

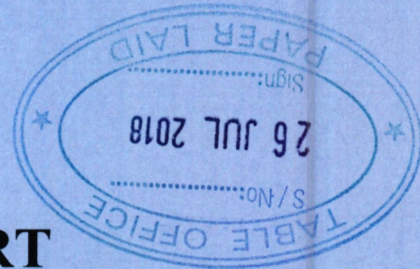
REPUBLIC OF KENYA



*Paper laid by the
Leader of majority Party
M.P.
Sunday 26/7/2018*

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REPORT

OF

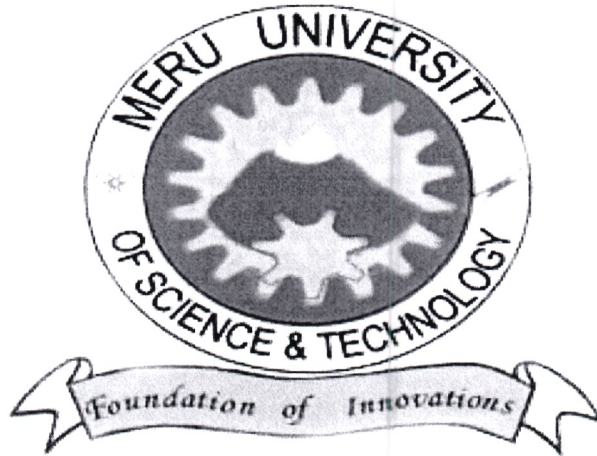
THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
MERU UNIVERSITY OF SCIENCE AND
TECHNOLOGY**

**FOR THE YEAR ENDED
30 JUNE 2017**





**ANNUAL REPORT AND FINANCIAL
STATEMENTS
FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017**

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

MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY
Reports and Financial Statements
For the year ended June 30, 2017

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I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

Through the Legal Notice No.103 of July 18, 2008, the then Meru College of Technology was upgraded to a constituent college of Jomo Kenyatta of University of Agriculture and Technology and renamed Meru University College of Science and Technology. On March 1 2013, the University acquired fully fledged university status and became Meru University of Science and Technology. The University is located 16 km from Meru town along Meru-Maua road in Meru County, Tigania West Constituency.

(b) Principal Activities

The principal activities of the University are to:

- a) provide and advance university education and training to appropriately qualified candidates leading to the conferment of degrees and award of diplomas and certificates and such other qualifications as the Council and the Senate shall from time to time determine and in so doing, contribute to labour market needs;
- b) play a leading role in the development and expansion of opportunities for higher education and research in agriculture, forestry, mining, energy, water and environmental sciences on arid and semi-arid lands;
- c) contribute to industrial and technological development through innovations and technology transfer;
- d) contribute to agricultural, industrial and technological development of Kenya in collaboration with industry and other institutions through transfer of appropriate technology

(c) Key Management

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

- University Senate
- University Management Board

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Vice Chancellor	Prof. Japhet K. Magambo
2.	Deputy Vice Chancellor (Administration, Finance and Planning)	Prof. Charity W. Gichuki
3.	Deputy Vice Chancellor (Academic, Research and Student Affairs)	Prof. Gitonga Mburugu Nkanata
4.	Registrar (Administration and Planning)	Dr. Elijah Walubuka
5.	Registrar (Academic, Research & Student Affairs)	Prof. Peter Wafula Masinde
6.	Finance Officer	CPA Nephath Njeru
7	Deputy Registrar (Human Resources)	Ms. Evelyne Gitonga

(e) Fiduciary Oversight Arrangements

Audit Committee of the Council activities

The Audit Committee of the Council assists the Council in fulfilling its responsibilities with respect to accounting and management control, and financial reporting.

Specifically, the Audit Committee is responsible for overseeing:

- The internal audit function and the work of external auditor,
- That the system of the management control in the University is robust and effective and protects the assets of the University on a reasonable and economic basis,
- Ensures that financial information is reliable and accurate,
- Monitors compliance with laws and regulations,
- Provides for proper authorization and recording of transactions.

The Committee had five members.

(f) The University Headquarters

Meru University of Science and Technology

Physical Address: Meru-Maua Road, 16 Kilometres from Meru Town

P.O Box 972 – 60200, **MERU**

(g) Entity Contacts

Telephone: (254) 0704 508 454

E-mail: finance@must.ac.ke, vc@must.ac.ke

Website: www.must.ac.ke

P.O Box 972 – 60200, Meru -Kenya

(h) University Bankers

1. National Bank of Kenya – Meru Branch
P.O Box 1774 – 60200, **MERU**
2. Kenya Commercial Bank Ltd- Meru Branch
P.O Box – 178 – 60200, **MERU**
3. Equity Bank –Makutano Branch
P.O. Box 3137 -60200, **MERU**
4. Cooperative Bank- Makutano Branch
P.O. Box 1328-60200, **MERU**

(i) Independent Auditors

Auditor General
Office of the Auditor General,
Anniversary Towers, University Way,
P.O. Box 30084 GOP 00100,
Nairobi, Kenya




(j) Principal Legal Adviser

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






II. THE UNIVERSITY COUNCIL

Council is the University's highest governing body, responsible for setting the general strategic direction of the institution, for ensuring proper accountability, and for the management of its finances, property and investments and the general business of the university. It approves the University's key policies and plans pertinent to its three core functions: teaching, research and public service. In that connection, the Council makes sure that the University always maintains high standards in the three core areas just mentioned. To ensure that MUST really does this, the Council reviews its performance from time to time. It also appoints persons to various leadership positions in the University. The University Council is composed of the Chairperson and eight members. All the members other than the Vice Chancellor are drawn from outside the University.

The following are the Council members who served during the period:

<p>1. PROF. DULACHA GALGALO BARAKO</p> 	<p>Chairman of the Council:</p> <p>Prof. Barako was born in the year 1969. He served as Treasurer to the Council of Moi University (2009 – 2012), and Chairman of Council of Dedan Kimathi University of Technology (2013 – 2017). He was appointed Chairman of Council of Meru University of Science and Technology in March 2017. He is a member of the <i>Institute of Public Accountants</i>, Australia as well as the <i>Accounting and Finance Association of Australia and New Zealand (AFAANZ)</i>. He is also a member of the Institute of Certified Investment and Financial Analysts, Kenya (ICIFA – K) as well as member Kenya Institute of Management (KIM).</p> <p>He completed Bachelor of Commerce (1993) and Master of Business Administration (1996) degrees at the University of Nairobi. He completed his PhD at the University of Western Australia. He₂ is published widely in accounting and finance.</p>
<p>2. MS. FELICITY BIRIRI</p> 	<p>Member:</p> <p>Felicity N Biriri holds a Bachelor of Arts degree in Human Resource Management and a Master's degree in Conflict Resolution and Peace Management from Kenyatta University.</p> <p>Ms. Biriri has also undergone professional trainings on Corporate Governance, Enterprise Risk Management, Performance Management, Project and Contract Compliance and the Mwongozo Code of Ethics among others.</p> <p>Ms. Biriri is a Human Resource professional with more than 18 years' experience in various sectors including banking, advertising and manufacturing. Ms. Biriri has sat in several Boards such as Geothermal Development Company, Kenya Private Sector Alliance (KEPSA) and is a trustee of the KEPSA Foundation, COMESA-FEMCOM, Moi University Council, the National Environmental Ombudsman NECC and The Kenya Pipeline Company. She is the current Chairperson of the Kenya Pipeline Company Retirement Benefits Scheme.</p>
<p>3. MS. MARY MUGO</p> 	<p>Member:</p> <p>Ms. Mary Mugo was born in the year 1968. She holds a Bachelor of Education (Business Studies and Economics) degree from University of Nairobi and a Master of Arts (Counselling Psychology) from Kenyatta University.</p> <p>Ms. Mugo is a long-serving education specialist having worked in the Government of Kenya as a Civil Servant for over 20 years and over 5 years in Non-Government Organizations. She has worked in the education sector at different capacities including leadership and management, policy development, education programming, engagement and partnership. She taught at Tala High School from 1991 to 1995, and then moved to the Ministry of Education headquarters as the Peace Education National Coordinator. She has also served in the Office of the President as the Chief Government Counsellor. She later joined Teachers Service Commission and served for two years as the Senior Principal Administration officer. She joined World Vision Kenya in 2012 and served as an Associate Director of Education and Protection till 2016. She is currently the Country Director, Build Africa Kenya Country Office.</p>

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<p>4. Mrs. MARGARET M MUKOBA</p> 	<p>Member: Mrs Mukoba was born in the year 1967. She holds a Master Degree in Business Administration from the United States International University (USIU-A) with a double concentration in Strategic Management and in IT management. She also has a Bachelor of Technology degree in Electrical and Communications Technology from Moi University, and a certificate in Financial Markets from the Securities Institute of Australia. Mrs Mukoba is a certified professional in IT Governance and a certified Information Security Manager.</p> <p>Mrs. Mukoba is a business executive and ICT professional with over 25 years of experience in a career spanning ICT services, News & information, Agriculture and Manufacturing industries. She has held senior management roles in a commercial environment in planning and implementing corporate and IT strategy, leading corporate teams in dealing effectively with technology related risks and deriving maximum value from data and technology enabled business processes; identifying, assessing and advising on IT risks and controls, and relating them to the wider business environment.</p>
<p>5. MR. OMAR KASSIM ABIKAR</p> 	<p>Member: Mr. Omar Kassim was born in the year 1962. He holds a Master of Business Administration (Strategic Management) from Moi University and Higher Diploma in Water Engineering. He is registered Tech. Engineer with Engineers Registration Board.</p> <p>Currently, he is the Executive Director of Kenya Muslims Charitable Trust, an NGO working in the areas of Development, Health, Education, Humanitarian, Culture and Environmental programs among others. He has previously worked with Ministry of Water Development, National Water Conservation & Pipeline Corporation and Telkom Kenya in various capacities. He has undertaken various Consultancies, Evaluations and Research studies in Project Management.</p>
<p>6. MR. ROBERT KIPKIRUI MUTAI</p> 	<p>Member: Mr. Kipkirui was born in the year 1977. He holds a Master in Business Administration degree (JKUAT) and an Electrical & Electronics Engineering degree (JKUAT). He is also an advance management graduate of Strathmore/IEESE Business School.</p> <p>Mr. Kipkurui is a telecommunications Leader with over 15 years' experience in ICT sector. Currently, he serves as head of Technology Strategy, Assurance & Governance at Safaricom.</p>
<p>7. DR. MESHACK OPWORA</p> 	<p>Member: Dr. Meshack Chuma Opwora was born in the year 1966. He holds a PhD from the University of Newcastle, Australia. He also holds a Master of Business Administration from Kenyatta University and a Bachelor of Education in Educational Administration and Planning from the University of Nairobi.</p> <p>Dr. Opwora is the acting Director of Technical Education. He represents the Permanent Secretary, Department of University Education, in the Council</p>
<p>8. MR. KENNETH ODHIAMBO</p> 	<p>Member: Mr. Kenneth A Odhiambo is a holder of Higher Diploma in Human Resources Management (HRM), from Technical University of Kenya, a Bachelor of Arts degree from University of Nairobi. he is currently pursuing a master degree in HRM at Moi University.</p> <p>Mr Odhiambo has over 21 years' working experience in HRM and in the public service. He represents the Principal Secretary (National Treasury) in the Council</p>

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9.	PROF. JAPHET K. MAGAMBO	<p>Vice Chancellor and Ex Officio Member: Prof. Japhet K Magambo holds an M.Sc. (Wales, UK) and a Ph.D (University of New Brunswick, Canada). He has carried out many research works and published extensively.</p> <p>Prof. Magambo was the Vice Chancellor and the Chief Executive Officer of the University during financial year 2016/17. He was appointed the first Principal of Meru University College of Science and Technology in the year 2009. He became the first Vice Chancellor after the University was chartered in 2013.</p>
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COMMITTEES OF THE COUNCIL




Name of the Committee	Members
Finance Committee	1. Ms. Felicity Biriri 2. Mr. Kenneth Odhiambo 3. Dr. Meshack Opwora 4. Mr. Robert K. Mutai 5. Mrs. Margaret M. Mukoba
Audit Committee	1. Mr. Omar Kassim 2. Mr. Kenneth Odhiambo 3. Dr. Meshack Opwora 4. Ms. Mary W Mugo 5. Mrs. Margaret M. Mukoba
Human Resource	1. Mrs. Margaret M. Mukoba 2. Mr. Kenneth Odhiambo 3. Dr. Meshack Opwora 4. Ms. Felicity Biriri 5. Ms. Mary W Mugo
Academic	1. Ms Mary W. Mugo 2. Mr. Kenneth Odhiambo 3. Dr. Meshack Opwora 4. Mr. Robert K. Mutai 5. Mr. Omar Kassim

III. MANAGEMENT TEAM

Management team that served during financial year 2016/17

<p>1. Prof. Japheth K. Magambo</p> 	<p>The Vice Chancellor PROF. JAPHET K. MAGAMBO, M.Sc. (Wales, UK), Ph.D. (University of New Brunswick, Canada)</p>
<p>2. Prof. Charity W Gichuki</p> 	<p>The Deputy Vice Chancellor (Administration, Finance and Planning) PROF. CHARITY W. GICHUKI, BVM. (UoN), Ph.D. (Glasgow)</p>
<p>3. Prof. Gitonga Mburugu Nkanata</p> 	<p>The Deputy Vice Chancellor (Academic, Research and Students Affairs) PROF. GITONGA N. MBURUGU, B.Ed. (UoN), MSc. (UoN), Ph.D (University of Dundee, Scotland)</p>
<p>4. Dr. Elijah Walubuka</p> 	<p>Registrar (Administration and Planning) DR. ELIJAH WALUBUKA, (MIHRM), (FKIM), BA (Daystar), MBA (Egerton), Ph.D. (Kabarak)</p>

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<p>5. Prof. Peter Wafula Masinde</p> 	<p>Registrar (Academic, Research and Student Affairs)</p> <p>PROF. PETER W. MASINDE, BSc. (JKUAT), MSc. (UoN), Ph.D. (Hannover, Germany)</p>
<p>6. CPA Nephath Njeru</p> 	<p>Finance Officer</p> <p>CPA NEPHATH NJERU, B. Com (KU), MBA(JKUAT), CPA (K)</p>
<p>7. Evelyne Gitonga</p> 	<p>Deputy Registrar (Human Resources)</p> <p>MS. EVELYNE K. GITONGA, MBA (KU)</p>

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IV. CHAIRMAN'S STATEMENT

I am delighted to report that the Financial Year and Academic Year 2016/2017 has been another good year for our University.

Successes

During the financial year 2016/17, a total of 1,270 students graduated as compared to 948 students who graduated in the financial year 2015/16. In the same period, the alumni association of Meru University of Science and Technology was officially launched with Architect Dr. James Kimathi appointed as the first chairman of the association.

Since its inception, the University has been attempting to move squatters out of the University land. The squatters had been occupying more than 20% of the University land. In December 2016, the University managed to amicably move them out and settle them outside the University land.

The University received positive result from an audit conducted by Commission for University Education during the year. The audit was carried out in all universities in Kenya- public and private.

On 31 August 2016, the University became the first university in Kenya to be ISO 9001: 2015 certified. This is an indication of the commitment the university has in providing quality services of the world class standard.

Challenges

The University encountered a number of challenges during the year. In February and March 2017, the academic staff in all public universities downed their tools. Our second and third semesters were interrupted. The second semester which would have begun in the first week of January 2017 began in March to June 2017. The third semester which would have begun in May 2017 was scrapped. The staff were demanding for an increment in their basic pay and house allowances.

The number of students joining the parallel programmes in universities in Kenya has continued to decline. In the calendar year 2016, all the students who attained a C+ and above were absorbed by Kenya Universities and Colleges Central Placement Services (KUCCPS). The number that joined our university's parallel program during the year declined significantly.

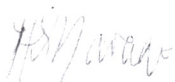
The University is committed to implementing its strategic plan. However, it is forced to curtail its operation as a result of the reduced capitation. The University relies heavily on government funding with over 70% of the budget coming from the government.

Way Forward

The above challenges have negatively impacted on the University performance. However, the University has taken actions to manage costs in order to improve the operating performance for the subsequent years.

In the financial year 2017/18, the University will focus its efforts on continuing the implementation of its strategic plan and transformation towards a world-class university of excellence in science and technology. The University will focus on excellent teaching staff, high quality teaching, physical and technological infrastructure, student experience, support provision, student retention and employability. Through judicious financial management, MUST will be able to maintain its high academic standards, while ensuring that critical infrastructure and academic projects and maintenance of existing assets are not compromised.

Credit is owed to our tremendous staff, students and alumni, and friends in government, industry, philanthropists at all levels of communities. I would like to thank all up-front, because the efforts you put enable MUST to make valuable contributions to society. The journey ahead may be increasingly difficult, but let us not be weary as difficult roads will often lead to beautiful destinations.



PROF. DULACHA GALGALO BARAKO
CHAIRMAN OF COUNCIL

V. REPORT OF THE VICE CHANCELLOR

I have the pleasure to present the annual report for Meru University of Science and Technology (MUST) for the year ended 30 June 2017

Financial Performance

During the year, the University reported gross income of Kshs 840,160,437. Out of this, Kshs. 553,088,149 was capitation grant from the Government while Kshs. 287,072,288 was generated internally as Appropriation in Aid. The University also received Kshs. 181,360,618 from the government for capital expenditure.

Growth

For the last seven years, the University has made great strides in becoming one of the leading institutions of higher learning in Kenya. It has witnessed expansion in demand-driven academic programmes and a rapid increase in student enrolment. Academic programmes are designed with the needs of the Nation in focus. To provide manpower equipped with professional and technological skills for the rapid economic growth of Kenya, the University established the School of Nursing.

Outlook

The challenge of lack of funds will persist and will follow us to the next financial year. However, the University will keep a tight cost base and commitment towards increasing the internally generated funds.

Appreciation

On behalf of the management team, I would like to thank the Council for their good counsel; timely guidance and decision making that enabled us succeed in our mission. I also wish to express my appreciation to the entire staff for their dedication and hard work and the Government and all other stakeholders for their support.



PROF. CHARITY W. GICHUKI, BVM. (UoN), Ph.D. (Glasgow)

Ag VICE CHANCELLOR

VI. CORPORATE GOVERNANCE STATEMENT

The Council and Management are bound by the highest standards of integrity in carrying out their responsibilities and in the relationship of the University with stakeholders. The Council has overall responsibility for the management of the University. Decisions on operational matters are delegated to senior management and the Council receives presentations from the officers on specific issues.

The Council has four (4) scheduled meetings per annum.

Committees of the Council

The following are the committees of the council:

- i. Finance Committee
- ii. Audit Committee
- iii. Academic Committee
- iv. Human Resources Committee

Finance Committee

The Finance Committee is responsible for monitoring and advising Council on the financial health of the university, including the financial strategy, budget setting, annual accounts, investment activity, and consideration of capital expenditure. The Committee also has responsibility for monitoring institutional level Key Performance Indicators in order to measure and monitor university performance against agreed strategies and targets. The Committee also monitors and advises on the conduct of the university's estates/infrastructure activity including revenue and capital expenditure. The Committee may draw on professional expertise beyond that available within the Council membership.

Audit Committee

The Audit Committee has responsibility for monitoring the effectiveness of the university's risk management, control and governance arrangements, along with the arrangements to promote economy, efficiency and effectiveness throughout the institution, and advises the Council accordingly. The Committee exercises oversight over internal audit arrangements. It considers internal audit reports and recommendations for the improvement of the university's systems of internal control, together with management's responses and implementation plans. The Committee also exercises oversight over external audit arrangements, such as the nature, scope and effectiveness of the process, and considers the audit aspects of the institution's financial statements.

Human Resources Committee

The Committee monitors and reviews the development and implementation of good governance practice. The Committee is responsible for the oversight of human resource strategy, policies and associated procedures including the use of performance and development systems, indicators and benchmarks.

Committees have four scheduled meetings in a year but meetings may be convened at other times as and when necessary.

VII. MANAGEMENT DISCUSSION AND ANALYSIS
SECTION A

The University's operational and financial performance

The University received a total revenue of Kshs. 840,160,437 during the financial year as compared to Kshs. 903,253,558 in the previous year. The University received a total of Kshs. 553,088,149 as capitation grant. The amount was the same as the previous year. The University received a total of Kshs 258,942,829 as Tuition and Other Fees compared to Kshs 322,785,401 in the previous year. This was a 20% decrease in the revenue. Two factors contributed to that situation: the lecturers' strike in January to March 2017 which caused the university to lose a semester and the poor performance in 2016 KCSE which led to admission of very few students in the parallel program.

The expense for the year was Kshs. 898,354,589 as compared to the previous year's expenditure of Kshs. 817,413,227. The expenditure went up as a result of increased number of students and staff and also due to inflation.

The University reported a deficit of Kshs. 58,194,151 as compared to a surplus of Kshs. 85,840,331 in the previous year.

The University is wary about future financial sustainability given the fact that the support from the government keeps declining year after year.

- The recurrent grant from the Ministry of Education for the financial year 2016/17 was Kshs. 553,088,149, same as the allocation for the financial year 2015/16. The cost of living in financial year 2016/17 was higher than in the year 2015/16. Inflation had depreciated the value of the shilling. The university also had expanded in terms of students' numbers, staff numbers, and the number of facilities. Therefore, the running cost had increased despite the capitation remaining constant. In future, the recurrent grant is unlikely to increase at the rate of the increase in running costs.
- Revenue from Tuition and Other Fees also declined as a result of fewer students joining the parallel programs. The number is unlikely to increase in the near future given that the issue of low numbers of students joining the universities is a being experienced nationally.
- The development grants from the government have declined significantly over the years.

Way Forward

The University will avoid going into technical insolvency by increasing income generated and managing cost so that marginal cost is equivalent to marginal revenue.

- **Increase Revenue**

The University will venture into other sources of revenue generation. Other than government grants and fees from students, the University will explore other income generating activities.

- **Manage Cost**

The University Management will institute cost management strategies. The Management will ensure that wastages are eliminated and efficiency is increased. We shall embrace

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innovation and automation in our operations. Further, we shall benchmark with the best universities or other organizations in order to adopt the best practices in our operations.

All decisions will be made prudently. When making decisions, the financial implications of the decisions will be considered.

We shall focus on consolidating what we already have instead of starting new projects, departments or faculties. We shall merge roles where they have been duplicated.

We shall strictly adhere to the budget allocations.

SECTION B

The University's compliance with statutory requirements

The University complied with all statutory requirements. The University withheld taxes where it was required to do so. All withheld taxes, payroll deductions-NHIF, NSSF, PAYE, Pension and other deductions were paid fully and on time.

SECTION C

Key projects and investment decisions the University is planning/implementing

The University is undertaking the following major projects:

No	Project	Budget	Budget	Remarks
		2017/2018	2017/2018	
1	Fence	5,000,000		Ongoing
2	Sewerage	2,000,000		Ongoing
3	Water Reservoir and distribution	40,000,000		Ongoing
4	Construction of Sports fields	70,000,000		Ongoing
5	Construction of Foundry	7,000,000		Ongoing
6	Engineering Complex Phase 2	93,000,000		Ongoing
7	ICT Infrastructure	60,000,000		Improvement
8	High light masts	3,000,000		Ongoing
9	Gas tank wall	300,000		Ongoing
10	Nursing Multi-Specialty Laboratory	6,500,000		Improvement
11	Animal Health Laboratory	7,000,000		Improvement
12	Nursing and Health Science Building	200,000,000		New
	Subtotal - Buildings		493,800,000	
13	Other Equipment and Machinery		12,000,000	
14	CCTV		6,000,000	Ongoing
15	Laboratory Equipment		20,000,000	
16	Soft-wares		6,000,000	
17	Biometric System		2,000,000	Ongoing
18	Furniture, Fixtures, and Fittings		30,000,000	

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19	Computers		20,000,000	
20	Biological Assets		3,000,000	
TOTAL CAPITAL BUDGET			592,800,000	

The ongoing projects were initiated in the Financial year 2016/17 and will be completed in the Financial Year 2017/18.

SECTION D

Major risks facing the University

Operational risks

The University is located in a water deficient region. Most of the water consumed in the University comes from boreholes. Water supplied by Meru Water and Sanitation Ltd would help in increasing the water supply, but it requires an investment of over Kshs. 80 million. Limited water supply brings about health concerns.

The Government and the public universities staff unions concluded a Collective Bargaining Agreement (CBA) which gave the employees a basic salary increment of 17% and house allowance of 3 %. The budget allocation for the Financial year 2017/18 for Meru University of Science and Technology had already been done before the agreement. Therefore, the increment was not factored in the budget. The government provided funds for arrears accumulated up to June 2017. The university is likely to experience financial problems due to the additional wage burden.

Just like in any other establishment in Kenya, the risk of terrorism is real. The University has invested heavily in a bid to mitigate against the risk by installing a biometric system, CCTV cameras in sensitive places, security men at the entrance of major buildings and having armed security men in the university for 24 hours a day. Even with these measures, the University perimeter fence (diameter of 7.5 km) is poorly fenced (chain link). It is possible for an individual to cut through chain link and entre the compound from any direction. The solution is a stone fence.

The number of students joining the university under the parallel programme has been declining year after year. The parallel programme is a major source of revenue for the University. Financial sustainability of the University is therefore under threat.

SECTION E

Material arrears in statutory/financial obligations

The University did not have any material financial obligation during the year.

SECTION F

The University's financial probity and serious governance issues

There were no financial improbity reported during the year.

No governance issues were reported during the year.

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

The University continues to have a significant involvement in its local community. During the year, the University was involved in promotion of sporting activities among the local community. Local primary and secondary schools, as well as local clubs, teams and youth groups, used the University playground for training and competitions. Local schools and community used our conference hall for meetings and other activities such as Sunday services.

The University offered to the members of local community free services in the following areas:

- The School of Agriculture and Food Science carried out free tests and advice on body mass index.
- The School of Public Health carried out free Cancer screening.

As part of the environmental conservation, the university carried out tree planting exercises within the university compound. The University also conducted cleaning exercises at Nchiru Market and other surrounding shopping centres. The local community was involved in the exercises which served as examples of environmental conservation.

The University management meets regularly with representatives from local communities and associations. Topics encompass regional engagement with University activities and areas of common interest.

IX. REPORT OF THE COUNCIL

The University Council submits its report together with the audited financial statements for the year ended June 30, 2017 which show the state of the University's affairs.

Principal activities

The principal activities of the University continue to be provision and advancement of university education and training to appropriately qualified candidates leading to the conferment of degrees and award of diplomas and certificates and such other qualifications as the Council and the Senate may from time to time determine and in so doing, contribute to labour market needs.

Results

The financial performance results of the University for the year ended June 30, 2017 are set out on page 1.

University Council

The members of the University Council who served during the year are shown on pages v to vii.

Auditors

The Auditor General is responsible for the statutory audit of MUST in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015. The Auditor General carried out the audit of the University for the year ended June 30, 2017 as per the Constitution.

By Order of the Board



Prof. Charity W Gichuki
Council Secretary/ Ag. Vice Chancellor
Date: 25 April, 2018

X. STATEMENT OF COUNCIL'S RESPONSIBILITIES

Section 81 of the Public Finance Management (PFM) Act, 2012 and section 14 of the State Corporations Act, require the University Council to prepare financial statements in respect of that University, which give a true and fair view of the state of affairs of the University at the end of the financial year/period and the operating results of the University for that year/period. The University Council is also required to ensure that the University keeps proper accounting records which disclose with reasonable accuracy the financial position of the University. The University Council is also responsible for safeguarding the assets of the University.

The University Council is responsible for the preparation and presentation of the University's financial statements, which give a true and fair view of the state of affairs of the University for and as at the end of the financial year ended on June 30, 2017. This responsibility includes:

- (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the 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 assets of the University;
- (v) selecting and applying appropriate accounting policies; and
- (vi) making accounting estimates that are reasonable in the circumstances.

The University Council accepts responsibility for the University's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public-Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The University Council is of the opinion that the University's financial statements give a true and fair view of the state of University's transactions during the financial year ended June 30, 2017, and of the University's financial position as at that date. The University Council further confirms the completeness of the accounting records maintained by the University, which have been relied upon in the preparation of the University's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the University Council to indicate that the University will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The University's financial statements were approved by the Council on 27 September, 2017 and signed on its behalf by:


Vice Chancellor


Chairman


Council Member

XI. REPORT OF THE AUDITOR GENERAL

REPUBLIC OF KENYA

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Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Meru University of Science and Technology set out on pages 1 to 31, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, 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, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Meru University of Science and Technology 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 Basis for Qualified Opinion and Other Matter Sections of the report, based on the procedures performed, I confirm that, nothing 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 Qualified Opinion

1.0 Property, Plant and Equipment

1.1 Construction of an Engineering Tuition Block

Included in the property, plant and equipment balance of Kshs. 1,660,240,417 as at 30 June 2017 was Kshs. 474,896,783 spent on the construction of the Engineering Tuition Block. The project was awarded to Newspace Creations contractors on 6 December 2011 at a contract price of Kshs. 474,896,783 and a contract time of sixty-eight (68) weeks from 6 December 2011 to 26 March 2013 as per paragraph five (5) of the Contract Agreement. However, a physical inspection carried out on 13 March 2018 revealed that the project had not been completed, four years after the completion deadline and it was not possible to ascertain whether it would be completed at the

contracted price. Further, no certificates of completion were availed to show the percentage of work done. The building was to be built up to three floors but the contractor was doing the second floor at the time of the physical verification on 13 March 2018. No records were made available to show that there was a contract time extension.

In the circumstances, the propriety and value for money for the expenditure of Kshs.474,896,783 for the construction of the engineering tuition block could not be confirmed as at 30 June 2017.

2.0 Irregular Procurement of Advertisement Services

Included in the operational expenses balance of Kshs.733,523,014 was Kshs.7,623,850 spent on advertising and publicity which further included four payments totaling to Kshs.3,676,040 made to Nation Media Group for advertisement purposes. A review of the supporting documents however revealed that the supplier was directly procured contrary to the requirements of Section 103(2)(a) of the Public Procurement and Asset Disposal Act, 2015.

In the circumstances, the propriety and value for money for the expenditure of Kshs.3,676,040 as at 30 June 2017 cannot be confirmed.

3.0 Financial Performance

The statement of financial performance for the year under review reflects a huge performance decline of Kshs. 143,934,482, (168%) from a surplus of Kshs. 85,840,331 for the financial year 2015/2016 to a deficit of Kshs. 58,194,151 for the year under review. An analysis of revenue and expenditure revealed that the University's annual recurrent grant from the Ministry of Education was Kshs.553,088,149, an amount similar to the previous year's grant. Revenue from exchange transactions however reduced by 18% from Kshs.350,165,487 in the previous year to Kshs 287,033,222 in the year under review. On the other hand, the University's expenditure increased by 7% from Kshs.817,413,227 in the previous year to Kshs.877,343,522 in the year under review. Although the going concern status of the University is not threatened, this may change in future if the decline in performance continues.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Meru University of Science and Technology 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 qualified opinion.

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. Except for the matters described in the Basis for Qualified Opinion and Other matter sections of my report, I have determined that there were no Key Audit Matters to communicate in my report.

Other Matter

1.0 Ethnic Balancing

As in the previous year, a review of human resource management documents made available for audit verification revealed that the University has not complied with Section 7 (1)(2) of the National Cohesion and Integration Act, 2008 (Revised 2012) which requires that no public establishment shall have more than one third of its staff from the same ethnic community.

Meru University of Science and Technology had a total staff of three hundred and fifty-two (352) as follows.

Ethnic Community	No of Staff	Percentage(%)
Meru	254	71.60
Kikuyu	29	8.20
Embu	14	4.00
Luo	12	3.40
Luhya	10	2.90
Kamba	9	2.50
Kisii	9	2.54
Kalenjin	8	2.25
Borana	4	1.13
Maasai	1	0.30
Rwandese	1	0.30
Taita	<u>1</u>	<u>0.90</u>
Total	<u>352</u>	<u>100.0</u>

Out of the total of 352 employees, 254 (71.6%) were from the dominant ethnic community while those from other communities comprised only 28.4 (28%) of the establishment.

In view of the foregoing, Meru University of Science and Technology was in breach of the provisions of the National Cohesion and Integration Act, 2008 (Revised 2012).

2.0 Budgetary Control and Performance

During the year under review, the University had a budgeted revenue of Kshs.840,095,507 while the actual receipts were Ksh.840,160,437. On the other hand, the budgeted expenses were Ksh.914,620,094 but the actual expenditure was 898,304,590 resulting in under expenditure of Ksh.16,315,504 as analysed below;

Comparison of Budget and Actual Amounts			
Item	Final Budget Kshs.	Actual on Comparable Basis Kshs.	Performance difference Kshs.
	2016/2017	2016/2017	2016/2017
Revenue			
Government Grant	553,088,150	553,088,149	-1
Tuition and other Fees	265,934,600	258,942,829	-6,991,771
Other incomes	21,072,757	28,129,459	7,056,702
Total Revenue	840,095,507	840,160,437	64,930
Expenditure			
Personnel Emoluments	607,061,158	574,687,065	32,374,093
Council Expenses	9,000,000	9,529,553	(529,553)
Operation/Administrative cost	230,213,535	207,727,794	22,485,741
Maintenance	14,821,214	17,512,157	(2,690,943)
Depreciation and Armotisation	53,524,187	88,848,021	(35,323,834)
Total Expenditure	914,620,094	898,304,590	16,315,504

Consequently, the University did not operate within the approved budget and this might have had a negative impact on service delivery.

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 sustainability of services and using the applicable 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.

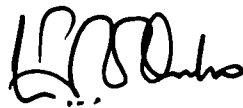
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- 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 to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the University to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the 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 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

27 June 2018

MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY
Reports and Financial Statements
For the year ended June 30, 2017

XII. STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2017

	Note	2016-2017 Kshs.	2015-2016 Kshs.
Revenue from non-exchange transactions			
Grants in Aid	3	553,088,149	553,088,071
		553,088,149	553,088,071
Revenue from exchange transactions			
Tuition and other Fees	4	258,942,829	322,785,401
Other Income	5	28,129,459	27,380,087
		287,072,288	350,165,487
Total revenue		840,160,437	903,253,558
Expenses			
Operational Expenses	6	733,523,014	692,984,578
Academic Costs	7	36,313,551	27,801,568
Administration Costs	8	15,244,381	13,614,750
Student Welfare	9	24,425,622	15,402,929
Depreciation	10	88,848,021	67,609,403
Total expenses		898,354,589	817,413,227
Surplus / (Deficit)		(58,194,151)	85,840,331

The notes set out on pages 6 to 31 form an integral part of these Financial Statements

MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY
Reports and Financial Statements
For the year ended June 30, 2017


XIII. STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Note	2016-2017	2015-2016
Assets			
Current Assets			
		Kshs	Kshs
Cash and cash equivalents	11	481,927,892	374,158,778
Prepayments	12	15,234,678	11,843,742
Receivables from exchange transactions	13	18,844,383	48,110,435
Inventory	14	6,902,806	4,544,434
		522,909,759	438,657,390
Non-current assets			
Property, plant and equipment	15	1,660,240,417	1,631,631,772
Biological Assets	16	800,400	724,800
Intangible Asset (ERP)	17	20,278,211	23,175,098
		1,681,319,028	1,655,531,669
Total assets		2,204,228,787	2,094,189,059
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	18	141,387,391	179,454,229
Provisions	19	45,643,500	8,403,750
Deferred Income	20	-	12,349,650
Total liabilities		187,030,891	200,207,629
Net assets		2,017,197,896	1,893,981,430
Capital	21	2,070,060,703	1,888,700,087
Reserve Fund	22	(68,631,602)	(18,439,095)
Revaluation Reserve	23	15,768,795	23,720,440
Total net assets and liabilities		2,017,197,896	1,893,981,430

The Financial Statements set out on pages 1 to 5 were signed on behalf of the University Council by:



CPA Nephath Njeru
 Member No. 7145
 Finance Officer
 Date: 25 April, 2018


 Prof. Charity W. Gichuki
 Ag Vice Chancellor
 Date: 25 April, 2018

Prof. Duhacha Galgalo Barako
 Chairman of the Council
 Date: 25 April, 2018

MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY
Reports and Financial Statements
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**XIV. STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2017**

Details	Capital	Revaluation Reserve	Revenue Reserve	Total
Balance as at 1 July 2015	1,688,652,361	39,758,224	(104,279,426)	1,624,131,159
Development Grants	200,047,724	-	-	200,047,724
Surplus	-	-	85,840,331	85,840,331
Depreciation	-	(16,037,784)	-	(16,037,784)
Balance as at 30 June 2016	1,888,700,085	23,720,440	(18,439,095)	1,893,981,430
Development Grants	181,360,618	-	-	181,360,618
Prior Year Adjustment	-	-	50,000	50,000
Deficit	-	-	(58,194,152)	(58,194,152)
Excess Depreciation due to Revaluation	-	(7,951,645)	7,951,645	-
Balance as at 30 June 2017	2,070,060,703	15,768,795	(68,631,602)	2,017,197,896

Revenue Reserve

Revenue reserve is the accumulated surpluses/deficits made by the University over the years.

Capital

Capital is composed of:

- The assets inherited from Meru College of Technology in July 2009 less liabilities as at that time.
- The accumulated development funds from the Government of Kenya or other external donors since the financial year 2008/09.

Revaluation Reserve

Revaluation reserve was created in the financial year 2014/2015 when the computers and motor vehicles were revalued. Subsequently, depreciation of computers and motor vehicles is charged to this account until it is fully exhausted.

Excess Depreciation due to Revaluation: This is the amount transferred from Revaluation Surplus to Revenue Reserve. The amount is computed as follows:

Details	Amount	Rate	Excess Depreciation due to Revaluation
Revaluation Surplus-Computers	14,857,950	20%	2,971,590
Revaluation Surplus -Motor Vehicles	24,900,274	20%	4,980,055
Revaluation Surplus	39,758,224		7,951,645

MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY
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XV. STATEMENT OF CASH FLOWS
AS AT 30 JUNE 2017

	NOTE	2016/17 KSHS.	2015/16 KSHS.
Surplus for the year		(58,194,151)	85,840,331
Adjustment for :			
Add: Prior Year Adjustment	23	50,000	-
Gain Revaluation of biological asset	17	(75,600)	(203,300)
Depreciation Charge	10	88,848,021	67,609,403
Operating surplus before working capital changes		30,628,270	153,246,434
Decrease(increase) in Debtors		25,875,116	13,719,260
Decrease(increase) in Stocks		(2,358,372)	1,720,972
Increase(Decrease) in Creditors		(13,176,738)	5,967,585
		10,340,006	21,407,817
Net cash generated from Operating Activities		40,968,275	174,654,251
CASH FLOWS FROM INVESTING ACTIVITIES			
Buildings		-	(128,750,705)
Work In Progress		(79,521,361)	(65,069,851)
Furniture & Fittings		(12,929,665)	(27,341,657)
Computers		(3,248,478)	(714,219)
ERP		-	-
Motor Vehicle		(13,721,440)	-
Machinery & Equipment		(5,138,835)	(24,477,081)
Net cash flows from investing Activities		(114,559,779)	(246,353,513)
CASH FLOWS FROM FINANCING ACTIVITIES			
Grants allocated to Finance Capital Fund		181,360,618	200,047,724
Net Increase (Decrease) in cash and cash equivalents		107,769,114	128,348,462
Cash and cash equivalents at beginning of year		374,158,778	245,810,316
Cash and cash equivalents at end of year		481,927,892	374,158,778

Meru University of Science and Technology
Reports and Financial Statements
For the year ended June 30, 2017

XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE PERIOD ENDED 30 JUNE 2017

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	Remarks
	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017	
	Kshs	Kshs	Kshs	Kshs	Kshs	%
Revenue						
Grants in Aid	553,088,150	-	553,088,150	553,088,149	(1)	0%
Tuition and other Fees	337,934,600	(72,000,000)	265,934,600	258,942,829	(6,991,771)	-3%
Other Income	26,072,757	(5,000,000)	21,072,757	28,129,459	7,056,702	33%
Total income	917,095,507	(77,000,000)	840,095,507	840,160,437	64,930	
Expenses						
Operational Expenses	859,788,466	(94,520,000)	765,268,466	733,523,014	31,745,452	4%
Academic Costs	72,082,178	(16,000,000)	56,082,178	36,313,551	19,768,627	35%
Administration Costs	30,302,079	(12,300,000)	18,002,079	15,244,381	2,757,698	15%
Student Welfare	38,358,984	(16,615,800)	21,743,184	24,425,622	(2,682,438)	-12%
Depreciation	53,524,187	-	53,524,187	88,848,021	(35,323,834)	-66%
Total expenses	1,054,055,894	(139,435,800)	914,620,094	898,354,589	16,265,505	
	(136,960,387)	62,435,800	(74,524,587)	(58,194,151)	(16,200,575)	

NOTES

The performance was adversely affected by lecturers strike during the year and poor performance of Kenya Certificate of Secondary Education (KCSE) in the year 2016. These two events necessitated the revision of the budget and caused the variances.

Lecturers' Strike

The strike happened in January 2017 when the second semester had just started. The strike continued to March when the strike was called off and the semester began afresh. The semester ended on 30 June 2017. The third semester which would have started in May 2017 was cancelled. Consequently, there was a decrease in the expected tuition and other fees from students. Further, the expenditure was also affected. Due to cancellation of a semester, there was less expenditure in terms of examination expenses, teaching materials, field trips as per (b) above. Due to cancellation of the semester also, the administration expenditure such as stationery, travelling and accommodation also declined as per (c). There was fear that the strike would affect the sales from the students' cafeteria. However, sales remained as initially budgeted. The revision of the budget downwards brought about the variance of +33%

Poor Performance of KCSE

It adversely affected the number of students joining the parallel programme which in turn affected tuition and other fees.

Meru University of Science and Technology
Reports and Financial Statements
For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS

GENERAL INFORMATION

The University is established by and derives its authority and accountability from University Act 2012. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya.

STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The entity's financial statements have been prepared in accordance with and comply with International Public-Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

ADOPTION OF NEW AND REVISED STANDARDS

Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

Standard	Impact
IPSAS 33: First time adoption of Accrual Basis IPSAS	(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs. It allows first-time adopters three years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period. The University adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply to it.
IPSAS 34: Separate Financial Statements	(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 34, Separate Financial Statements. IPSAS 34 prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements. The University does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.
IPSAS 35: Consolidated Financial Statements	Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 35, Consolidated Financial Statements. IPSAS 35 establishes principles for the preparation and disclosure of consolidated financial statements when an entity controls one or more entities. It requires an entity that controls one or more other entities to assess control over those entities based on the following: <ul style="list-style-type: none">• Its power over the other entity• Its exposure or rights to variable benefits from involvement with the other entity• Its ability to control the nature, timing and amount of benefits from the other entity.

Meru University of Science and Technology
Reports and Financial Statements
For the year ended June 30, 2017

Standard	Impact
	<ul style="list-style-type: none"> • Its ability to control the nature, timing and amount of benefits from the other entity. • Once control is assessed the controlling entity is supposed to prepare consolidated financial statements unless it meets all the criteria under section 5 of IPSAS 35. <p>The University does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.</p>
IPSAS 36: Investments in Associates and Joint Ventures	<p>(Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 36, Investments in Associates and Joint Ventures. The Standard prescribes for the accounting for investments in associates and joint ventures and to set out requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard shall be applied by all entities with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest.</p> <p>The University does not have investments in associates or joint ventures.</p>
IPSAS 37: Joint Arrangements	<p>(Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 37, Joint Arrangements. IPSAS 37 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly.</p> <p>The University does not have an interest in a joint arrangement and therefore the standard does not apply.</p>
IPSAS 38: Disclosure of Interests in Other Entities	<p>(Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 38, Disclosure of Interests in Other Entities. IPSAS 38 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with, its interests in controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows.</p> <p>The University does not have any interests in other entities and therefore the standard does not apply</p>

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

Standard	Effective date and impact:
IPSAS 39: Employee Benefits	<p>Applicable: 1st January 2018</p> <p>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</p>

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Standard	Effective date and impact:
	ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.

Early adoption of standards

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue from non-exchange transactions – IPSAS 23

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the University and can be measured reliably.

Government Grants and Assistance

Financial assistance provided by the Government is recognised in the year it was received or when the entitlement for the revenue is established. Most of the government grants and assistance received are considered to be contributions. A contribution occurs when the University receives an asset without having to give equal value to the other party / parties of the transfer. If the consideration received is in the form of a contribution, the income is to be recognised as revenue when all of the following conditions have been satisfied:

the University obtains control of the contribution or the right to receive the contribution;
it is probable that the contribution will flow to the University; and
the amount of the contribution can be reliably measured.

Income is therefore, only recognised when the University has control over the contribution, which is usually achieved through receipt or when entitlement for the revenue is established. If the government contributions are received with conditions attached, and contributions have to be refunded if the conditions are not met, then revenue should not be recognised until all of those conditions are met and treated as income in advance or monies held from the government.

Revenue from exchange transactions – IPSAS 9

The University recognises revenue arising from the following transactions and events:
student fees and charges;
the rendering of services; and
other revenue.

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Measurement of Revenue

Revenue is measured at the fair value of the consideration received or receivable, where in most cases, the consideration is in the form of cash or cash equivalents.

Recognition of Revenue

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that the future economic benefits will flow to the University and specific criteria have been met for each of the following activities as described below.

Student Fees and Charges

Student fees and charges are recognised as revenue in the year which the service is provided to students. Student fees and charges received that relate to the service to be rendered in the future period are treated as income in advance.

Rendering of Services

Revenue recognition based on contracts to provide services require income to be recognised in stages of completion often as a percentage of services performed to the total of services to be provided as stipulated in the contract. Revenue associated with the sale of services is recognised by reference to the stage of completion of the transaction at the reporting date when the outcome of a transaction involving the rendering of services can be estimated reliably. The outcome of a transaction can be estimated reliably when all of the following conditions are satisfied:

- i. the amount of revenue can be measured reliably;
- ii. it is probable that the economic benefits associated with the transaction will flow to the University;
- iii. the stage of completion of the transaction at the reporting date can be measured reliably; and
- iv. the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the University. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

Other Revenue

Other revenue represents miscellaneous income and other grant income not derived from core business and is recognised when 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

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the University recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as

a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

d) Financial instruments – IPSAS 29

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The University determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Impairment of financial assets

The University assesses at each reporting date whether there is objective evidence that a financial asset or an entity of financial assets is impaired. A financial asset or a University of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the University of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors are experiencing significant financial difficulty
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults).

e) Inventories – IPSAS 12

Inventory is measured at cost upon initial recognition. After initial recognition, inventory is measured at the lower of cost and net realizable value.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the University.

f) 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.

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.

g) Nature and purpose of reserves

The University creates and maintains reserves in terms of specific requirements. The University has one reserve namely Revenue Reserve.

Revenue Reserve is composed of accumulated surplus or deficits.

Capital is composed of the following:

- value of non-current assets as at 30 June 2009,
- development grants received from the government from July 2009 to date, and
- transfers from Revenue Reserve. Capital expenditure over and above the development grants from the Government is financed by the Revenue Reserve.

h) 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.

i) Employee benefits – IPSAS 25

Retirement benefit plans: The University provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which the University pays fixed contributions into a separate University Pension Scheme (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

j) Related parties – 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. Members of key management are regarded as related parties and comprise the Chancellor, the Council members, the Vice Chancellor, the Deputy Vice Chancellors, and senior managers.

k) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank and also call accounts.

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) Subsequent events – IPSAS 14

The University adjusts the financial statement for events after the reporting date together with the appropriate disclosures. The University adjusts the amount recognised in its financial statement to reflect the adjusting events after reporting date. Some examples of adjusting events include:

- i) Settlement after the reporting date of a court case
- ii) The receipt of information after reporting date indicating that an asset was impaired at the reporting date
- iii) Determination after reporting date of the cost of an asset purchased before reporting date
- iv) Discovery of fraud or errors that show that the financial statements were incorrect.

1. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY–IPSAS 1

The preparation of the University's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The University based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the University. Such changes are reflected in the assumptions when they occur.

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 University
- 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

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The following are the estimated useful lives of the various assets:

Details	Rate of depreciation	Life
Buildings	4%	25 years
Furniture & Fittings	10%	10 years
Computers	20%	5 years
Motor Vehicles	20%	5 years
Machinery & Equipment	10%	10 years
Biological Asset	Not depreciated	
Work in Progress	Not depreciated	
Land	Not depreciated	

It is the policy of the University to charge full year's depreciation on the year of purchase and nil depreciation on the year of disposal.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 36.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

2. POLICY ON BIOLOGICAL ASSETS

The University recognises a biological asset or agricultural produce when and only when:

- the University controls the asset as a result of past events;
- it is probable that future economic benefits associated with the asset will flow to the University; and
- the fair value or cost of the asset can be measured reliably.

In agricultural activity, control may be evidenced by, for example, legal ownership of cattle and the branding or otherwise marking of the cattle on acquisition, birth, or weaning. The future benefits are normally assessed by measuring the significant physical attributes. A biological asset is measured on initial recognition and at the end of each reporting period at its fair value less costs to sell. Cost may sometimes approximate fair value, particularly when:

- little biological transformation has taken place since initial cost incurrence or
- the impact of the biological transformation on price is not expected to be material

If an active market does not exist, the University uses one or more of the following, when available, in determining fair value:

- the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the reporting period;
- market prices for similar assets with adjustment to reflect differences; and
- sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat.

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Notes to the Financial Statements Continued...

3. GRANTS IN AIDS

a) Monthly Capitation:

	2016/17 KSHS	2015/16 KSHS
Capitation	553,088,149	553,088,071

The money was received on monthly basis from the Department of University Education in 12 equal instalments of Kshs 46,090,679.

b) Transfers from Ministries, Departments and Agencies

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	553,088,149	-	181,360,618	734,448,767	753,135,873
Total	553,088,149	-	181,360,618	734,448,767	753,135,873

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Notes to the Financial Statements Continued...

NOTE	DETAILS	2016/17 <u>KSHS</u>	2015/16 <u>KSHS</u>
4	TUITION AND OTHER FEES		
	Tuition Fees	146,871,127	193,421,705
	ID/Registration Fees	3,682,220	4,842,600
	Examination Fees	30,032,109	35,444,072
	Material Development Fees	8,731,900	5,741,700
	Laboratory Workshop Materials Fees	4,264,000	2,431,000
	Medical Fees	17,769,410	18,553,908
	Computer Fees	9,221,490	10,278,880
	Library Fees	6,126,250	7,481,690
	Activity Fees	5,910,980	7,222,280
	Field Trips/Attachment Fees	16,213,333	27,176,458
	Clinical Transport-Field	40,000	-
	Course Retake	-	12,163
	Examinations Remarking	7,000	17,000
	Application Fees	676,010	851,045
	Accommodation fee	9,397,000	9,310,900
	SUB-TOTAL	258,942,829	322,785,401
5	OTHER INCOMES		
	a) Other incomes		
	Surcharges and Fines	373,517	2,395,497
	Printing and Photocopy	107,867	117,780
	Library Fines	45,428	56,051
	Transport Charges	514,602	2,067,366
	Sale of Tender Documents	2,000	17,000
	Miscellaneous Income	643,138	513,743
	Hospital Income	978,058	1,778,013
	Hire of Equipment	-	5,950
	Food Science Sales	114,040	61,320
	Chemistry sale of Detergent Income	7,250	9,050
	Gain on revaluation: Biological assets	75,600	203,300
	Rental Income-Safaricom Mast	120,000	-
	Farm Sales -Dairy Farm	206,170	247,490
	Farm Sales -Food Crops	658,902	893,531
	Farm Sales -Grass	1,554,875	931,683
	Farm Sales - Fish	11,270	9,600
	Agriculture Dept Income-Demo farm	22,370	-
	Graduation Fees	4,099,500	2,893,000
	Hire of Academic Attire	663,200	472,000
	Students P.A.Y.E Sales	6,361,462	7,131,492
	Staff Cafeteria Sales	7,427,047	6,983,740
	Discount Received	39,066	-

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NOTE	Notes to the Financial Statements Continued... DETAILS	2016/17 <u>KSHS</u>	2015/16 <u>KSHS</u>
	SUB-TOTAL	24,025,362	26,787,606
	b) Income for Deposits and Call Accounts		
	Interest on Deposits	3,654,097	345,982
	c) Donations		
	Donations and Gifts	450,000	246,500
	TOTAL OTHER INCOMES	28,129,459	27,380,088
6	OPERATIONAL EXPENSES		
	a) Personnel Emoluments		
	Basic Salary	205,743,869	196,596,806
	House Allowance	119,871,970	110,506,788
	Bus fare Allowance	15,303,439	16,176,942
	Use of own Car Allowance	26,223,772	22,710,451
	Non Practice Allowance	1,440,000	1,440,000
	Entertainment Allowance	8,844,131	7,820,100
	Responsibility Allowance	11,920,417	10,148,163
	Extraneous Allowance	5,531,149	4,682,803
	Leave Allowance	1,447,120	1,391,090
	Passage and Baggage	262,620	182,250
	Risk Allowance	144,000	143,000
	Domestic Work Allowance	1,890,000	1,890,000
	Book Allowance	960,000	630,000
	Management Allowance	5,334,999	3,840,000
	Water and Electricity Allowance	881,667	877,000
	Telephone Allowance	4,691,971	4,268,466
	Tender Allowance	196,000	10,000
	VC Commuter Allowance	240,000	240,000
	Duty House Allowance	2,160,000	2,160,000
	Security Allowance	1,080,000	1,080,000
	Acting Allowance	182,289	180,288
	Casual Wages	16,145,693	13,044,260
	Part-Time Teaching	103,300,175	98,987,878
	Overtime	134,112	466,198
	Students' Work Study Programme	240,000	680,430
	Gratuity	6,756,590	4,816,652
	Pension -Employer's Contribution	33,048,081	29,201,281
	NSSF -Employer	-	97,200
	Other Personnel Allowance	-	459,205
	Nonuse of official car allowance	713,001	-
	SUB-TOTAL	574,687,065	534,727,252

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Notes to the Financial Statements Continued...

NOTE	DETAILS	2016/17 <u>KSHS</u>	2015/16 <u>KSHS</u>
	b) Maintenance Costs		
	Marimba Centre Maintenance	1,580,940	5,050,477
	Maintenance of Plant and Machinery	446,685	78,276
	Maintenance of Furniture and Fittings	2,550	153,549
	Maintenance of Buildings	6,355,990	4,204,755
	Maintenance of Water and Sewerage	839,121	1,269,794
	Maintenance of Roads	1,036,474	218,523
	Maintenance of Grounds	1,762,684	1,231,657
	Motor Vehicle Repair and Maintenance	3,515,912	3,223,451
	Maintenance of Computers	1,580,185	642,301
	Computer Software Maintenance	391,616	749,161
	SUB-TOTAL	<u>17,512,157</u>	<u>16,821,944</u>
	c) Council Expenses		
	Council Sitting Allowance	3,641,000	3,286,176
	Council Subsistence	3,157,600	3,466,184
	Council Monthly Honoraria	936,774	960,000
	Council Fare	347,804	114,000
	Council Mileage	944,170	1,089,667
	Council Telephone	58,548	60,000
	Council Air Travel	424,925	565,283
	Council Lunch	18,732	16,000
	SUB-TOTAL	<u>9,529,553</u>	<u>9,557,310</u>
	d) Other Operational Expenses		
	Advertising & Publicity	7,623,850	6,052,067
	Audit Fees	1,070,000	870,000
	Bank Charges -O.D. Interest, Ledger Fee	593,501	1,431,845
	Chancellor Expenses	1,200,000	1,229,390
	Community Welfare		14,500
	Conferences and Seminars	2,379,128	3,104,574
	Contracted Professional Charges	1,862,865	2,699,562
	Directorate of Quality Assurance		20,000
	Drug Abuse Prevention		15,000
	Electricity	6,899,921	8,119,764
	Security Services	15,430,280	14,608,700
	External Travel	107,787	571,595
	Gender and Disability Expenses	18,000	27,430
	Generator Expenses	864,201	566,719

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Notes to the Financial Statements Continued...

NOTE	DETAILS	2016/17 <u>KSHS</u>	2015/16 <u>KSHS</u>
	Hire of Equipment & Machinery	12,500	-
	HIV AIDS Prevention		7,000
	Insurance	23,264,577	22,778,999
	Internet	13,354,045	10,642,529
	ISO Expenses	1,326,140	2,008,755
	Legal Fee	129,369	1,368,815
	Library Expenses	731,525	6,990,142
	Medical Expenses -Out Patient	3,510,828	5,293,220
	Medical Supplies	4,348,621	3,780,154
	Motor Vehicle Fuel	73,712	4,326,240
	Newspaper & Journals	405,266	138,575
	Performance Contracting	711,899	570,330
	Postal and Telegram	155,211	119,190
	Public Celebrations	60,400	45,200
	Publishing, Printing and Photography	75,000	-
	Rent and Rates	19,063,896	18,864,291
	Sanitation	14,112,624	8,347,313
	Show Expenses	710,091	451,680
	Uniform and Clothing	896,792	363,476
	KBT662N Total Fuel card	89,927	-
	KBG309C Total Fuel Card	209,899	-
	KBT 611N Total Fuel Card	310,461	-
	KBN223E Kobil Fuel Card	439,899	-
	KBL 423G Total Fuel Card	323,759	-
	KBK 648Q Total Fuel card	336,629	-
	KBU 127T Total Fuel Card	581,329	-
	KBN 226E Kobil Fuel Card	103,671	-
	KBJ 011U Kobil Fuel Card	269,094	-
	KCA 164F Kobil Fuel Card	483,446	-
	KBJ 110U Total Fuel Card	88,033	-
	KBL 424G Total Fuel Card	308,351	-
	KBU 111T Total Fuel Card	84,266	-
	KBU 089T Total Fuel Card	185,121	-
	KCA 165F Kobil Fuel Card	65,616	-
	KBT 610N Total Fuel Card	228,839	-
	KBG 332C Kobil Fuel Card	334,579	-
	KCH 861Q Total Fuel Card	41,000	-
	KBR 456U Total Fuel Card	40,000	-
	KBT 016N Total Fuel Card	15,000	-
	Dental Optical Expenses	1,468,710	1,073,400
	Official Entertainment	79,600	50,400
	Subscription Expenses	231,400	1,468,983

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Notes to the Financial Statements Continued...

NOTE	DETAILS	2016/17	2015/16
		<u>KSHS</u>	<u>KSHS</u>
	Industrial Training Fee	1,495,205	-
	Stock Variance	1,657,092	-
	SUB-TOTAL	<u>130,462,955</u>	<u>128,019,838</u>
	Dairy Production Expenses	435,655	774,395
	Farm Crops Inputs	408,311	147,004
	Farming/Production Costs	206,160	1,056,635
	Purchases	281,159	1,880,200
	SUB-TOTAL	<u>1,331,285</u>	<u>3,858,234</u>
	TOTAL OPERATIONAL EXPENSES	<u>733,523,014</u>	<u>692,984,578</u>
7	ACADEMIC COSTS		
	Student Admission Expenses	322,300	86,300
	Quality Assurances CUE Expenses	400,540	2,790,000
	Programme Inspection Expenses	14,804	950,000
	Travel and Accommodation Academic	2,696,803	1,122,493
	Field Trips	1,769,900	502,620
	Graduation Expenses	9,365,135	6,741,265
	Industrial Attachment	4,117,415	836,298
	KUCCPS		33,200
	University Research Expenses	2,226,403	1,817,182
	Stationery Academic	3,014,020	4,475,519
	Student Examinations	2,146,000	2,874,917
	Teaching Materials	5,947,590	3,274,182
	Telephone Academic	49,450	29,750
	Training -Academic Staff	99,350	246,322
	Entertainment Academic	3,035,342	1,975,150
	Curriculum Development Expenses	1,044,800	46,370
	Computer Expenses Academic	63,699	-
	SUB-TOTAL	<u>36,313,551</u>	<u>27,801,568</u>
8	ADMINISTRATION COSTS		
	Travelling and Accommodation Admin	5,670,562	5,045,711
	Telephone Admin	144,110	122,239
	Entertainment Admin	2,776,899	3,030,346
	Stationery Admin	4,748,458	4,306,939
	Computer Expenses Admin	166,252	-
	Training -Non-Teaching Staff	1,738,100	1,109,514
	SUB-TOTAL	<u>15,244,381</u>	<u>13,614,750</u>

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NOTE	Notes to the Financial Statements Continued... DETAILS	2016/17 <u>KSHS</u>	2015/16 <u>KSHS</u>
9	STUDENT WELFARE		
	Student Hostels Expenses	1,020	8,316
	Cooking Fuel	1,607,695	1,958,591
	Student Recreation Activities	4,722,480	1,659,104
	Foodstuffs	16,004,930	9,952,119
	Crockery & Kitchen Equipment	1,876,112	834,326
	Entertainment Student Welfare	213,385	243,093
	Games and Sports	-	747,380
		<u>24,425,622</u>	<u>15,402,929</u>
10	DEPRECIATION and AMORTIZATION		
	DEPRECIATION		
	Buildings	38,130,148	38,130,148
	Furniture & Fittings	16,613,845	15,320,878
	Motor Vehicles	14,802,288	-
	Computers	4,629,480	-
	Machinery	11,775,373	11,261,490
	SUB-TOTAL	<u>85,951,134</u>	<u>64,712,516</u>
	AMORTIZATION		
	ERP	2,896,887	2,896,887
	TOTAL	<u>88,848,021</u>	<u>67,609,403</u>

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Notes to the Financial Statements Continued...

11

Cash And Bank Balances

Detailed analysis of the cash and cash equivalents

		2016-2017	2015-2016
Financial institution	Account number	Kshs	Kshs
a) Current account			
Kenya Commercial bank	1117775917	111,809,389	18,436,315
Kenya Commercial bank	1121458165	127,720,334	127,440,342
National Bank of Kenya	0102139008700	16,785,614	5,431,547
National Bank of Kenya	0124239008700	7,100,583	5,197,864
National Bank of Kenya	0102140013000	7,154,572	(321,123)
Equity Bank	1040297858661	28,495,219	65,015,540
Cooperative Bank	01129378440000	182,862,181	101,233,783
Sub- total		481,927,892	322,434,268
b) On - call deposits			
Kenya Commercial bank		-	50,000,000
Cooperative Bank		-	1,724,422
Sub- total		-	51,724,422
c) Other			
Cash in transit			88
Grand total		481,927,892	374,158,778

12 PREPAYMENTS

Rent Deposits	578,662	758,302
Electricity Deposits	2,004,500	1,794,500
Prepaid Rent	8,433,088	4,578,733
Prepaid Insurance	4,218,428	4,712,207
SUB TOTAL	15,234,678	11,843,742

13 RECEIVABLES FROM EXCHANGE TRANSACTIONS

Staff Debtors	532,233	1,137,139
Students Debtors	17,744,301	46,382,261
Imprest	300,415	584,190
Trade Debtors	-	6,845
SAMU Subscriptions	216,943	-
CDF Account	50,491	-
SUB TOTAL	18,844,383	48,110,435

14 INVENTORY

Estate Hardware Store	1,558,908	777,143
Central Store	-	2,559,531
Health Drug Store	2,119,660	773,296
Kitchen Store	603,490	434,464
Stationery Stores	2,620,748	-
SUB TOTAL	6,902,806	4,544,434

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For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)...

15. Property, plant and equipment

	LAND	BUILDINGS	WORK IN PROGRESS	FURNITURE & FITTINGS	COMPUTERS	MOTOR VEHICLES	MACHINERY & EQUIPMENT	TOTAL
RATE	0%	4%	0%	10%	20%	20%	10%	Kshs
Cost/Valuation 30.6.2015	108,292,000	824,502,996	409,826,932	125,867,126	19,184,703	60,290,000	88,137,816	1,636,101,573
Additions	-	128,750,705	65,069,851	27,341,657	714,219	-	24,477,081	246,353,513
Cost/Valuation 30.6.2016	108,292,000	953,253,701	474,896,783	153,208,783	19,898,922	60,290,000	112,614,897	1,882,455,086
Additions	-	-	79,521,361	12,929,665	3,248,478	13,721,440	5,138,835	114,559,779
Cost/Valuation 30.6.2017	108,292,000	953,253,701	554,418,144	166,138,448	23,147,400	74,011,440	117,753,732	1,997,014,865
Provision for Deprec (30.6.15)	-	104,095,311	-	37,469,614	-	958,710	27,549,379	170,073,014
Depreciation	-	38,130,148	-	15,320,878	3,979,784	12,058,000	11,261,490	80,750,300
Provision for Deprec. (30.6.16)	-	142,225,459	-	52,790,492	3,979,784	13,016,710	38,810,869	250,823,314
Depreciation	-	38,130,148	-	16,613,845	4,629,480	14,802,288	11,775,373	85,951,134
Provision for Deprec. (30.6.17)	-	180,355,607	-	69,404,337	8,609,264	27,818,998	50,586,242	336,774,448
Net Book Value								
NBV As at 30.06.2015	108,292,000	720,407,685	409,826,932	88,397,512	19,184,703	59,331,290	60,588,437	1,466,028,559
NBV As at 30.06.2016	108,292,000	811,028,242	474,896,783	100,418,291	15,919,138	47,273,290	73,804,028	1,631,631,772
NBV As at 30.06.2017	108,292,000	772,898,094	554,418,144	96,734,111	14,538,136	46,192,442	67,167,490	1,660,240,417

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 BIOLOGICAL ASSET

	Amount
RATE	0%
COST	Kshs
Opening Balance 1.7.2014	433,000
Changes in fair value	88,500
Balance C/F 30.6.2015	521,500
Balance B/F 1.7.2015	521,500
Additions	-
Changes in fair value	203,300
Net Book Value as at 30.06.2016	724,800
Additions	-
Changes in fair value	75,600
Net Book Value as at 30.06.2017	800,400

As at 30 June 2017, the university had seven dairy cows. Three of the cows were young heifers about two years old. Four of the cows are mature animals. According to the University Farm Manager, the value of the animals had increased by about Kshs. 75,600.

17: INTANGIBLE ASSET

ERP

Cost as at 30.6.2015	28,968,872
Provision for Deprec. (30.6.15)	2,896,887
Depreciation Expense	2,896,887
Provision for Deprec. (30.6.16)	5,793,774
Depreciation Expense	2,896,887
Provision for Deprec. (30.6.17)	8,690,661
Net Book Value	
NBV As at 30.06.2015	26,071,985
NBV As at 30.06.2016	23,175,098
NBV As at 30.06.2017	20,278,211

Intangible asset is Enterprise Resource Planning system known as Microsoft Navision. The system was commissioned in the Financial Year 2014/15 and is expected to serve the University for a period of ten years.

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NOTES TO FINANCIAL STATEMENTS CONTINUED...

NOTE	DETAILS	2016/17	2015/16
		<u>KSHS</u>	<u>KSHS</u>
18	TRADE AND OTHER PAYABLES		
	APPEAR Project	67,705	67,705
	CDF Account	-	9
	Cystic Echinococcosis Project-Prof Magambo -	12,070,489	10,594,780
	Dr. Eunice Marete -Research Project	458,650	458,650
	Dr. Joshua Arimi NACOSTI	202,500	202,500
	HELB Control Account	131,500	61,000
	Insurance Claim Refunds	655,251	625,251
	Ms Edith Adera Bursary Fund	-	336,215
	MUST Alumni Association	4,287,233	2,870,530
	MUST Pension Scheme	251,291	251,291
	P.A.Y. E	-	438,451
	Prof J Magambo Bursary Fund	40,750	40,750
	Quality Assurance(QUE) Fees	5,862,000	2,118,000
	Quality Audit Fees	9,791,000	4,863,000
	Placement Fees (KUCCPS)	3,852,000	1,156,000
	Accreditation (Regulating Body) Fees	968,200	531,900
	Students Indexing by Regulator Fees	857,000	140,000
	Teaching Practice Fees	2,358,000	604,000
	Research Administration Fund	701,494	701,494
	Retention Money for Projects	23,824,456	28,622,694
	SAMU Subscriptions	-	360,732
	Squatters Settlement Fund	-	30,000,000
	Sundry Creditors	46,583,660	67,757,808
	IPUCCF	25,000,000	25,000,000
	NBK Recurrent Unidentified deposits	43,172	43,172
	NBK Fees Collection A/c Unidentified Deposits	114,600	-
	NBK Project A/C Unidentified Deposits	760,750	-
	Equity Fees A/c Unidentified Deposits	277,928	161,154
	KCB Fees Coll Unidentified Deposits	514,699	111,600
	Co-op Fees Coll Unidentified Deposits	286,983	-
	Faulu	18,948	-
	VAT on Purchases	1,336,842	1,001,289
	Withholding Tax	70,290	334,254
	SUB TOTAL	141,387,391	179,454,229
19	PROVISIONS		
	Provision for Part-time	45,643,500	8,403,750
	SUB TOTAL	45,643,500	8,403,750
20	DEFERRED INCOME		
	Deferred Tuition Fee	-	12,349,650
	SUB TOTAL	-	12,349,650

NOTES TO FINANCIAL STATEMENTS CONTINUED...

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For the year ended June 30, 2017

NOTE	DETAILS	2016/17	2015/16
		<u>KSHS</u>	<u>KSHS</u>
21	CAPITAL		
	Capital B/F	1,888,700,085	1,688,652,361
	Additional Capital during the year	181,360,618	100,047,724
		<u>2,070,060,703</u>	<u>1,788,700,085</u>
	Add: Donation-Building	-	100,000,000
	Capital C/F	<u>2,070,060,703</u>	<u>1,888,700,085</u>
22	REVENUE RESERVE		
	Revenue Reserve B/F	(18,439,095)	(104,279,426)
	Less Prior Year Adjustments	50,000	-
		<u>(18,389,095)</u>	<u>(104,279,426)</u>
	Add: Transfer from Revaluation Surplus	7,951,645	-
		<u>(10,437,450)</u>	<u>(104,279,426)</u>
	Surplus for the Year	(58,194,152)	85,840,331
	Revenue Reserves C/F	<u>(68,631,602)</u>	<u>(18,439,095)</u>
	<p>Prior year adjustment relates to an expenditure on Seminars and Conferences that was paid for in Financial year 2015/16 but the seminar had been cancelled and the money was returned in the financial year 2016/17.</p>		
23	Revaluation Surplus		
	Revaluation Surplus		
	Revaluation-Computers B/F	10,878,166	14,857,950
	Less: Depreciation-Computers	(2,971,590)	3,979,784
	Net Revaluation Surplus (Computers)	<u>7,906,576</u>	<u>10,878,166</u>
	Revaluation-Motor Vehicles B/F	12,842,274	24,900,274
	Less: Depreciation-Motor Vehicles	(4,980,055)	12,058,000
	Net Revaluation Surplus (Motor-Vehicle)	<u>7,862,219</u>	<u>12,842,274</u>
		<u>15,768,795</u>	<u>23,720,440</u>
	Revaluation Surplus C/F		

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NOTES TO FINANCIAL STATEMENTS CONTINUED...

1. Cash generated from operations

	2016-2017	2015-2016
	Kshs	Kshs
Surplus for the year before tax	(58,094,152)	85,840,331
Adjusted for:		
Depreciation	88,848,021	67,609,403
Prior Year Adjustment	(50,000)	-
Contributed assets	-	-
Impairment	-	-
Gains and losses on disposal of assets	(75,600)	(203,300)
Contribution to provisions	-	-
Contribution to impairment allowance	-	-
Finance income	-	-
Finance cost	-	-
Working Capital adjustments		
Increase in inventory	(2,358,372)	1,720,972
Increase in receivables	25,875,116	13,719,260
Increase in deferred income	-	-
Increase in payables	(13,176,738)	5,967,585
Increase in payments received in advance	-	-
Net cash flow from operating activities	40,968,275	174,654,251

25. RELATED PARTY DISCLOSURE

Council

The following individuals served as Council members during the year:

2. Prof. Gulacho Galgalo Barako (Chairman)
3. Ms Mary Mugo
4. Ms. Felicity Biriri
5. Mrs. Margaret M. Mukoba
6. Mr. Omar Kassim
7. Mr. Robert Mutai
8. Mr. Kenneth Ayuele Odhiambo
9. Dr. Meshack Opwora
10. Prof. Japhet K. Magambo (Vice Chancellor)

The Council members, except the Vice Chancellor, were paid sitting allowances, per diem, mileage, and airfare, and for Chairman- Director's fee and telephone allowance. The University also paid for their medical insurance cover. The University paid the Council members a total of Kshs. 9,529,553 in form of allowances as follows:

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	2016/17	2015/16
Council Sitting Allowance	3,641,000	3,286,176
Council Subsistence	3,157,600	3,466,184
Council Monthly Honoraria	936,774	960,000
Council Fare	347,804	114,000
Council Mileage	944,170	1,089,667
Council Telephone	58,548	60,000
Council Air Travel	424,925	565,283
Council Lunch	18,732	16,000
SUB-TOTAL	9,529,553	9,557,310

None of the Council members was advanced a loan by the University during the Financial Year.

None of the Council members had other dealings with the University other than as Council members.

University Management Board Members

The following individuals served as University Management Board members during the year:

Prof. Japhet K Magambo	Vice Chancellor
Prof. Charity Gichuki	Deputy Vice Chancellor (AFP)
Prof. Gitonga Nkanata	Deputy Vice Chancellor (ARS)
Prof. Peter Masinde	Registrar (Academic and Research & Student Affairs)
Dr. Elijah Walubuka	Registrar (Administration & Planning)
CPA Nephath Njeru	Finance Officer
Ms. Evelyne Gitonga	Deputy Registrar (Human Resources)

The total amount paid to the University Management Board members in terms of salaries and allowances was Kshs. 49 million as compared to Kshs. 46 million in the last financial year

None of the University Board members was advanced a loan by the University during the Financial Year

None of the University Board members had other dealings with the University other than as an employee of the university.

Government

The Government of Kenya is the largest single sponsor of the University. During the year, the University received Kshs. 734,448,767 from the Government for Recurrent and Capital expenditure.

The Government is responsible for the appointment of the Council Members.

26. CONTINGENT LIABILITIES

There was no contingent liability worth reporting during the quarter.

27. FINANCIAL RISKS

The University has initiated and facilitated the process that will see the enhancement of risk management. It has an integrated risk management framework. The University recognizes the

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critical role the risk management will continue to play in its endeavour to carry out its business in a dynamic environment. The University is committed to ensuring that corporate governance and risk management are deeply entrenched in its strategy and culture. An elaborate risk management strategy that will provide direction on matters of policy and guide the implementation and control has been developed.

This risk management framework captures the following among other things: -

- The University's risk appetite and parameters;
- The University's risk matrix that highlights the rating of risks;
- The structure of managing risks and accountabilities;
- The processes, procedures and reports that manage risks;
- The mitigating factors, prevention, contingency plans and controls.

The University's core business involves major engagements with financial transactions and processes which pose certain risks. The University Council has the overall responsibility for the establishment and oversight of the University's risk management framework. The University Council has delegated its risk management to the 'Audit Committee'. One of the responsibilities of this committee is to review risk management strategies in order to ensure business continuity and survival. Most of the financial risks arising from financial transactions and processes are managed by the 'Finance Committee' of the University Council.

The financial management objectives and policies are as outlined below: -

a) Liquidity Risk

Liquidity risk is the risk that the University will not have sufficient financial resources to meet its obligations when they fall due or will have to do so at excessive costs. This risk can arise from mismatches in the timing of cash flows from revenue and capital/operational outflows, assets and liabilities according to their maturity profiles.

The objective of the liquidity management is to ensure that all foreseeable operational and capital commitment expenditure can be met under both normal and stressed conditions and the mismatch is controlled in line with allowable risk levels. The University has adopted an overall balance sheet approach which consolidates all sources and uses of liquidity, while aiming to maintain a balance between liquidity, cash flows and interest rate considerations. The University's liquidity and funding management process includes: -

- Projecting cash flows and considering the cash required and optimizing the short term requirements as well as the long term funding,
- Maintaining balance sheet liquidity ratios.

Prudent liquidity risk management includes maintaining sufficient cash to meet University obligations. The University manages liquidity risk by maintaining adequate cash reserves to ensure liabilities are paid as they fall due and to cushion against any liquidity risk. The table below shows the University's financial liabilities that will be settled on a net basis. The amounts disclosed are the contractual undiscounted cash flows:

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As at 30 June 2017	
Financial Assets	Kshs
Cash and cash equivalents	481,927,892.00
Receivables from exchange transactions	18,844,383.00
Prepayments	15,234,678.00
	516,006,953.00
Financial liabilities	
Payables	141,387,391.00
Net Liquidity	374,619,562.00
Liquidity ratio	3.41

A liquidity ratio of 3.41 indicate that the liquidity risk was low during the year.

b) Market Risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates, prices and interest rates. The objective of market risk management policy is to protect and enhance the Statements of Financial Position and performance by managing and controlling market risk exposures within acceptable parameters, and to optimize the funding of business operations and facilitate capital expansion. The University is exposed to the following market risks: -

(i) Currency Risk

Currency risk arises primarily from purchasing imported goods and services from overseas or indirectly via local supplies, or services that are priced in foreign currency such as internet (US Dollars). Nevertheless, the currency risk is minimal as cash and cash equivalents held with banks are denominated in Kenya Shillings and there are minimal dealings in foreign currency.

(ii) Interest Rate Risk

The University is exposed to various risks associated with effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margin may increase as a result of such changes but may reduce losses in the event that unexpected movement arises. The University closely monitors interest rate movements and seeks to limit its exposure by managing the interest rate and maturity structure of assets and liabilities on the statement of financial position.

The interest rates on call deposits held in financial institutions are fixed and agreed upon on monthly basis. The Management is in regular contact with the bank in a bid to obtain the best interest rates and therefore able to plan for the resulting income.

The interest rate risk is minimal as the University does not have any borrowings.

c) Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the University's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as legal and regulatory requirements and generally acceptable standards of corporate behaviour. The University seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor and report such risks. The University's objective is to manage operational risk so as to balance the avoidance of financial

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losses and damage to the University's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. The responsibility is supported by the development of overall standards for the management of operational risk in the following areas: -

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of financial transactions;
- Compliance with regulatory and legal requirements;
- Documentation of controls and procedures;
- Requirements for the yearly assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified;
- Requirement for the reporting of operational losses and proposed remedial action;
- Training and professional development;
- Ethical and business standards;
- Risk mitigation, including insurance where it is effective.

Operational risks are documented in the 'Risk Register and Opportunity Assessment Document' and are managed by the Risk Management Committee established to spearhead and coordinate risk management activities. The measures taken include proactively identifying, analyzing and mitigating risks in all facets of the business.

d) Compliance and Regulatory Risk

Compliance and regulatory risk includes the risk of non-compliance with regulatory requirements. The University complied with all externally imposed requirements throughout the year.

e) Legal Risk

Legal risk is the risk of unexpected loss, including reputational loss, arising from defective transactions or contracts, claims being made or some other event resulting in a liability or the loss for the University, failure to protect the title to and liability to control the rights to assets of the University (including intellectual property right), changes in law, or jurisdictional risk. The University manages legal risk through the legal office, legal risk policies and procedures and the effective use of internal controls and external lawyers.

f) Credit Risk

Credit risk is the risk that a borrower is unable to meet his financial obligations to the lender. The University's credit risk is attributable to its cash and cash equivalents and trade receivables. Both bank balances and trade receivables are fully performing and no debt has been impaired. The amount that best represents the University's maximum exposure to credit risk is made up as follows;

At 30 June 2017	Total Amount	Fully Performin g	Past Due	Impaire d
	Kshs.	Kshs.	Kshs.	Kshs.
Bank Balances	481,927,892	81,927,892	-	-
Receivables from Exchange Transactions	18,844,383	18,844,383	-	-
Receivables from Non-Exchange Transactions	-	-	-	-

28. OPERATING LEASES

The University has two operating leases:

i. Hart Towers

The premises cover an area of 11,754 square feet and the tenancy agreement is for six years at a rent of Kshs.705, 240 monthly for the first two years. The rent would escalate to Kshs 775,764 per month after two years and in the fifth and sixth year; the rent would be Kshs 853,340 per month.

ii. Marimba Farm

On May 1st, 2014, the University entered into a fifteen years' lease agreement with the Ministry of Agriculture, Livestock and Fisheries for the lease of Marimba Farm. Marimba Farm is the property of Agricultural Development Corporation which is under the Ministry of Agriculture, Livestock and Fisheries. The lease agreement states that University will pay Kshs. 1,400,000 per annum for the first three years. After three years, the rent will be reviewed upwards. The lease agreement also provides that the fifteen-year contract is divided into three terms and each party can terminate the contract after every five-year term.

29. Events after the reporting period

No event, either adjusting or non-adjusting has been reported after the balance sheet date.

30. Ultimate and Holding Entity

MUST is a Semi- Autonomous Government Agency under the Ministry of Education. Its ultimate parent is the Government of Kenya.


31. Currency

The financial statements are presented in Kenya Shillings (Kshs).

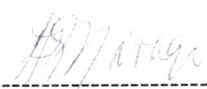
XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

All the issues raised by the external auditor during the financial year 2015/2016 have been resolved. The auditor gave the university an unqualified opinion.

Vice Chancellor

Sign -----
Date: 25 April, 2018

Chairman of the Council

Sign -----
Date: 25 April, 2018