as per Karatina University College order 2010, Legal Notice No.163	VC	Resolved	2016/17FY



**Prof. Mudai Muchiri, PhD**  
**Vice Chancellor**



**Dr. John Kobia Ataya, PhD**  
**Chairman of Council**

**Appendix 1: PROJECTS IMPLEMENTED BY THE UNIVERSITY**

Projects:

Project Title	Donor	Period/ Duration	Donor Commitment	Separate Donor reporting required as per donor agreement	Consolidated in these financial statements
1 Resource Centre	GoK	5 years	Yes	No	Yes
2 Student Hostel 750 bed capacity	GoK	5 years	Yes	No	Yes

**STATUS OF PROJECTS COMPLETION**

Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual per quarter	Sources
1 Resource Centre	624,429,200	571,308,691	91%	59,166,346	59,166,346	GOK
2 Student Hostel 750 bed capacity	365,725,775	335,578,291	92%	41,504,409	41,309,316	GOK
	<b>990,154,975</b>	<b>906,886,982</b>	<b>92%</b>	<b>100,670,755</b>	<b>100,475,662</b>	

**Appendix 2: INTER-ENTITY TRANSFERS**

**a) Transfers from Ministry of Education**

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income	Amount deferred under deferred income	Amount recognised in capital fund.	Total grant income during the year	2015-2016
	Kshs	Kshs	Kshs	Kshs	Kshs
Ministry of Education	570,481,942	-	100,475,662	670,957,604	710,535,790
<b>Total</b>	<b>570,481,942</b>	<b>-</b>	<b>100,475,662</b>	<b>670,957,604</b>	<b>710,535,790</b>

**Appendix 2: INTER- ENTITY TRANSFERS**

**KARATINA UNIVERSITY**

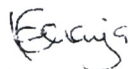
**Break down of Transfers from the State Department of University Education**

**FY:2016/2017**

a.	Recurrent Grants	Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate
		10/8/2016	47,123,495.80	2016/17
		26/08/2016	47,123,495.80	"
		30/9/2016	47,123,495.00	"
		9/11/2016	47,123,495.00	"
		13/12/2016	47,123,495.00	"
		30/12/2016	47,123,495.00	"
		9/2/2017	47,123,495.00	"
		15/3/2017	47,123,495.00	"
		7/4/2017	47,123,495.00	"
		2/5/2017	47,123,495.00	"
		2/6/2017	47,123,495.00	"
		27/6/2017	47,123,503.00	"
		6/7/2017	5,000,000.00	"
		<b>Total</b>	<b>570,481,949.60</b>	
b.	Development Grants	Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate
		18/11/2016	14,791,586.00	2016/17
		18/11/2016	10,376,102.00	"
		20/12/2016	24,007,995.00	"
		23/3/2017	26,327,382.00	"
		10/5/2017	24,972,597.00	"
		<b>Total</b>	<b>100,475,662.00</b>	

The above amounts have been communicated to and reconciled with Ministry of Education

Ms. Grace Kakiya



Deputy Finance Officer  
Karatina University

Mr. Laban K. Kimemia



Chief Accountant  
Ministry of Education