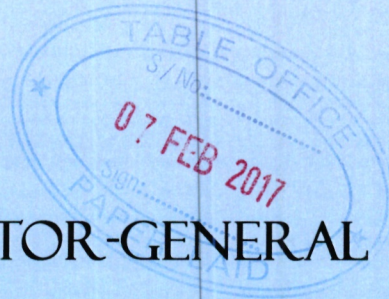


REPUBLIC OF KENYA



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REPORT

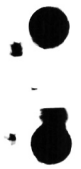
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KARATINA UNIVERSITY**

**FOR THE YEAR ENDED
30 JUNE 2016**





Inspiring Innovation and Leadership

KARATINA UNIVERSITY

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

FOR THE PERIOD ENDING 30TH JUNE 2016

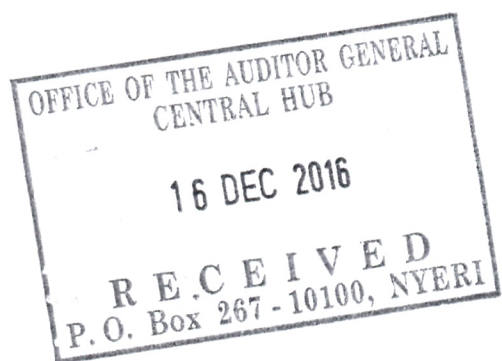


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I. KEY UNIVERSITY INFORMATION AND MANAGEMENT

a) Background

Karatina University was chartered on 1st of March 2013 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
Email: 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 year ended 30th June 2016 and who had direct fiduciary responsibility were:






S no.	Designation	Name	Functions
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 matters of the University
3	Deputy Vice Chancellor (ARSA)	Prof. Penina 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 governance and 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, 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 13-16.




II. MEMBERS OF THE UNIVERSITY COUNCIL

Title	Names	Qualification
Council Chairman	Prof. Charles O. Okidi 	B.A. (Magna Cum Laude) Alaska Methodist University, M.A, M.A.L.D., Ph D (The Fletcher School of Law and Diplomacy) – Tufts University
Vice Chancellor / Secretary	Prof. Mucai Muchiri 	B.Sc. (Hons) (University of Nairobi), Ph.D. (University of Leicester)
Member	Ms. Jane Mumbi Weru 	LLB. (University of Nairobi), Dip. Law(KSL), M.Sc. (London School of Economics)
Member	Mr. Tejpal S. Bedi 	B.Sc. (Hons) (University of Wales), MBA (University of Leicester)

Member	<p>Ms. Grace Jemutai Kemei</p> 	<p>LLB (University of Nairobi), Master in Law (University of Nairobi)</p>
Member	<p>Mr. Musau Antony Kiilu</p> 	<p>B.Com (University of Nairobi), MBA (Birmingham University)</p>
Rep. MoEST	<p>Mr. Charles Obiero</p> 	<p>B.Ed (Arts) (Kenyatta), Dip. Personnel Mgt (ICS, London) Honours Dip. Mgt (Cambridge- London), PGD (Guidance and Counseling) (IMTRI, India), M.Ed (Admin.) (MVNU, India)</p>
Rep. National Treasury	<p>Ms. Lucy Kariuki</p> 	<p>CPA(K), MBA (Maastricht School of Management / ESAMI)</p>
Member	<p>Mr. Silas Laimaru</p> 	<p>B.Com (University of Nairobi), MBA (USIU), CoP (Insurance College of Kenya), CPA(K)</p>

III. MANAGEMENT TEAM

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

S No.	Name	Key Professional/ Academic Qualification	Area of responsibility
5.	Dr. Humphrey R. Omondi 	B. Ed-Arts, M. Phil, D.Phil. (Moi)	Registrar (Planning, and Administration)
6.	Ms. Grace G. Kakiya 	BBM (MOI), MBA (Egerton) CPA (K)	Deputy Finance Officer
7.	Ms. Ann Mumbi 	LLB (Nairobi) Dip. Law (KSL)	Legal Officer

IV. COUNCIL CHAIRMAN'S REPORT

On behalf of Karatina University, I am pleased to present the Annual Report and Financial Statements for the year ended 30th June 2016. This is the fourth year since the award of Charter to Karatina University.

During the financial year 2015/16, financial commitments were geared towards implementation and reviewing the University's first strategic plan which covered a five year period to 2017. The first Strategic Plan had set out the process of putting up primary infrastructure suited to give support to academic programmes being the core function of the University. Following the award of Charter, the plan had to be adjusted as appropriate to reflect the new aspirations. I am proud to note that most of the goals set out in the plan were indeed achieved. These include growth in student numbers, competitive recruitment of staff and development of infrastructure to support academic programmes.

The University therefore developed the second strategic plan for the period 2015 – 2020 during the financial year 2015/16 to build on the already laid foundation. The focus in the new strategy is to propel the University towards achieving the envisaged status of being a centre of academic excellence. The plan will act as a guide for resource mobilization, utilization and management in order to improve efficiency and effectiveness in service delivery to staff, students and other stakeholders.

The Council achieved in enhancing quality assurance of science courses through acquisition and installation of modern equipment e.g. Absorption Spectrophotometer (AAS) at a cost of Kshs. 7 million among others for students practicals and staff research. These equipments will go a long way in ensuring that our students are equipped with relevant skills therefore increasing their marketability.

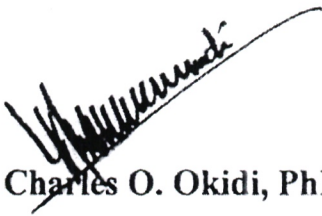
In addition, Council made great strides in enhancing service delivery by launching the Customer Service Delivery Charter as well as ISO 9000 2008 certification; monitoring the implementation of Enterprise Resource Planning software (ERP) which is at an advanced stage and enhancing internet connectivity through installation of a high mast to host more powerful transmitters.

The University has witnessed significant growth of the University assets and capital base that has promoted a good learning and teaching environment for both students and staff. In this regard, I wish to thank members of Council who have provided useful insight to the University Management making it possible to collectively make progress. The Council remains committed to building on the foundation laid down so far and will work closely with the University management led by the Vice-Chancellor in order to realize further development. Council is also pleased with the efforts of University management to ensure prudent management of resources.

I thank the Government for its financial support so far that has made it possible to implement

the University functions and programmes. However, I would like to appeal for more funding for capital development. This will enable the institution build new infrastructure that will support the growing student population.

Finally, I also wish to thank parents, guardians and students for their continued support and dedication, even as we together strive to achieve greater heights of excellence.



Prof. Charles O. Okidi, PhD

Chairman, Karatina University Council

V. VICE CHANCELLOR'S REPORT

Presented here is the Annual Report and Financial Statements of Karatina University for the year ended 30th June 2016 as required by the Universities Act 2012, Karatina University Charter and Public Financial Management Act 2012.

During the year under review, the University received from the government a recurrent expenditure grant of Kshs. 567M and total of Kshs. 143M to support capital development. The University also generated Kshs 340M that was used to finance the operations of the institution and procurement of capital equipment.

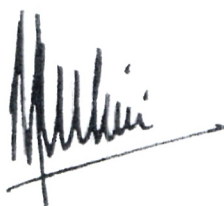
The University has continued with its core business of disseminating knowledge through, training, research, innovation and community outreach. The current student population is 6,500 and is expected to increase to 7,875 by the end of financial year 2016/2017 distributed in the various campuses namely; Main, Karatina Town and Itiati campuses. Staff population stood at 426 at the close of financial year 2015/2016 and is expected to rise to 453 for both academic and administrative staff in the next financial year.

During the financial year the University recorded significant achievements; Launch of the new Strategic Plan covering the period 2015 – 2020 with a projection to 2025, launch of Service Delivery Charter and award of ISO 9001:2008 Certificate. These achievements are indicators of the University's resolve and commitment to high standards of service delivery. Karatina University faced a number of challenges some of which was insufficiency of funds for recurrent, and development expenditure. This inadequacy of funds affected the planned functions of the University and leading to negative effect on the financial statement.

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 guidance; the entire University staff and students who worked conscientiously to ensure smooth and successful operations of the University.

Thank you.



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 will be done 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.

It is our view that governance is not just a matter for the Council; a good governance culture must be percolated through the University system. The current social-economic, business and political environment in which the University operates underscores the need for continued high standards of corporate governance and accountability. The emerging realities unmasked with the promulgation and implementation of the new constitution, an enlarged space for expression and a more enlightened clientele, calls for diligence in governance.

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. The Council has the right balance of skills and experience appropriate for the requirements of the university, all members participated in the decision making and that the council operated effectively throughout the year and continues to do so.

Board meetings

The University Council meets 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.

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

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

Note: Ms. Lucy Kariuki was appointed in January, 2016 to replace Mr. Samuel Macharia as the representative of the Principal Secretary, The National Treasury.

Council meetings and attendance

The University Council has established five standing committees that assist it to discharge its functions. These committees are:

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 held one 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 members and meetings held during the year are listed below:

S.No	Name	No of meetings attended
1	Ms. Jane Weru – Chairman	8
2	Prof. Mucai Muchiri – Vice Chancellor	8
3	Ms. Grace J. Kemei	6
4	Mr. Musau Anthony Kilu	8
5	Mr. Charles Obiero - Rep. Principal Secretary, Ministry of Education, Science and Technology Education	6
6	Ms. Lucy Kariuki - Rep. Principal Secretary, The National Treasury	4*

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

S.No	Name	No of meetings attended
1	Ms. Grace J. Kemei – Chairman	1
2	Prof. Mucai Muchiri – Vice Chancellor	2
3	Ms. Jane Weru	2
4	Mr. Tejpal S. Bedi	2
5	Mr. Silas Laimaru	2
6	Mr. Charles Obiero - Rep. Principal Secretary, Ministry of Education, Science and Technology Education	2
7	Ms. Lucy Kariuki - Rep. Principal Secretary, The National Treasury	None*

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

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

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

Induction and capacity building for Council members

The State Corporations Advisory Committee (SCAC), in response to the Executive Order No. 7 of 25th 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.

Council evaluation

During the year, 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.

The council acknowledges the need for strategic partnerships and encourages the participation of the private sector in our financial matrix. The pressing needs for more financing and the clear need for transparency makes engagement with and reporting to the government and other stakeholders shareholders more important than ever. The increasing requirement for prudent financial management has heightened the level of interest in the university's approach to risk management and assurance.

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 the governors commitment to a transparent and high-quality governance system.

VII. 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) Community Reading Day

The University held a community reading day at Gitunduti Primary School. The objective of the reading day was to inculcate a reading culture in primary school children. During the event, Karatina University donated assorted books to the Gitunduti Community Resource Centre. The University also committed itself in supporting the Community Resource Centre with library facilities and personnel services.

b) Mentorship Programme of High School Girls in Nyeri County

Staff from Karatina University led by the DVC (ARSA) held a mentorship seminar for seven (7) girls high schools at Gikumbo high school in Mathira East Sub-location on 11th July, 2015. The girls were mentored on academics, career choices and life skills. A total of five hundred and two (502) girls attended the seminar together with their teachers, Principals, Education Officers from the Teachers Service Commission and Mathira East Sub-County Education Office. According to the office of the DEO Mathira Sub-County, the performance of girls in academics before 2013 was taking downward trend. However, since Karatina University started the mentorship programme in 2013, the performance has started improving. The DEO appreciated the efforts of the University towards improving the performance of girls in the county. The University has organized such mentorship programmes twice in a year to improve the performance of girls in Nyeri County.

c) Computer Training for Primary Teachers in Mathira East Constituency

Karatina University through the support of the Member of Parliament embarked on a project to train all Primary Teachers in Mathira East Constituency on Basic Computer Skills. The programme trained a total of 780 teachers. The training of the first group took place in August, 2014 and the last group completed in August 2015. The main objective of the programme was to prepare teachers for the Government project which aims to provide laptops to primary school pupils. Through this training the University is playing a pivotal role towards the Vision 2030 thus promoting national development. Besides, this programme has enhanced our community outreach and partnership with the local leadership.

2. Environmental issues

a) Participation in International Day of the Forest

Karatina University in collaboration with the County Government of Nyeri and the Kenya Forest Service (KFS) organized events for the International Day of the Forests on the 21st March, 2016 at Gatunyaga Primary Schools in Kieni Sub-County. The objective of this activity was to encourage the community to plant trees so as to enhance the tree cover in Kenya. The University donated 5,000 trees to be planted within the towns in Nyeri County. The University participation in the organization of the event, provided an opportunity for collaboration between Karatina University, Nyeri County Government and the KFS on environmental conservation in Nyeri County.

b) Establishment of Environmental Clubs in Primary Schools

The University has started establishment of Environmental Clubs in Primary Schools since January, 2016. The clubs will be established in selected primary schools in the four sub-counties in Nyeri County. The objective of the project supported by Rufford Foundation in the UK is to inculcate environmental virtues in young children. This project is being carried out at a cost of Kshs 735,793

3. Life skills

The University through department of Social Sciences carried out life skills programmes to rehabilitate victims of Drugs and Alcohol Abuse within Central and Eastern Region. Counseling and Mentorship Sessions were done focusing on Psycho education sessions topics covering: **“Being Your Own Brand”** on 10th October, 2015; **“Tips on Maintaining Psychological Health”** on 29th October 2015; **“Relationship between Substance Abuse and Gender Based Violence, Gender and Disability Mainstreaming** on 14th November 2015.

4. Other charitable causes

The Nature Club held an Environmental Awareness week from 2nd to 7th November, 2015. The activities in the week included tree planting and cleanup of the University and it's the neighbourhood. The exercise culminated with a talk by Professor Geoffrey Wahungu the Director National Environmental Authority and other renowned environmentalists.

The School of Agriculture and Biotechnology also undertook the training of local farmers on the growing and storage of indigenous vegetables.

As part of Karatina University's outreach, fish farmers were trained on fish farming in the institution. This was followed up with demonstrations in the fish farms operating in the county. Fingerlings were also supplied to the farmers by the University.

VIII. REPORT OF THE COUNCIL MEMBERS

Karatina University Charter provides for the objectives and functions of the Council under paragraph 22 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, university s 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 Principal 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 paragraph 7 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 information 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 Year ended June 30, 2016 are set out on page 23

Council Members

The members of Council who served during the year are shown on pages 5 & 6 in accordance with Karatina University Statutes and University Act 2012.

Auditors

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

Kenya National Audit Office staffs were nominated by the Auditor General to carry out the audit of the University for the period ended June 30, 2016.

A handwritten signature in black ink, appearing to read 'Mucai Muchiri', with a horizontal line extending to the right from the end of the signature.

Prof. Mucai Muchiri
Council Secretary/ Vice Chancellor

Date: 22nd August, 2016

IX. 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.

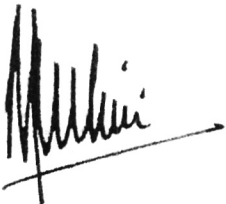
Council is responsible for the preparation and presentation of financial statements, which give a true and fair view of the state of affairs of the University as at the end of the financial period ended on 30th June 2016. This responsibility includes: (i) maintaining adequate financial management arrangements 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 (2015) 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 30th June 2016 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.

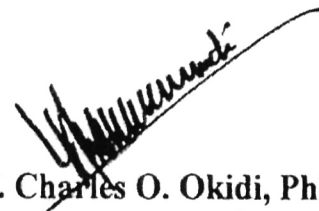
Approval of the financial statements

This statement was approved by Council on 22nd August, 2016 and it is signed on their behalf by:



Prof. Mucai Muchiri, PhD

Vice Chancellor



Prof. Charles O. Okidi, PhD

Chairman of Council

REPUBLIC OF KENYA

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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 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Karatina University set out on pages 23 to 47, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of cash flows, statement of changes in net assets 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.

Management's Responsibility 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.

The 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.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report 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. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

Receivables from Exchange Transactions

As previously reported, included in the receivables from exchange transactions balance of Kshs.82,171,032 as at 30 June 2016, is an amount receivable from Moi University of Kshs.19,116,170 in respect to students' fees that was erroneously sent to Moi University bank account over a period of time. This amount has been outstanding for long, some dating back to 2007/2008 but has not been recovered to date. Further, no provision for bad and doubtful debts has been made on these financial statements. In the circumstances, it has not been possible to confirm recoverability of this amount.

Qualified Opinion

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Karatina University as at 30 June 2016, 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.

Other Matter

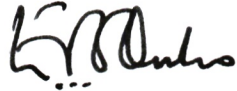
Budget overruns

During the year under review, the final approved budget for the University totalled Kshs.1,095,382,475 comprising of recurrent expenditure of Kshs.952,045,050 (87%) and development expenditures of Kshs.143,337,425 (13%). However, a review of the statement of comparison of budget and actual amounts for the year ended 30 June 2016 revealed over expenditure in seven (7) items totaling to Kshs.60,053,779 as analyzed below:

Description	Final Budget Kshs.	Actual Kshs.	Variance/Over Kshs.
Operating/Administrative Expenses			
Stationery	7,050,000	7,069,581	19,581
Publishing & Printing	1,600,000	1,617,328	17,328
Electricity Expenses	12,000,000	12,105,074	105,074
Medical Expenses	18,000,000	20,311,908	2,311,908
Academic Expenses			
University Committees	2,600,000	2,605,966	5,966
PSSP Disbursement	31,699,510	89,271,654	57,572,144
Assets			
Purchase of Computer	11,200,000	11,221,778	21,778
	84,149,510	144,203,289	60,053,779

No explanation was provided for failure to include the expenditure in the revised budget for the year under review.

My opinion is not qualified in respect of this matter.



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

Nairobi

27 January 2017

X. STATEMENT OF FINANCIAL PERFORMANCE

KARATINA UNIVERSITY
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30TH JUNE 2016

INCOME	Notes	2016 Kshs	2015 Kshs
Revenue from Non Exchange Transaction			
Government Grants	3	567,198,365	525,435,315
Amortization of Granted Assets	4	4,612,167	8,716,593
Donations	5	595,095	1,094,715
		572,405,627	535,246,623
Revenue from Exchange Transaction			
Tuition and Related Charges	6	340,184,253	377,717,725
I.G.A and Other Incomes	7	23,131,534	20,852,265
		363,315,786	398,569,990
Total Income		935,721,414	933,816,613
EXPENDITURE			
Administration Expenses	8	193,405,543	167,524,144
Employment Expenses	9	573,023,275	498,612,138
Academic Expenses	10	132,401,895	133,656,555
Repairs and maintenance	11	10,211,557	15,947,865
Board Expenses	12	10,236,494	8,572,882
Finance Expenses	13	720,686	594,152
Depreciation and amortization expense	14	48,921,889	45,895,727
Total Expenditure		968,921,339	870,803,461
Deficit/ Surplus		(33,199,925)	63,013,151



Prof. Mucai Muchiri, PhD

Vice Chancellor



Prof. Charles O. Okidi, PhD

Chairman of Council

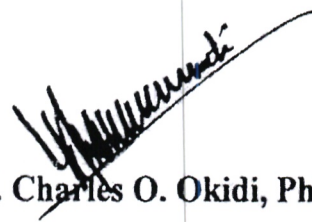
XI. STATEMENT OF FINANCIAL POSITION

KARATINA UNIVERSITY
STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2016

	Notes	2016 Kshs.	2015 Kshs.
Current Assets			
Cash & Bank Balances	15	43,997,380	28,738,165
Prepayments	16	7,601,032	6,594,409
Receivable from exchange transaction	17	82,171,032	94,358,430
Receivable from non-exchange transaction	18	-	44,706,829
Inventories	19	8,895,548	9,359,457
Total Current Assets		142,664,992	183,757,290
Non-Current Asset			
Biological Assets	20	6,097,140	6,007,936
Property, Plant & Equipment	21	283,911,214	297,609,783
Intangible Assets- Computer software	22	1,573,881	4,938,322
Capital Work in Progress	23	937,135,825	812,583,600
Total Non Current Assets		1,228,718,060	1,121,139,642
Total Assets		1,371,383,052	1,304,896,932
Current Liabilities			
Trade & Other Payables	24	114,259,863	153,584,215
Total Current Liabilities		114,259,863	153,584,215
Non-Current Liabilities			
Deferred Income - Grant	4	123,487,367	128,099,534
Total Non-Current Liabilities		123,487,367	128,099,534
Capital Funds			
Accumulated Capital Fund	25	1,048,348,975	905,011,550
Revenue Reserve	26	85,286,847	118,201,633
Total Capital Fund		1,133,635,822	1,023,213,182
Total Funds & Liabilities		1,371,383,052	1,304,896,932



Prof. Mucai Muchiri, PhD

Vice Chancellor


Prof. Charles O. Okidi, PhD

Chairman of Council

XII. STATEMENT OF CHANGES IN NET ASSETS

Karatina University
Statement of Changes in Net Asset
for the Year Ended 30th June 2016

	Capital Fund	Revenue Reserves	Total
	Kshs	Kshs	Kshs
Balance as at 30/6/14	686,784,882	59,328,744	746,113,626
Surplus/Deficit for the year	-	63,013,151	63,013,151
Capital Grants	218,226,667	-	218,226,667
Prior year adj of student balances	-	(4,140,262)	-4,140,262
Restated Balance as at 30/6/15	905,011,550	118,201,633	1,023,213,182
Surplus/Deficit for the year	-	(33,199,925)	-33,199,925
Valuation of Biological Assets	-	285,140	285,140
Capital Grants	143,337,425.00	-	143,337,425
Balance as at 30/6/16	1,048,348,975	85,286,847	1,133,635,822

NB/

Prior year adjustments on student balances relates to overstatement of tuition income for the financial year 2014/2015. This was caused by deferments of registered students not recognized in the respective student's statements. Thus comparative figure for student balances under revenue from exchange transactions and revenue reserve have been restated.

XIII. STATEMENT OF CASH FLOWS

KARATINA UNIVERSITY
STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30TH JUNE 2016

		2016	2015
Cash flow from Operating expenses	Notes	Kshs.	Kshs.
Surplus		(33,199,925)	63,013,151
Adjustment For			
Depreciation & Amortization	14	48,921,889	45,895,727
Loss of Biological Asset	8	195,936	239,616
Disposal / Loss of P,P&E	8	-	918,737
Amortization of Granted Assets	4	(4,612,167)	(8,716,593)
Overstated student Income		-	(4,140,262)
		11,305,732	97,210,376
Operating Activities			
Change in:-			
Increase / Decrease in Inventories	19	463,909	(3,064,029)
Receivable from exchange transaction	17	12,187,398	(42,997,735)
Receivable from non-exchange transaction	18	44,706,829	(6,356,108)
Increase Prepayments	16	(1,006,623)	(3,243,874)
Decrease in Accounts Payable	24	(39,324,352)	(268,291)
Cash From Operating Activities		17,027,161	(55,930,038)
Net Cash from Operating Activities		28,332,893	41,280,338
Investing Activities			
Property, Plant & Equipment	21	(31,858,878)	(66,002,159)
Capital Work-in-Progress	23	(124,552,225)	(189,903,601)
Intangible Assets- Computer software	22	-	(1,508,000)
Net cash from investing activities		(156,411,103)	(257,413,759)
Financing Activities			
Capital Reserve		143,337,425	218,226,667
Net cash flow from financing activities		143,337,425	218,226,667
Net increase In Cash & Cash Equivalent		15,259,215	2,093,246
Cash & Cash Equivalent at Start of Year	15	28,738,165	26,644,919
Cash & Cash Equivalent at End of Year	15	43,997,380	28,738,165
Analysis of Cash & Cash Equivalent			
Cash & Bank Balances		43,997,380	28,738,165

XIV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

KARATINA UNIVERSITY

STATEMENT OF BUDGET Vs ACTUAL AMOUNTS AS AT 30TH JUNE 2016 (KSHS)

S/No	DESCRIPTION	Notes	2015/16 Budget Kshs.	Adjustments Kshs.	Final Budget Kshs.	Actual Kshs.	Variance Kshs.
	INCOME						
1	Exchequer grants	1	575,481,950		575,481,950	567,198,365	(8,283,585)
2	Tuition fees and related charges	2	350,770,000		350,770,000	340,184,253	(10,585,747)
3	Catering Services		14,625,600		14,625,600	13,423,332	(1,202,268)
4	Research and Consultancies Income	3	7,000,000		7,000,000	5,368,624	(1,631,377)
5	Farm Income		2,000,000		2,000,000	2,028,812	28,812
6	Other income		2,167,500		2,167,500	2,310,766	143,266
	TOTAL RECURRENT		952,045,050	-	952,045,050	930,514,152	(21,530,898)
7	GOK Capital Grants	4	239,060,000	(95,722,575)	143,337,425	143,337,425	-
	GRAND TOTAL		1,191,105,050	-	1,095,382,475	1,073,851,577	(21,530,898)
	EXPENDITURE						
	Personnel Emoluments		Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
1	Personnel Emoluments		558,500,768		558,000,768	558,455,458	45,310
2	Casual Wages		15,000,000		15,000,000	14,567,817	432,183
	TOTAL P.E		573,500,768	-	573,000,768	573,023,275	477,493
	Board Expenses						
3	Council expenses		11,200,000		11,200,000	10,236,494	963,506
			11,200,000	-	11,200,000	10,236,494	963,506
	Operating/ Administrative Expenses						
4	Stationery		7,050,000		7,050,000	7,069,581	(19,581)
5	Vehicle Repairs & maintenance	a	4,000,000		4,000,000	3,904,016	44,884
6	Generator fuel & Maintenance	a	1,950,000		1,950,000	1,539,491	410,509
7	Fuel – Vehicles	a	5,500,000		5,500,000	4,861,369	638,631
8	Office entertainment expenses	b	480,000		480,000	462,004	17,996
9	Office expenses	b	1,960,000		1,960,000	672,681	1,287,319
10	Postal expenses		400,000		400,000	348,929	51,071
11	Publishing & printing		1,600,000		1,600,000	1,617,328	(17,328)

S/No	DESCRIPTION	Notes	2015/16 Budget	Adjustments	Final Budget	Actual	Variance
	EXPENDITURE		Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
12	Computer expenses & Maintenance		1,700,000		1,700,000	1,682,523	17,477
13	ISO training & Implementation		1,500,000		1,500,000	981,377	518,623
14	Shows & Exhibition expenses		3,000,000		3,000,000	2,582,603	417,397
15	Performance Contracting		2,000,000		2,000,000	1,741,914	258,086
16	Legal expenses		350,000		350,000	231,571	118,429
17	Strategic Plan Implementation & Monitoring & Review		1,750,000		1,750,000	1,436,348	313,652
18	Subscription to Professional Bodies		450,000		450,000	229,696	220,304
19	Professional Services		1,000,000		1,000,000	553,950	446,050
20	Newspaper & journals		2,354,400		2,354,400	1,626,730	727,670
21	Cleaning/sanitary materials		2,200,000		2,200,000	1,745,146	454,854
22	Telephone expenses		2,880,000		2,880,000	2,673,940	206,060
23	Insurance Expenses		5,500,000		5,500,000	3,763,432	1,736,569
24	Open Day & cultural celebration		600,000		600,000	421,404	178,596
25	Public celebrations & funerals		1,500,000		1,500,000	1,283,322	216,678
26	Staff Training expenses		3,400,000		3,400,000	3,029,204	370,796
27	Security services		8,500,000		8,500,000	7,882,000	618,000
28	Water & Sewerage Expenses		14,000,000		14,000,000	13,962,014	37,986
29	Electricity Expenses		12,000,000		12,000,000	12,105,074	(105,074)
30	Rent & Rates		45,188,572		45,188,572	44,923,648	264,923
31	Uniforms		1,011,800		1,011,800	992,271	19,529
32	Medical expenses	5	18,000,000		18,000,000	20,311,908	(2,311,908)
33	Advertising & publicity	6	5,000,000		5,000,000	2,806,167	2,193,833
34	Internet services	7	22,323,000		22,323,000	20,103,275	2,219,725
35	Farm expenses		1,500,000		1,500,000	1,073,448	426,552
36	Catering expenses		15,500,000		15,500,000	15,191,992	308,008
37	Audit fees		700,000		700,000	696,000	4,000
38	Travelling & Accommodation		6,410,000		6,410,000	6,142,288	267,712
39	External travelling		2,600,000		2,600,000	2,560,963	39,037
			205,857,772	-	205,857,772	193,209,607	12,597,065

S/No	DESCRIPTION	Notes	2015/16 Budget	Adjustments	Final Budget	Actual	Variance
	Academic expenses		Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
40	students activities		2,500,000		2,500,000	1,932,041	567,959
41	Curriculum development/review	8	3,250,000		3,250,000	1,192,425	2,057,575
42	External examiners		3,000,000		3,000,000	2,719,227	280,773
43	Graduation Expenses		5,600,000		5,600,000	5,571,390	28,610
44	Industrial Attachment/ Teaching Practice	9	16,557,000		16,557,000	873,099	15,683,901
45	Games & Sports		2,395,000		2,395,000	2,352,990	42,010
46	Library Subscriptions		1,500,000		1,500,000	490,000	1,010,000
47	Dean & senate committees		1,300,000		1,300,000	1,070,020	229,980
48	University Committees		2,600,000		2,600,000	2,605,966	(5,966)
49	Teaching materials		2,500,000		2,500,000	1,450,093	1,049,907
50	Field trip		14,455,000		14,455,000	11,452,445	3,002,556
51	Research expenses		4,000,000		4,000,000	3,864,057	135,943
52	PSSP Disbursement	10	31,699,510		31,699,510	89,271,654	(57,572,144)
53	Examination materials		2,500,000		2,500,000	975,670	1,524,330
54	Seminars & Conferences		4,000,000		4,000,000	3,573,319	426,682
55	Placement Board charges		2,700,000		2,700,000	2,407,500	292,500
57	Accreditation for Programmes	11	3,200,000		3,200,000	600,000	2,600,000
			103,756,510	-	103,756,510	132,401,895	(28,645,385)
	Repairs and Maintenance				-		
58	General Refurbishment		8,480,000		8,480,000	7,925,130	554,870
59	Maintenance of building		2,500,000		2,500,000	2,013,117	486,883
60	Maintenance of plant & Equipment		500,000		500,000	206,910	293,090
61	Maintenance of play grounds		2,500,000		2,500,000	26,400	2,473,600
62	Maintenance of Catering equipment	d	250,000		250,000	50,410	199,590
63	Maintenance of Hostel equipment	d	250,000		250,000	156,500	93,500
64	Water supply equipment		500,000		500,000	40,000	460,000
			14,980,000	-	14,980,000	10,418,467	4,561,533
	Total		909,295,050	-	909,295,050	919,289,739	(10,045,788)

S/No	DESCRIPTION	Notes	2015/16 Budget	Adjustments	Final Budget	Actual	Variance
	Assets		Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
65	Purchase of computer		11,200,000		11,200,000	11,221,778	(21,778)
66	ICT infrastructure		8,000,000		8,000,000	4,053,814	3,946,186
67	Purchase of library books	12	9,000,000		9,000,000	6,896,315	2,103,685
68	Purchase of Motor Vehicle		3,900,000		3,900,000	3,800,000	100,000
69	Purchase of plant & equipment		2,500,000		2,500,000	1,754,010	745,990
70	Purchase of Furniture	13	4,500,000		4,500,000	2,638,611	1,861,389
71	Purchase of Medical equipment		400,000		400,000	-	400,000
72	Purchase of Sports Equipment		750,000		750,000	39,850	710,150
73	Purchase of lab equipment		1,000,000		1,000,000	-	1,000,000
74	Purchase of Graduation gowns		1,500,000		1,500,000	1,454,500	45,500
			42,750,000	-	42,750,000	31,858,878	10,867,400
	TOTAL		952,045,050		952,045,050	951,148,617	845,335
	Development						
75	Work in progress		239,060,000	(95,722,575)	143,337,425	143,337,425	-
			239,060,000	(95,722,575)	143,337,425	143,337,425	-
	Total		1,191,105,050	(95,722,575)	1,095,382,475	1,094,486,042	845,335
	Deficit	13				(20,634,465)	

Notes to the Statement of comparison of budget and actual amounts

1. Exchequer grants

The exchequer grants has unfavourable variance of Kshs. 8.2M. This is due to cuts in the supplementary budgets that reduced capitation amounts received in the month of May and June 2016. This reduction has contributed to the deficit in the statement of financial performance.

2. Tuition and related charges

Incomes relating to tuition have unfavourable variance of Kshs 10.5M due to incomes expected to be received from tuition and other related charges reduced significantly during the fourth quarter. This is because the University did not get the number of PSSP students it had projected. This has led to huge deficit being reported in the statement of financial performance.

3. Research and consultancies

The University did not attract research and consultancies incomes as expected resulting to unfavourable variance of Kshs 1.6M during the financial period.

4. Capital funds

The University had a budget allocation of Kshs 239,060,000 but received Kshs 143,333,425 for capital development being a reduction of Kshs 95.7 M as a result of cuts in the supplementary budgets.

5. Medical expenses

The budget line for medical expense has unfavourable variance of Kshs 2.3M due to huge medical bills paid by the University to its members of staff and their beneficiaries who were hospitalized in different hospitals while undergoing treatment.

6. Advertising and Publicity

The vote for advertising and publicity has a positive variance of Kshs 2.2M as a result of advertising through electronic media rather than print media.



7. Internet Services

The positive variance of Kshs 2.2M in the vote for internet services is due to increased internet bandwidth that was provided by KENET as a cheaper rate than had been projected.

8. Curriculum development

All the Schools in the University conducted curriculum development workshops within the University premises leading to a favourable variance of Kshs 2M.

9. Industrial attachment/ Teaching practice

The favourable variance of Kshs 15.6 M under the vote for industrial attachment/ teaching practice is as result of imprests having been issued and not yet accounted for because the activities are still on- going.

10. Part-time Teaching

The unfavorable variance of Kshs 57.5M is due to claims made in respect to part-time teaching lectures for the various programmes offered by the institution during the current and previous academic years.

11. Accreditation of programmes

The University submitted only one programme for accreditation as compared to the target of six programmes during the financial year, resulting to a favorable variance of Kshs 2.6 M. This is a result of a balancing act of the facilities available and the declared student population.

12. Purchase of furniture

The University has a favorable variance of Kshs 1.8 M in the vote for purchase of furniture as a result of implementing the treasury circular on freeze of expenditure relating to purchase of furniture.

13. Deficit

The overall deficit of Kshs 21.6M reported in the statement of comparison of budget vs actuals is a result of not realizing the incomes relating to exchequer grants and A.I.A as projected in the budget. However, the expenditures were done as per the approved budgets.



**XV. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING
30TH JUNE 2016**

1. Statement of compliance and basis of preparation – IPSAS 1

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 24th 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 statements are prepared on accrual basis and presented in Kenya shillings as the functional and reporting currency of the University.

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

2. 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 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.

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). 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) 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 while Members of Council have been disclosed under board expenses in the statement of financial performance.

l) Comparative figures

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

m) Significant judgments and sources of estimation uncertainty – IPSAS 1

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.

n) 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.

	Performing	Non Performing	Total
At 30 June 2016	Kshs	Kshs	Kshs
KTDA Bonus Payment	855,260	-	855,260
Student Balances	52,364,723	-	52,364,723
Moi University	-	19,116,170	19,116,170
Total	53,219,983	19,116,170	72,336,153
As at 30 June 2015			
KTDA Bonus Payment	707,929	-	707,929
Student Balances	72,938,458	-	72,938,458
Moi University	-	19,116,170	19,116,170
Total	73,646,387	19,116,170	92,762,557

(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.

	Performing	Non	Total	Remarks
	Kshs	Performing	Kshs	
		Kshs	Kshs	
Trade Creditors	15,866,225	-	15,866,225	Within one month
Part time Lecturers	36,089,057	-	36,089,057	Within one year
Contractors' Balance	1,116,854	-	1,116,854	Within one & half month
Contractors' Retention Fees	60,491,728	-	60,491,728	Within Contract period
	113,563,864	-	113,563,864	

(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.

	2016	2015
	Kshs	Kshs
Note 3: Government Grants		
July	47,956,829	44,706,829
August	47,956,829	44,706,829
September	47,956,829	44,706,829
October	47,956,829	44,706,829
November	47,956,829	44,706,829
December	47,956,829	44,706,829
January	47,956,829	44,706,829
February	47,956,829	44,706,829
March	47,956,829	44,706,829
April	47,956,829	44,706,829
May	43,815,074	44,706,829
June	43,815,074	44,706,829
CBA Monies	-	(11,046,635)
	567,198,365	525,435,315

NB/ *The CBA monies relates to amounts transferred to UoN JAB Account to cater for 2010-2013 CBA issues across all other public universities.

	2016	2015
	Kshs	Kshs
Note 4: Deferred Income- Granted Assets		
Deferred Income	128,099,534	136,816,127
Amortization of Granted Assets	(4,612,167)	(8,716,593)
Deferred Income C/Forward	123,487,367	128,099,534

	Kshs	Kshs
Note 5: Donations		
University Events	50,000	430,000
Library Books	173,095	396,815
Needy & Vulnerable Student Fund	372,000	267,900
	595,095	1,094,715

	Kshs	Kshs
Note 6: Tuition and Related Charges		
Tuition & Accommodation JAB	175,243,268	178,486,947
Tuition & Accommodation SSP	164,129,485	198,067,278
Student Application Fees	811,500	1,163,500
	340,184,253	377,717,725

	Kshs	Kshs
Note 7: I.G.A and Other Incomes		
Kitchen Food Sales	13,423,332	11,053,746
Tea Farm	1,562,436	1,279,000
Farm & Milk Sales	466,376	734,755
Laundry	30,035	30,210
Photocopier	34,918	67,958
Conference Facilities	1,602,011	651,000
Sale of Tender document	-	66,000

INCOMES

	2016	2015
	Kshs	Kshs
Fire of Facilities	540,227	383,297
Fines	103,575	284,204
Insurance & Deposit refund	-	2,018,978
Exam remarking	-	4,000
Research funds	3,468,624	2,540,116
Consultancy & Survey works	1,900,000	1,739,000
	23,131,534	20,852,265

EXPENDITURE**Note 8: Administration Expenses**

	2016	2015
	Kshs	Kshs
Stationery	7,069,581	7,416,789
Motor vehicle expenses	10,304,876	7,365,288
Office expenses	1,134,685	1,499,508
Postage	348,929	103,020
Printing and Publishing	1,617,328	1,592,395
Computer exp	1,682,523	489,574
ISO	981,377	2,291,485
Shows and Exhibitions	2,582,603	2,889,565
Performance contracting	1,741,914	1,185,104
Legal expenses	231,571	98,867
Strategic Plan	1,436,348	5,124,032
Subscription to Professional Bodies	229,696	186,083
Professional Services	553,950	1,124,204
News papers and Journals	1,626,730	1,242,590
Cleaning materials	1,745,146	1,786,209
Telephone	2,673,940	2,209,000
Insurance	3,763,432	7,548,929
Open & Cultural Celebrations	421,404	829,905
Public celebrations and funerals	1,283,322	1,024,715
Training expenses	3,029,204	1,660,495
Security	7,882,000	6,010,719
Water & Sewer	13,962,014	11,545,994
Electricity	12,105,074	8,897,270
Rent & Rates	44,923,648	35,915,072
Staff Uniforms	992,271	554,054
Medical Expenses	20,311,908	9,326,397
Advertising	2,806,167	5,328,054
Internet Charges	20,103,275	10,576,453
Farm Expenses	1,073,448	1,735,814
Catering Expenses	15,191,992	16,626,124
Audit Fees Expense	696,000	696,000
Loss of Tea bushes	195,936	239,616
Loss of assets	-	918,737
Traveling & Accommodation	6,142,288	6,426,921

EXPENDITURE	2016	2015
	Kshs	Kshs
External Travel & Accommodation	2,560,963	1,579,160
Master plan – JKUATES	-	3,480,000
	193,405,543	167,524,144

Note 9: Employment expenses	Kshs	Kshs
Payroll expenses	558,455,458	482,074,588
Gratuity	-	6,535,970
Contract Staff expenses	14,567,817	10,001,580
	573,023,275	498,612,138

Note 10: Academic Expenses	Kshs	Kshs
Students activities	1,932,041	3,005,952
Curriculum development/review	1,192,425	3,629,740
External Examiners	2,719,227	307,708
Graduation	5,571,390	5,480,887
Industrial Attachments/ Teaching Practice	873,099	3,518,614
Games & Sports	2,352,990	1,995,920
Subscription to E-library	490,000	1,970,000
Deans & Senate expenses	1,070,020	794,505
University Committees	2,605,966	5,675,223
Teaching materials	1,450,093	2,617,256
Field trips	11,452,445	3,647,045
Research Program	3,864,057	6,424,711
Part-time Lecturers Payment	89,271,654	89,195,559
Examination material	975,670	1,038,978
Seminars & Conferences	3,573,319	4,354,458
Placement Board charges	2,407,500	-
Accreditation for Programmes	600,000	-
	132,401,895	133,656,555

Note 11: Repairs & maintenance Expenses	Kshs	Kshs
General Refurbishment	7,925,130	11,522,381
Maintenance of buildings	2,013,117	3,636,354
Maintenance of Catering / Hostel equipment	206,910	238,235
Maintenance of plant & Equipment	26,400	483,490
Maintenance of playground	-	4,050
Water Supply Expenses	40,000	63,355
	10,211,557	15,947,865

EXPENDITURE	2016	2015
	Kshs	Kshs
Note 12: Boards Expenses		
Sitting Allowance	5,480,000	5,210,000
Travelling & Subsistence	1,685,498	1,378,889
Accommodation	1,765,401	1,260,100
Other expenses	1,305,596	723,893
	10,236,494	8,572,882

Note 13: Finance Expenses	Kshs	Kshs
Bank Charges	720,686	594,152
	720,686	594,152

Note 14: Depreciation and amortization expense	Kshs	Kshs
Depreciation Buildings	5,455,365	5,455,365
Depreciation Computer & Accessories	19,549,011	14,966,333
Depreciation Library books	3,022,815	2,160,776
Depreciation Motor Vehicle	8,457,522	11,611,948
Depreciation Equipment & Furniture	9,072,734	8,336,863
Amortization of intangible assets-Computer Software	3,364,442	3,364,442
	48,921,889	45,895,727

Note 15: Cash & Bank Balances	2016	2015
	Kshs.	Kshs.
Co-operative Bank Of Kenya- Cash at bank	22,686,064	6,217,054
Kenya Commercial Bank – 1138274968	1,167,412	1,180,292
KCB - Cash at hand	23,055	42,391
Kenya Commercial Bank-1106185382	4,889,590	15,381,888
Equity Bank- Cash at Bank	14,111,259	5,916,540
Fixed Deposit (Bank Guarantee- Fuel)	1,120,000	-
Total Cash & Bank Balances	43,997,380	28,738,165

Note 16: Prepayments	Kshs.	Kshs.
Deposits : Rent (River Bank Campus)	1,385,396	1,010,730
Deposits : Rent (Town Campus)	1,058,085	1,058,085
Deposits :Fuel	1,026,750	1,026,750
Deposits : Rent (Nyeri centre)	741,849	596,070
Deposits : Rent (Nairobi Campus)	2,902,774	2,902,774
Deposits : Rent (Town Campus-Mathira)	25,073	-
Prepayment : Insurance	461,106	-
Total Prepayments	7,601,032	6,594,409

	2016	2015
	Kshs.	Kshs.
Note 17: Receivables from exchange transactions		
KTDA Bonus Payment For year 2015/16 & Tea Farm sales for the month of June 2016	855,260	707,929
Student Balances	52,364,723	72,938,458
Moi University	19,116,170	19,116,170
Imprest Debtors	9,834,879	1,595,873
	82,171,032	94,358,430
Note 18: Receivables from non-exchange transactions	Kshs.	Kshs.
MoEST - Capitation June	-	44,706,829
	-	44,706,829
Note 19: Inventories	Kshs.	Kshs.
Stores	8,895,548	9,359,457
	8,895,548	9,359,457
Note 20: Biological Assets	Kshs.	Kshs.
Tea Bushes	5,460,000	5,655,936
Cows	637,140	352,000
	6,097,140	6,007,936

KARATINA UNIVERSITY

Note (21)

FIXED ASSET SCHEDULE

	LAND	BUILDINGS	COMPUTER & ACCESSORIES	LIBRARY BOOKS	MOTOR VEHICLES	EQUIP & FURNITURE	TOTAL
COST	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
BAL AS AT 30.6.14	10,796,000	199,270,030	37,776,025	13,506,854	41,616,392	53,970,364	356,935,665
ADDITIONS	29,000,000	-	13,792,573	3,792,592	4,831,400	14,585,594	66,002,159
DISPOSALS	-	-	(905,500)	(13,237)	-	-	(918,737)
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
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
DEPRECIATION							-
ACCUMULATED DEPRECIATION 30.6.14	-	13,033,190	21,897,161	3,048,218	26,883,544	17,015,907	81,878,020
AMORTISATION FOR THE YEAR	-	3,788,913	-	524,505	4,104,426	298,749	8,716,593
DEPRECIATION FOR THE YEAR	-	1,666,452	14,966,333	1,636,271	7,507,522	8,038,113	33,814,692
DEPRECIATION 30.6.15	-	5,455,365	14,966,333	2,160,776	11,611,948	8,336,863	42,531,285
ACCUMULATED DEPRECIATION 30.6.15	-	18,488,555	36,863,494	5,208,994	38,495,492	25,352,770	124,409,304
AMORTISATION FOR THE YEAR	-	3,788,913	-	524,505	-	298,749	4,612,167
DEPRECIATION FOR THE YEAR	-	1,666,452	19,549,011	2,498,311	8,457,522	8,773,985	40,945,280
DEPRECIATION 30.6.16	-	5,455,365	19,549,011	3,022,815	8,457,522	9,072,734	45,557,447
ACCUMULATED DEPRECIATION 30.6.16	-	23,943,920	56,412,505	8,231,809	46,953,013	34,425,504	169,966,752
Net Book Value 30.6.16	39,796,000	175,326,110	9,526,185	15,950,714	3,294,779	40,017,426	283,911,214
Net Book Value 30.6.15	39,796,000	180,781,475	13,799,604	12,077,214	7,952,301	43,203,189	297,609,783

Note 22 :Intangible Assets- Computer Soft ware

BAL AS AT 30.6. 14	9,706,806
ADDITIONS	1,508,000
DISPOSALS	-
BAL AS AT 30.6.15	11,214,806
ADDITIONS	-
BAL AS AT 30.6.16	11,214,806
ACCUMULATED AMORTIZATION 30.6.14	2,912,042
AMORTIZATION FOR THE YEAR	3,364,442
ACCUMULATED AMORTIZATION 30.6.15	6,276,484
AMORTIZATION FOR THE YEAR	3,364,442
ACCUMULATED AMORTIZATION 30.6.16	9,640,925
Net Book Value 30.6.16	1,573,881
Net Book Value 30.6.15	4,938,322

Note 23: Capital Work-In-Progress

	2016	Additions For The Year	2015
	Kshs.	Kshs.	Kshs.
Resource Center	551,112,824	91,285,990	459,826,834
Student Hostel 750 bed capacity	314,323,834	33,718,909	280,604,925
Tuition and Office Block	71,699,167	(452,674)	72,151,841
	937,135,825	124,552,225	812,583,600

Note 24: Trade & Other Payables

	2016	2015
	Kshs.	Kshs.
Trade Creditors	15,866,225	22,823,690
Part time Lecturers	36,089,057	46,104,893
Contractors' Balance	1,116,854	22,725,965
Contractors' Retention Fees	60,491,728	61,233,668
Audit Fees Expense	696,000	696,000
	114,259,863	153,584,215

Note 25: Accumulated Capital Fund

	Kshs.	Kshs.
Balance B/F	905,011,550	686,784,883
Capital Grants for the year	143,337,425	218,226,667
Balance as at 30.6.16	1,048,348,975	905,011,550

Accumulated Capital Fund comprise of Capital grants released by the Government for the financial years 2011/12- 2014/15 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 Univ.	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
Balance as at 30/06/14	686,784,883

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

Granted Assets from Moi Univ.

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
	90,963,239
Trade Creditors	(4,640,378)
Total Granted Assets	86,322,861

Additional disclosures

The University will write off amounts owed by Moi University of Kshs 19,116,170 after reconciliations of the same were done as per memorandum of understanding and now waiting for an approval to be granted.

The University will be taking up a loan of Kshs 197M that was used to acquire granted assets from Moi University once it gets consent from National Treasury.

	2016	2015
	Kshs.	Kshs.
Note 26: Revenue reserve		
Surplus/Deficit B/F	118,201,633	59,328,744
Surplus/Deficit for the year	(33,199,925)	63,013,151
Prior year adjustment of student balances	-	(4,140,262)
Valuation of Biological Assets	285,140	
Surplus/ Deficit C/F	85,286,847	118,201,633

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	Property, Plant & Equipment of Kshs. 297,609,783 as at 30 th June 2015, includes land valued at Kshs. 10,796,000 which was granted by Moi University. However, title deed is in the name of Moi University. The opening balance of assets brought forward of Kshs 251,174,885 as at July 2011 did not have a signed handing over report or memorandum of understanding for audit verification.	The Property, Plant and Equipment have an opening balance of Kshs.164, 852,024 which has a signed handing over report. In addition, the University has title deed for the land valued at Kshs 10,796,000 in its name.	VC	Resolved	2015/16 FY
2	Receivables from exchange transactions of Kshs 98,498,692 as at 30 th June 2015 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 had done a reconciliation of the Kshs 19,116,170 and a memorandum of understanding was made for offsetting amounts due to Karatina University with the amounts due to Moi University during the handing over period	VC	Partly Resolved	2015/16 FY



Prof. Mucai Muchiri, PhD

Vice Chancellor


Prof. Charles O. Okidi, PhD

Chairman of Council