

REPUBLIC OF KENYA



*Paper laid by
leader of Majority
Party Tuesday
19/6/2018
A.S.K.*



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OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
SOUTH EASTERN KENYA UNIVERSITY**

**FOR THE YEAR ENDED
30 JUNE 2017**

REPUBLIC OF KENYA

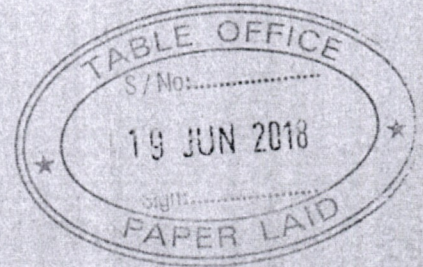


*Paper laid by
Leader of Majority
Party Tuesday
19/6/2018
AK*



OFFICE OF THE AUDITOR-GENERAL

REPORT



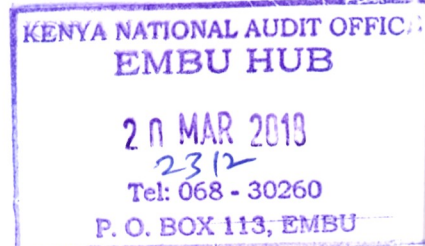
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
SOUTH EASTERN KENYA UNIVERSITY**

**FOR THE YEAR ENDED
30 JUNE 2017**



SOUTH EASTERN KENYA UNIVERSITY

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)**

March, 2018

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

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SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

ACRONYMS

SEKU: South Eastern Kenya University

JKUAT: Jomo Kenyatta University of Agriculture and Technology

NBK: National Bank of Kenya

BBK: Barclays Bank of Kenya

KCB: Kenya Commercial Bank

IGU: Income Generating Units

CO-OP: Co-operative

ASDSP: Agricultural Sector Development Support Programme

ICRAF: International Centre for Research in Agroforestry

IGADINWRM: Intergovernmental Authority for Development Inland Water Resources Management Programme

TARC: Trans disciplinary Applied Research Centre

GCFSI: Global Centre for Food Systems Innovations

NACOSTI: National Commission for Science Technology and Innovation

IPSASB: International Public Sector Accounting Standards Board

A/C: Account

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

I. UNIVERSITY INFORMATION AND MANAGEMENT

(a) Background Information

South Eastern Kenya University was established on 1st March, 2013 as a successor to South Eastern University College (SEUCO). SEUCO was established on 15th July, 2008 as a successor to Ukamba Agricultural Institute (UKAI).

At Cabinet level, the University is represented by the Cabinet Secretary for Education, Science and Technology who is responsible for the general policy and strategic direction of the University.

(b) Principal Activities

The mandate of the University is teaching and learning, research and innovation, outreach and community service. To guide carrying out these activities, the University has developed clear vision and mission statements.

The Vision of the University is to be a globally competitive centre of excellence in teaching, research and innovation for purposes of transforming human lives.

The Mission is to provide quality and transformative education through teaching, learning, research, extension, innovation and entrepreneurship with emphasis on dry land agriculture, natural resources and environmental management.

In order to achieve the vision and mission, the University is guided by the following core values:

- (i) **Professionalism:** In all actions and interactions, we maintain ethical behaviour, courtesy and professional etiquette
- (ii) **Innovation:** Innovativeness is the hallmark of our business activities through fostering pro-activeness, creativity, and adaptability to change
- (iii) **Integrity:** Transactions are done in honest, transparent and accountable ways
- (iv) **Freedom of thought:** We promote and defend academic freedom
- (v) **Teamwork:** We maintain a sense of unity and of common interests and responsibilities
- (vi) **Respect for and conservation of the environment:** We strive to respect and protect the natural and working environment.

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

(c) Key Management

The management of the University is undertaken by the following organs:

- (a) University Council
- (b) The Senate
- (c) The South Eastern Kenya 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. Geoffrey M. Muluvi |
| 2. | Deputy Vice Chancellor (Finance, Planning and Development) | -Prof. Reuben M. Muasya |
| 3. | Deputy Vice Chancellor (Academic, Research and Students Affairs) | -Prof. Zipporah Ng'ang'a |
| 4. | Deputy Vice Chancellor (Administration and Human Resources) | -Prof. Francis N. Wachira |
| 5. | Registrar (Administration and Human Resources) | -Prof. Mary Mburu |
| 6. | Registrar (Academic and Students Affairs) | -Dr. John F. Koga |
| 7. | Registrar (Resources Mobilization) | -Dr. Samuel Mutukaa |
| 8. | Finance Officer | -Mr. Lawrence Bokoro |

(e) Fiduciary Oversight Arrangements

- (i) Finance and General Purpose Committee
- (ii) Building and Physical Development Committee
- (iii) Staff Terms and Conditions of Service Committee
- (iv) Audit Committee
- (v) Appeals Committee
- (vi) Appointments Committee
- (vii) Graduation and Sealing Committee

(f) Headquarters

South Eastern Kenya University
Main Campus
P.O. Box 170 – 90200
Kitui, Kenya

(g) Contacts

Telephone: 020-2323532/0736116989
E-mail: info@seku.ac.ke
Website: www.seku.ac.ke

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

(h) Bankers

1. National Bank of Kenya Ltd.(SEKU Branch)
P.O Box 1656-90200
KITUI
2. Equity Bank of Kenya Ltd.(Kitui Branch)
P.O Box 1453-90200
KITUI
3. The Co-operative Bank of Kenya Ltd.(Kitui Branch)
P.O Box 1432-90200
KITUI
4. Barclays Bank of Kenya Ltd. (Kitui Branch)
P.O Box 1206-90200
KITUI
5. Kenya Commercial Bank Ltd. (Kitui Branch)
P.O Box 683-90200
KITUI

(i) Independent Auditors



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

(j) Principal Legal Adviser



Mutula Kilonzo & Co. Advocates
P.O. Box 59839-00200 City Square
Nairobi, Kenya

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

II. THE UNIVERSITY COUNCIL

| | |
|---|--|
|  | <p><i>Date of Birth:</i> 15th September, 1945</p> <p><i>Key Qualifications:</i></p> <ul style="list-style-type: none"> i) 1992 University of Illinois, Ph.D., Plant Physiology, Dept. of Agronomy ii) 1983 Penn State, M.Sc., Agronomy, Dept. of Agronomy iii) 1973 University of Massachusetts, B.A., Agric. Ed iv) 1969 Egerton College, Diploma Agric. Education <p><i>Work Experience:</i></p> <ul style="list-style-type: none"> i) August 2010 to date Professor of Plant Physiology, Dept of Crops Hort & Soils ii) 2006-2011: Deputy Vice Chancellor (A&F) & Secretary to University Council, 1993-1998: Senate Rep to Council iii) 2002-2010: Associate Professor of Plant Physiology, Dept of Crop Science, 1992-2002: Senior Lecturer Plant Physiol. & Weed Science Dept of Agronomy. iv) 2013-20th May, 2017: South Eastern Kenya University Council Chairman. |
| <p>1. Prof. Louis M. Mumera (Chairman of the Council)</p> | |
|  | <p><i>Date of Birth:</i> 14th November, 1956</p> <p><i>Key Qualifications:</i></p> <ul style="list-style-type: none"> i) 1999-2001: University of Illinois Master's in Education ii) 1997-1998: University College, Cork- Postgraduate Diploma Counseling Psychology. iii) 1976-1979 University of Nairobi Bachelor of Education (Arts) <p><i>Work Experience:</i></p> <ul style="list-style-type: none"> i) 2009 to Date: Senior Assistant Director of Education- Ministry of Education ii) 2004 - 2009: Programme Officer in the AIDS Control Unit at Teachers Service Commission. iii) 2013-20th May, 2017: South Eastern Kenya University Council Membership |
| <p>2. M/s Mary M. Masinde (Member)</p> | |

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

| | |
|---|---|
|  | <p><i>Date of Birth:</i> 10th July, 1958</p> <p><i>Key Qualifications:</i></p> <ul style="list-style-type: none"> i) 2009-2010: Executive Master of Business Administration Jomo Kenyatta University of Agricultural Science and Technology ii) 2013-2015: Bachelor of Commerce Degree– Finance option KCA University iii) 2002- Certified Public Accountant Part III (K) Kenya College of Accountancy <p><i>Work Experience:</i></p> <ul style="list-style-type: none"> (i) 2014 to date – Principal accountant/Head of Accounting Unit Pensions Department National Treasury (ii) 2011-2014: Principal Accountant/Head of Accounting Unit Ministry of Housing (iii) 2009-2011: Chief Accountant/Head of District Treasury Embu (iv) 2001-2008: Senior Accountant/Head of District Treasury Makeni (v) 2013-20th May, 2017: South Eastern Kenya University Council Member. |
| <p>3. Mr. Simon Chege Mwangi (Member)</p> | <p><i>Date of Birth:</i> 14th December, 1963</p> <p><i>Key Qualifications:</i></p> <ul style="list-style-type: none"> i) 1995: Master of Science degree in Applied Nutrition - University of Nairobi. ii) 1990: Bachelor of Science (Animal Production), Upper Second Class Honours - Egerton University <p><i>Work Experience:</i></p> <ul style="list-style-type: none"> i) 2006 to-date: Managing Director, Nutrimix Limited ii) 1995 to 2006: Unga Feeds Limited (now Unga Farm Care East Africa Ltd iii) 1990 to 1993: District Animal Production Officer/Extension Co-ordinator, Ministry of Livestock Development, Kitui iv) 2013-20th May, 2017: South Eastern Kenya University Council Member. |
|  | |
| <p>4. Mr. Martin Kinoti (Member)</p> | |

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017



5. Prof. Kamuti Kiteme
(Member)

Date of Birth:

23rd September, 1935

Key Qualifications:

- i) 1963 B.Sc (Ed), Fairleigh Dickinson University, Madion, NJ, USA
- ii) 1965 MSc (Ed) Bank Street College of Education, New York, NY, USA
- iii) 1970 Ed.D Yeshiva University, New York, NY, USA

Work Experience:

- i) 1968-1994: Lecturer/Assistant Professor/Associate Professor/Professor, City College of the City University of New York.
- ii) 1968-1994: Visiting and Adjunct Professor (a) USA Vermont, South Dakota, California (b) Africa Ghana, Kenya (c) Caribbean Puerto Rico, University of the West Indies.
- iii) 1995-present: Professor Emeritus. Lecturer. Academic Consultant.
- iv) Parastatal membership:
1996-2001: Standing Committee on Human Rights (Kenya).
2002-2006: Kenya National Library Services.
2004-2017 UKAI/SEUCO/SEKU.



6 Mrs. Veronica W. Maina
(Member)

Date of Birth:

20th May, 1970



Key Qualifications:

- i) 2007-2009: University of London, Master of Laws (LLM merit) Public International Law
- ii) 2011 Postgraduate Diploma Refugee Law course IIHL Italy
- iii) 1996 Postgraduate Diploma in Law

Work Experience:

- i) 1998 to date: Managing partner V.W.Maina & Co Advocates
- ii) Jul 2010 to date: Part time lecturer – gender & refugee management (Police Science Program) Laikipia University
- iii) July 2010 to date: Volunteer coordinator refugee rights resource.
- iv) 2013-20th May, 2017: South Eastern Kenya University Council member.

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

| | |
|---|---|
|  | <p><i>Date of Birth:</i> 25th May, 1963</p> <p><i>Key Qualifications:</i></p> <ul style="list-style-type: none"> i) 2002 PhD in Economics, Centre for Economic Studies and Policy, Jawaharlal Nehru University, New Delhi India ii) 1989 MA in Planning, Department of Urban and regional Planning, University of Nairobi, Nairobi Kenya iii) 1987 BA in Economics University of Nairobi, Nairobi Kenya (Second Class Upper Division) <p><i>Work Experience:</i></p> <ul style="list-style-type: none"> i) July 2011 – Present: Regional Child Centred Community Development (CCCD) Specialist, Plan International – Regional Office of Eastern and Southern Africa ii) February 2009 – June 2011: Deputy Director/Operations Manager, Plan International Ethiopia iii) Sept 2009 – Jan 2010: Acting Country Director, Plan International Ethiopia iv) 2013-20th May, 2017: South Eastern Kenya University Council Member. |
| <p>7. Dr. Kipera Issa Athuman (Member)</p> | |
|  | <p><i>Date of Birth:</i> 1974</p> <p><i>Key Qualifications:</i></p> <ul style="list-style-type: none"> i) 2009 Postgraduate (Geothermal Energy Technology) University of Auckland ii) 2011 Master of Science in Petroleum Geology University of Nairobi iii) 2002 BSC Geology: 2nd Class Upper Division University of Nairobi <p><i>Work Experience:</i></p> <ul style="list-style-type: none"> i) 2008-Present: Senior Geologist Kenya Electricity Generating Company, (KenGen) ii) Nov 2008-2009: Geophysicist, Kenya Electricity Generating Company, iii) 2007-2008: Geologist II, Ministry of Water and Irrigation iv) 2013-20th May, 2017: South Eastern Kenya University Council Member. |
| <p>8. Ms. Risper J. Kandie (Member)</p> | |

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017



9. Prof. Geoffrey M. Muluvi
(Vice Chancellor and Secretary to the Council)

Date of Birth:

6th June, 1963

Key Qualifications:



- (i) 2009-2012: Master of Business Administration (MBA), Eastern and Southern Africa Management Institute (ESAMI), Arusha Tanzania.
- (ii) 1995-1998: Doctor of Philosophy degree (Plant Molecular Genetics), Department of Biological Sciences, University of Dundee, U.K.
- (iii) 1985-1988: Bachelor of Science (Forestry), Second Class Honors (Upper Division), Moi University, Eldoret.

Work Experience:

- (i) 20th May, 2013 up to present: Vice Chancellor, South Eastern Kenya University.
- (ii) 1st March, 2013 up to 19th May, 2013 Ag. Vice-Chancellor, South Eastern Kenya University.
- (iii) 15th March, 2010 to 29th February, 2013 Principal, South Eastern University College (SEUCO) a Constituent College of the University of Nairobi.

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

III. MANAGEMENT TEAM

| | |
|--|--|
| <p>1. Prof. Geoffrey M. Muluvi (Vice Chancellor)</p> | <p>Refer to page (xi)</p> |
|  <p>2. Prof. Reuben M. Muasya Deputy Vice Chancellor (Finance, Planning and Development)</p> | <p><i>Date of Birth</i> 12th September, 1960</p> <p><i>Key Qualifications:</i></p> <ul style="list-style-type: none"> (i) 1997-2001: Doctor of Philosophy degree, Wageningen Agricultural University, Netherlands (ii) 1993-1996: Master of Philosophy, Moi University, Eldoret (iii) 1988-1992: Bachelor of Science in Agriculture, University of Eastern Africa Baraton (iv) 1983 Certificate Agricultural Engineering, Eldoret Institute. <p><i>Work Experience:</i></p> <ul style="list-style-type: none"> (i) November 2013 to present: Deputy Vice Chancellor, Finance Planning and Development South Eastern Kenya University. (ii) 14th July 2011 up to October 2013: Director, Kitui Town Campus, SEKU. |
|  <p>3. Prof. Zipporah Ng'ang'a Deputy Vice Chancellor (Academic, Research and Students Affairs)</p> | <p><i>Date of Birth</i> 3rd February, 1960</p> <p><i>Key Qualifications:</i></p> <ul style="list-style-type: none"> (i) 2012: Executive Master of Business Administration, JKUAT (ii) 1998: Doctor of Philosophy degree, Kenyatta University (iii) 1988: Master of Science in Parasitology, University of Nairobi (iv) 1984: Bachelor of Science, Second Class Honors (Upper Division), University of Nairobi <p><i>Work Experience:</i></p> <ul style="list-style-type: none"> (i) 2nd December 2013 to present: Deputy Vice Chancellor, Academic, Research and Student Affairs SEKU. |

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017



4. Prof. Francis N. Wachira
Deputy Vice Chancellor (Administration and Human Resources Management)

Date of birth:

20th March, 1963

Key qualification:

- (i) 1993-1996: Doctor of Philosophy Degree, Dundee University, The United Kingdom
- (ii) 1987-1990: Master of science, Kenyatta University, Kenya
- (iii) 1983-1986: Bachelor of education (Science), Kenyatta University



Work Experience:

- (i) January 2017 – present: Deputy Vice-Chancellor, Administration & Human Resources Management
- (ii) February 2015-December 2016: Executive Secretary, ASARECA, Uganda
- (iii) August 2012 – February 2015: Deputy Executive Director, ASARECA, Uganda
- (iv) November 2009-July 2012: Director, CEO Tea Research Foundation of Kenya



Membership:

- (i) February 2015-December 2016: Member of Board of Directors, Forum for Agricultural Research in Africa (FARA), Ghana
- (ii) May 2014-December 2016: Member, Independent Advisory Committee, ICRISAT (International Crops Research Institute for the Semi-Arid Tropics), India
- (iii) April 2014-December 2016: Member, Steering Committee, Pan African Research Alliance (PASIRA), Uganda
- (iv) March 2011-September 2012: Member, Kenya Highlands Evangelical University Council, Kenya

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

| | |
|--|---|
|  <p>5. Prof. Mary Mburu Registrar (Administration and Human Resources Management)</p> | <p><i>Date of Birth</i> 16th August, 1959</p> <p><i>Key Qualifications:</i></p> <ul style="list-style-type: none"> (i) 1996: Doctor of Philosophy Degree, University of Reading (ii) 1986: Master of Agronomy, University of California, Davis, USA (iii) 1983: Bachelor of Science in Agriculture, University of Nairobi <p><i>Work Experience:</i></p> <ul style="list-style-type: none"> (i) 7th March, 2012 up to 3rd April, 2013: Acting Director, Directorate for Research, Innovation and Technology South Eastern University College (ii) 3rd April, 2013 to 14th November, 2013: Acting registrar, AHRM South Eastern Kenya University (iii) 14th November, 2013 to present: Registrar, Administration and Human Resources Management. |
|  <p>7. Dr. John F. Koga Registrar (Academic and Students Affairs)</p> | <p><i>Date of Birth</i> 1st October, 1960</p> <p><i>Key Qualifications:</i></p> <ul style="list-style-type: none"> (i) 1994: Doctor of Philosophy Degree, The University of Leeds (ii) 1988: Master of Science, Kenyatta University (iii) 1985: Bachelor of Education, Second Class Honours (Upper Division), University of Nairobi (iv) 1981: Certificate of Teacher Education (S1), Kenya Science Teachers College <p><i>Work Experience:</i></p> <ul style="list-style-type: none"> (i) 1st November, 2010 to present: Registrar, Academics and Students Affairs, South Eastern Kenya University |

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

| | |
|--|--|
|  <p>7. Dr. Samuel Mutukaa (Registrar, Resource Mobilization)</p> | <p><i>Date of birth:</i> 3rd April, 1972</p> <p><i>Key qualification:</i></p> <ul style="list-style-type: none"> (i) Doctor of Philosophy Degree, Public Administration – University of Kwazulu-Natal (ii) Masters in Science Development Studies – Moi University (iii) Masters in Business Administration – Kenyatta University (iv) Bachelor of Science – University of Nairobi <p><i>Work Experience</i></p> <ul style="list-style-type: none"> (i) 1st February, 2017 to present: Registrar, Resources mobilization, South Eastern Kenya University (ii) 2013-2017: Senior Lecturer – Africa Nazarene University (iii) 2011-2013: Regional Development Advisor – Action Aid Denmark (iv) 2009-2010: Development Consultant – UNICEF, IUCN, Oxfam, WWF, Action Aid, Concern Worldwide, World vision, Heifer International <p><i>Membership:</i></p> <ul style="list-style-type: none"> (i) Kenya Institute of Management(KIM) (ii) International Development Evaluation Association (IDEAS), Johannesburg, SA |
|  <p>8. Mr. Lawrence M. Bokoro (Finance Officer)</p> | <p><i>Date of Birth</i> 3rd April, 1970</p> <p><i>Key Qualifications:</i></p> <ul style="list-style-type: none"> (i) 2005: Masters in Business Administration (Finance), Jomo Kenyatta University of Agriculture and Technology. (ii) 2002: Certified Public Accountant Part II (iii) 2004: Certified Public Secretary Part III (iv) 1995: Bachelor of Commerce (Accounting) Kenyatta University <p><i>Work Experience:</i></p> <ul style="list-style-type: none"> (i) 3rd January, 2014 to present: Finance Officer, South Eastern Kenya University. |

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

IV. CHAIRMAN'S STATEMENT

On behalf of the Council, I am delighted to present the Annual Report and Financial Statements of the South Eastern Kenya University for the financial year ended 30th June 2017.

During the year under review, the University realized significant achievements, notwithstanding long standing financial and operational challenges. Notably, among the achievements included holding of the University's fourth graduation ceremony whereupon one thousand and thirty four graduates were awarded degrees and conferred with diplomas.

To reposition the University to achieve its mandate, the University Strategic Plan 2015 – 2019 was reviewed so as to be in line with Medium Term Plan (MTP) 2014-2018 and the Government Vision 2030.

I take this opportunity to reaffirm the commitment of the Council in providing effective leadership for the growth of the University. In this regard, the Council will continue to maintain a policy direction which facilitates management and staff to work together and engage stakeholders to realize this dream in accordance with the spirit of participation enshrined in our Constitution.

I also take this opportunity to express my sincere appreciation to all our stakeholders for their contributions to the many milestones the University has achieved in the short period of its existence.



DR. REUBEN K. CHIRCHIR (Ph.D)
CHAIRMAN OF COUNCIL

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

V. REPORT OF THE CHIEF EXECUTIVE OFFICER

It gives me pleasure to present the Annual Report and Financial Statement of the South Eastern Kenya University for the year ended 30th June 2017. During the year under review, the University made tremendous growth in all areas of operation.

Notably, revenue collection amounted to Kshs.983 million. Collections from appropriation in Aid amounted to Kshs.306 million which translated to 31.1% of the total revenue collection for the year. The University received Kshs.162 million from the Government as capital grant to finance construction of various projects. It also received Kshs.657 million as recurrent grant in support of recurrent expenditure.

As part of its strategy to achieve operational sustainability, the University continued to rationalize and manage costs. Total expenditure, inclusive of assets impairment and amortization, amounted to Kshs.1.03 billion with employee costs accounting for Kshs.714.5 million or 66.3%. The increase in employee costs from Kshs. 663.5 million in the 2015/2016 financial year to Kshs. 714.5 million in the year under review was as a result of continued efforts to recruit key members of staff critical to the achievement of the University mandate.

Through capital grants received from the Government, the University continued to implement key projects included in its Strategic Plan 2015-2019. These included construction of college of humanities, Wote and Kitui campuses. Further the University focused to enhance its capacity to deliver services by procuring furniture and computers for both students and staff. As a result, the asset base grew from Kshs.2.64 billion to Kshs.2.73 billion.

Some of the major achievements recorded in the year under review included:

- (i) Introducing more degree programs
- (ii) Increase in student's enrolment from 6218 to 7218.
- (iii) Favourable ranking on webo metrics at position 8 among Universities in Kenya

Finally, I wish to recognize the great contribution of all our stakeholders towards the achievements the University has made since it was awarded a Charter in 2013. I sincerely thank all of them and look forward to their continued support.

Thank you.



PROF. GEOFFREY M. MULUVI (Ph.D)
VICE-CHANCELLOR

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

VI. CORPORATE GOVERNANCE STATEMENT

The University derives its authority and accountability from the Universities Act of 2012, the South Eastern Kenya University Charter and the South Eastern Kenya University Statutes which outline the commitment required of members of the Council to discharge their mandate.

These instruments guarantee effectiveness of each member contribution in the governance of the University by ensuring there is independent judgment, where professional competence and ethical standards are highly observed in decision making.

The University is also guided by its core values namely: professionalism, innovation, integrity, freedom of thought, teamwork and respect for and conservation of the environment which serve as a basis for sound decision making.

The University is in compliance with MWONGOZO code of Governance for state corporations and underlying principles of good governance. In addition, the University is fully compliant with provisions of, inter alia, the following Acts and regulations; Public Procurement and Disposal Act 2015, Public Finance Management Act 2012 and regulations 2015. Further, the University continues to be certified on ISO 9001-2015 Quality Management System.

1. Chancellor

Section 12 of the Charter provides that there shall be a University Chancellor who is appointed by the President. The Chancellor during the period under review was Dr. Titus Naikuni.

2. Council

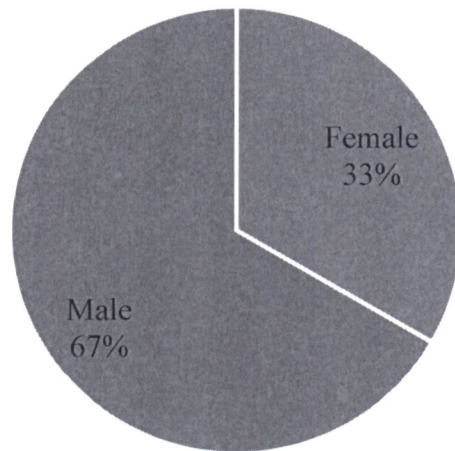
Section 18 of the Charter provides that there shall be a University Council. During the period under review the Council consisted of (9) members led by a non-executive and independent chairman, an executive Vice Chancellor and Secretary to the Council, the Principal Secretary-National Treasury, Principal Secretary-Ministry of Education Science and Technology plus five independent and non-executive members.

All the non-executive Council members were independent of management and free from any business or other relationships which could interfere with the exercise of their independent judgement. Members of the University Council are appointed by the Cabinet Secretary for Education, Science and Technology.

However, the tenure of the Council ended on 20th May, 2017 and as at 30th June, 2017 there was no Council.

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

Council Diversity



In compliance with the Constitution, the Council composition in terms of male and female Council members was 67% and 33% respectively.

The independence of the Council from the University management was ensured by separation of the functions of the Chairman and Vice Chancellor and a clear definition of their responsibilities. This helped the University in achieving an appropriate balance of power, increased accountability and improved decision making.

3. Responsibilities of the Council

The responsibilities of members of the Council are clearly spelt out in both the University's Act and the Statutes. These include among others:

- (i) Determining the University's vision, mission and core values
- (ii) Deciding its strategic objectives
- (iii) Ensuring establishment of an organizational structure and procedures to achieve the objectives.

The Council sets out objectives and ensures that procedures and practices are in place to protect the University's assets and reputation. It also reviews the strategic direction of business plans presented by Management, reviews processes for the identification and management of business risks and compliance with key regulatory and legal issues. It also provides oversight of performance against targets and objectives.

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

It ensures ethical behavior and compliance with relevant laws and regulations, audit and accounting principles, corporate policies and procedures and the Code of Ethics as well as benchmarks performance against best international practices.

In accordance with the principles of good corporate governance, each member of the Council undertakes to act in the best interest of the University and exercise his/her power in the execution of duties in good faith and act with care and prudence by subscribing to the University's core values.

4. Council Meetings

The Council meets once every three months and has a formal schedule of agenda items for deliberations. Members of the Council are given appropriate and timely information to maintain full and effective control over strategic, financial and operational issues of the University. The Council is not involved in the conduct of day to day business as this is a responsibility given to the Vice-Chancellor. It, however, retains responsibility for determining the direction of the University.

5. Council Attendance

The Council held 4 regular and 4 special meetings in the year under review. Attendance to the Council meetings was as follows:

| | Name | Attendance | |
|----|--------------------------|-------------------|----------------|
| | | Regular | Special |
| 1. | Prof. Louis M. Mumera | 4 | 4 |
| 2. | Ms Mary M. Masinde | 4 | 4 |
| 3. | Mr. Simon Chege Mwangi | 4 | 3 |
| 4. | Mr. Martin Kinoti | 4 | 1 |
| 5. | Prof. Kamuti Kiteme | 4 | 4 |
| 6. | Ms. Veronica W. Maina | 3 | 1 |
| 7. | Dr. Kipera Issa Athuman | 4 | 3 |
| 8. | Ms. Risper J. Kandie | 4 | 1 |
| 9. | Prof. Geoffery M. Muluvi | 4 | 4 |

6. Council Remuneration

In accordance with guidelines provided by the State Corporations Advisory Committee, members of the Council are paid taxable sitting allowance for every meeting attended as well as travel and accommodation allowance while on University duty. The Chancellor and the Chairman are also paid monthly honorarium.

Total Council expenses for the year was Kshs 11,214,872.00. The University neither grants personal loans nor gives guarantees to members of the Council.

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

7. Conflict of Interest and Declaration of Interest

Members of the Council have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the University. Business transactions with all parties, members or their related parties are carried out at arms' length.

Each member is obligated to fully disclose to the Council any real or potential conflict of interest, which comes to his/her attention, whether directly or indirectly.

In every meeting of the Council, an agenda item exists requiring members to make a declaration of any interest they may have in the business to be discussed.

8. Council Committees

The Council conducts its business through committees. The committees and their terms of reference are: -

(i) Finance and General Purposes Committee

- (a) To consider and make recommendations to the Council on financial matters
- (b) To consider and recommend to the Council matters of general nature

The committee meets on a quarterly basis and as necessary.

(ii) Audit Committee

- (a) To review internal and external audit findings, recommendations and propose corrective and preventive action where necessary.
- (b) Assist the accounting officer in enhancing internal controls in order to improve efficiency and accountability

The committee meets on a quarterly basis and as necessary.

(iii) Staff Terms and Conditions of Service Committee

- (a) To review and make recommendations to the Council on staff Terms and Conditions of Service.
- (b) To examine and recommend career structures within the University
- (c) To establish and generally oversee Staff Retirement Benefits Pension Scheme.

The committee meets on a quarterly basis and as necessary.

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

(iv) Building and Physical Development Committee

- (a) To consider and recommend to the Council priority development projects
- (b) To receive reports and recommendations of management on the progress of physical development of the University.
- (c) To report to the Council on the progress of physical infrastructure development of the University.

The committee meets on a quarterly basis and as necessary.

(v) Graduation and Sealing Committee

- (a) To approve University certificates
- (b) To approve the list of graduands to be issued with certificates
- (c) To approve sealing of certificates.

The committee meets once in a year and as necessary.

(vi) Appeals Committee

Its terms of reference are to hear and determine appeals made to it by staff from decisions of the senior and junior Disciplinary Committees.

The committee meets as and when necessary.

(vii) Appointments Committee

The terms of reference for the Appointments Committee is to consider appointments for teaching and non-teaching staff in Grades 14 and 15.

The committee meets as and when necessary.

9. Management Structure

The University Management Board is made up of the Vice Chancellor, Deputy Vice Chancellors, Registrars and the Finance Officer. The Board meets weekly to review the overall performance of the University.

There are various other management committees which advise the Vice Chancellor on specific issues in order to enable him to discharge his responsibilities as the Chief Executive of the University.

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

10. Internal Controls

The management of the University has put in place a series of internal control mechanisms to ensure reporting of complete and accurate accounting information. Procurement of goods and services is strictly done in accordance with the Public Procurement and Disposal Act, 2015.

11. Authorizations

Expenditure of the University is authorized in accordance with set policies and procedures. There is a budget and a procurement plan which are approved by the Council. The Council receives regular Management accounts comparing actual outcomes against budget as a means of monitoring actual financial performance.

12. Internal Audit

The internal audit function is performed by internal audit department which is also responsible for monitoring and providing advice on the University's risk management framework. All reports of the internal audit are presented to the Audit Committee of the Council.

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

To guide its Corporate Social Responsibility initiatives, South Eastern Kenya University put in place a policy framework focusing on:-

- (a) Promotion of educational standards particularly in the area it operates.
- (b) Access to water to the immediate neighbourhood.
- (c) Access to health care to the community living near or around the University.
- (d) Conservation of environment in the location it operates.

The University further committed to make annual budgetary allocations in support of the Corporate Social Responsibility initiatives. It is expected that this move will enable the University achieve the following critical objectives:-

- (a) Encourage peaceful co-existence with the immediate community.
- (b) Enhance University Corporate image and visibility
- (c) Expand linkages with other institutions which will contribute towards attainment of the University mandate.

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

VIII. REPORT OF THE UNIVERSITY COUNCIL

The South Eastern Kenya University Council submits its report together with the audited financial statements for the year ended June 30, 2017.

Principal activities

The functions of the University are spelt out in Section 6(1) of the Charter as follows:

- (a) To provide directly, or in collaboration with other institutions of higher learning, facilities for University education including technological, scientific and professional education, the integration of teaching, research and effective application of knowledge and skills to life, work and welfare of the citizens of Kenya.
- (b) To participate in the discovery, transmission and preservation and enhancement of knowledge and to stimulate the intellect participation of students in economic, social, cultural, scientific and technological development of Kenya.
- (c) To 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 manpower development in the Country.
- (d) To conduct examinations for such academic awards as may be provided in the Charter pertaining to the University.
- (e) To examine and make proposals for new faculties, schools, institutes, departments, resource and research centre degree courses and subjects of study.
- (f) To play a leading role in the development and expansion of the opportunities for higher education and research in agriculture, forestry, mining, energy, water and environmental sciences on arid and semi-arid lands.
- (g) To contribute to industrial and technological development through innovations and technology transfer.
- (h) To develop as an institution of excellence in teaching, training, scholarship, entrepreneurship, innovation, research, consultancy and extension services with emphasis on dry land agriculture and farming systems and their impact and application within and outside Kenya.
- (i) To participate in commercial ventures and other activities to the benefit of the University, the community and stakeholders.
- (j) To contribute to agricultural, industrial and technological development of Kenya in collaboration with industry and other institutions through transfer of appropriate technology.

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

Results

The results of the University for the Financial Year ended June 30, 2017 are set out on page 1 to pages 34.

University Council

The members of the University Council who served during the year are shown on pages vii to xi in accordance with Regulation (12) of the University Charter. However the tenure of the serving Council ended on 20th May, 2017 and as at 30th June, 2017 no Council was in place.

Auditors

The Office of the Auditor General is responsible for statutory audit and report of the University, within six months after the end of the financial year.

The Auditor-General is mandated to audit the Annual Report and Financial Statements of the University in conformity with guidelines and regulations provided under Article 229 of the Constitution of Kenya and provisions of the Public Audit Act 2015.

In carrying out the audit, the Auditor General is to confirm whether or not public money has been applied lawfully and in an effective way, give assurance on the effectiveness of internal controls, risk management and overall governance as well as satisfy himself that public money has been used and applied towards the purposes intended.

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

IX. UNIVERSITY COUNCIL STATEMENT OF RESPONSIBILITIES

Section 68 of the Public Finance Management (PFM) Act, 2012 requires the University Council to prepare financial statements in respect of South Eastern Kenya University, which give a true and fair view of the state of affairs and the operating results of the University at the end of the financial year. 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. Further, the Council is also responsible for safeguarding the assets of the University.

Pursuant to the requirement of the law, the Council is responsible for the preparation and presentation of the University 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. 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) Safe-guarding 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 Public Financial Management Act and the University Act. The Council is of the opinion that South Eastern Kenya University financial statements give a true and fair view of the state of University transactions during the financial year ended June 30, 2017 and financial position as at that date. The Council further confirms the completeness of the accounting records maintained by the University, which have been relied upon in the preparation of the financial statements as well as the adequacy of the systems of internal financial controls.

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

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

Approval of the financial statements

The South Eastern Kenya University financial statements were approved by the Full Council during its 48th meeting held on 4th October, 2017 and signed on its behalf by:



PROF. GEOFFREY M. MULUVI (Ph.D)
VICE-CHANCELLOR



DR. REUBEN K. CHIRCHIR (Ph.D)
CHAIRMAN OF COUNCIL

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 SOUTH EASTERN KENYA UNIVERSITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of South Eastern Kenya University set out on pages 1 to 35, 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 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the South Eastern Kenya University as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the South Eastern Kenya University Order 2008.

In addition, as required by Article 229(6) of the Constitution, except for the matter described in the Basis for Qualified Opinion section of my 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

Property Plant and Equipment

The property, plant and equipment balance increased by Kshs.114,565,841 from Kshs.2,459,559,360 as at 30 June 2016 to Kshs.2,574,125,201 as at 30 June 2017. However, as reported in the previous years, the property, plant and equipment balance of Kshs.2,574,125,201 include three parcels of land under reference L.R No 13529 (Kitui), 209/10350 (Nairobi) and 12970 (Emali) valued at Kshs.1,036,600,000 which were not registered under the name of the South Eastern Kenya University as at 30 June 2017. Further, four other University's parcels of land in Kitui town, Mwingi/Nzeluni, Wote and Mtito Andei (Mangelete settlement Scheme Plot no. 3756) of undetermined value were also not registered under the name of the University.

Report of the Auditor-General on the Financial Statements of South Eastern Kenya University for the year ended 30 June 2017

Consequently, the accuracy, ownership, valuation and security of the property, plant and equipment balance of Kshs.2,574,125,201 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of South Eastern Kenya University in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 matter described in the Basis for Qualified Opinion section of my report, I have determined that there are no key Audit Matters to communicate in my report.

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/ sustain services, 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's or to cease operations, or have no realistic alternative but to do so.

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

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

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is

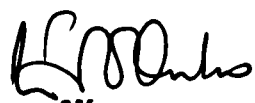
not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the University's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the County Assembly'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 to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

Nairobi

29 May 2018

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

XI. STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2017

| | Notes | 2016-2017 Kshs | 2015-2016 Kshs |
|---|-------|----------------------|--------------------|
| Revenue from non-exchange transactions | | | |
| Recurrent grants | 3 | 657,084,450 | 647,626,262 |
| Research grants | 4 | 19,886,728 | 28,051,238 |
| Total revenue from non-exchange transactions | | 676,971,178 | 675,677,500 |
| Revenue from exchange transactions | | | |
| Tuition and other related fees | 5 | 264,912,731 | 279,537,188 |
| Rental revenue income and other sources | 6 | 18,972,505 | 18,634,003 |
| Other incomes | 7 | 22,690,033 | 25,328,365 |
| Total revenue from exchange transactions | | 306,575,269 | 323,499,556 |
| Total revenue | | 983,546,447 | 999,177,056 |
| Expenses | | | |
| Administration expenses | 8 | 121,338,901 | 138,212,236 |
| Council expenses | 9 | 11,214,872 | 13,849,830 |
| Repairs and maintenance, rents & rates | 10 | 32,119,278 | 29,768,319 |
| Marketing expenses | 11 | 13,923,157 | 16,484,813 |
| Catering and accommodation | 12 | 26,027,344 | 33,197,174 |
| Academic services | 13 | 47,199,070 | 50,585,082 |
| Employee costs | 14 | 714,538,077 | 663,573,717 |
| Depreciation and amortization expense | 15 | 62,356,201 | 37,585,669 |
| Audit fees | 16 | 696,000 | 696,000 |
| Total expenses | | 1,029,412,899 | 983,952,841 |
| (Deficit) Surplus for the period | | (45,866,453) | 15,224,216 |

The Financial Statements set out on pages 1 to 34 were approved by the Full Council during its 48th meeting held on 4th October, 2017 and signed on its behalf by:



PROF. GEOFFREY M. MULUVI (Ph.D)
VICE-CHANCELLOR

Date.....16/3/2018



DR. REUBEN K. CHIRCHIR (Ph.D)
CHAIRMAN OF COUNCIL

Date.....19-03-2018


SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

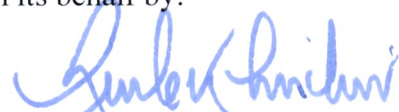
XII. STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

| Assets | Notes | 2016-2017 Kshs | 2015-2016 Kshs |
|---|-------|----------------------|----------------------|
| Current assets | | | |
| Cash and cash equivalents | 17 | 58,181,650 | 76,117,263 |
| Receivables from exchange transactions | 18 | 66,069,178 | 95,564,731 |
| Receivables from non-exchange transactions | 19 | 16,480,487 | - |
| Inventories | 20 | 7,565,033 | 4,712,388 |
| Total current assets | | 148,296,348 | 176,394,382 |
| Non-current assets | | | |
| Biological assets | 21 | 4,142,906 | 2,453,940 |
| Property, plant and equipment | 15 | 2,574,125,201 | 2,459,559,360 |
| Total assets | | 2,726,564,455 | 2,638,407,682 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables from exchange transactions | 22 | 210,842,857 | 246,488,412 |
| Unexpended research grants | 23 | 17,281,118 | 18,925,280 |
| Refundable deposits from students-caution money | 24 | 21,984,900 | 17,746,700 |
| Contingent liabilities | 25 | 3,454,154 | 3,454,154 |
| Total current liabilities | | 253,563,029 | 286,614,546 |
| Net assets | | | |
| Revenue reserves | 26 | (82,151,048) | (45,010,036) |
| Capital fund | 27 | 2,059,061,380 | 1,897,310,797 |
| Revaluation reserve | 28 | 496,091,094 | 499,492,375 |
| Total net assets | | 2,473,001,426 | 2,351,793,136 |
| Total net assets and liabilities | | 2,726,564,455 | 2,638,407,682 |

The Financial Statements set out on pages 1 to 34 were approved by the Full Council during its 48th meeting held on 4th October, 2017 and signed on its behalf by:


PROF. GEOFFREY M. MULUVI (Ph.D)
VICE-CHANCELLOR
 Date.....15/3/2018


DR. REUBEN K. CHIRCHIR (Ph.D)
CHAIRMAN OF COUNCIL
 Date.....19-03-2018

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

XIII. STATEMENT OF CHANGES IN NET ASSETS

For the year ended 30 June 2017

| | Capital fund Kshs | Revenue reserves Kshs | Revaluation reserve Kshs | Total Kshs |
|--|-------------------------|-----------------------------|--------------------------------|----------------------|
| Balance as at 30 June 2015 | 1,796,422,246 | (78,798,628) | 510,416,500 | 2,228,040,118 |
| Surplus for the period | - | 15,224,216 | - | 15,224,216 |
| Adjustment on unexpended research grants | - | 293,359 | - | 293,359 |
| Adjust. on depreciation of revalued motor vehicles | - | 10,924,125 | (10,924,125) | - |
| Capital grants received in the year | 100,888,551 | - | - | 100,888,551 |
| Adjustment on provision for audit fees | - | 638,392 | - | 638,392 |
| Adjustment on caution money account balance | - | 6,708,500 | - | 6,708,500 |
| Balance as at 30 June 2016 | 1,897,310,797 | (45,010,036) | 499,492,375 | 2,351,793,136 |
| Deficit for the period | - | (45,866,453) | - | (45,866,453) |
| Adjust. on depreciation of revalued motor vehicles | - | 7,081,281 | (7,081,281) | - |
| Adjustment on unexpended research grants | - | 1,644,160 | - | 1,644,160 |
| Capital grants received in the year | 161,750,583 | - | - | 161,750,583 |
| Motor vehicles revaluation | - | - | 3,680,000 | 3,680,000 |
| Balance as at 30 June 2017 | 2,059,061,380 | (82,151,048) | 496,091,094 | 2,473,001,426 |

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

XIV. STATEMENT OF CASHFLOWS

For the year ended 30 June 2017

| | Notes | 2016-2017 | 2015-2016 |
|---|-------|----------------------|---------------------|
| | | Kshs | Kshs |
| Cash flows from operating activities | | | |
| Deficit/Surplus for the year | | (45,866,453) | 15,224,216 |
| Increase in net worth of biological assets | 7 | (1,688,966) | (808,040) |
| Gain on disposal of asset | 6 | (765,875) | - |
| Adjust. for depreciation | 15 | 62,356,201 | 37,585,669 |
| Adjustment on caution money account balance | 24 | - | 6,708,500 |
| Operating surplus/deficit before working capital | | 14,034,907 | 58,710,345 |
| Decrease in trade & other receivables | | 13,015,066 | 48,476,260 |
| Increase in inventories | | (2,852,645) | (978,891) |
| Decrease in trade & other payables | | (35,645,555) | (87,460,671) |
| Increase in refundable caution money | | 4,238,200 | (4,936,300) |
| Decrease/Increase in unexpended research grants | | (1,644,162) | (169,650) |
| Increase in contingent liabilities | 25 | - | 3,454,154 |
| Net cash inflow from operating activities | | (8,854,189) | 17,095,247 |
| Cash flow from investing activities | | | |
| Purchase of non-current assets | 15 | (31,762,528) | (15,821,611) |
| Increase in net worth of biological assets | | 1,688,966 | 808,040 |
| Proceeds from insurance claim | | 2,166,068 | - |
| Work in progress | 15 | (142,924,514) | (93,324,563) |
| Net cash flow from investing activities | | (179,686,196) | (91,242,887) |
| Cash flow from financing activities | | | |
| Capital grants received from Government | 27 | 161,750,583 | 100,888,551 |
| Net cash flow from financing activities | | 161,750,583 | 100,888,551 |
| Decrease/Increase in cash and cash equivalents | | (17,935,613) | 9,645,664 |
| Cash and cash equivalents bal. b/f | 17 | 76,117,263 | 66,471,599 |
| Cash and cash equivalents bal. c/f | | 58,181,650 | 76,117,263 |

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

For the year ended 30 June 2017

| Revenue | Original budget 2016-2017 Kshs | Adjustments 2016-2017 Kshs | Final budget 2016-2017 Kshs | Actual comparable basis 2016-2017 Kshs | Performance difference 2016-2017 Kshs |
|--|--------------------------------------|----------------------------------|-----------------------------------|--|---|
| Non-exchange transactions | | | | | |
| Recurrent Grants (GoK Capitation) | 657,084,450 | - | 657,084,450 | 657,084,450 | - |
| Research Grants | 33,000,000 | - | 33,000,000 | 19,886,728 | (13,113,272) |
| Exchange transactions | | | | | |
| Tuition and other related fees | 343,190,000 | - | 343,190,000 | 264,912,731 | (78,277,269) |
| Internally Generated | 71,609,000 | - | 71,609,000 | 41,662,538 | (29,946,462) |
| Total revenue | 1,104,883,450 | - | 1,104,883,450 | 983,546,447 | (121,337,003) |
| Expenses | | | | | |
| Administration | 151,501,000 | (22,400,000) | 129,101,000 | 121,338,901 | 7,762,099 |
| Council | 15,000,000 | - | 15,000,000 | 11,214,872 | 3,785,128 |
| Repairs and maintenance, rents & rates | 34,347,450 | 500,000 | 34,847,450 | 32,119,278 | 2,728,172 |
| Marketing, publicity and advertisement | 14,000,000 | - | 14,000,000 | 13,923,157 | 76,843 |
| Catering and accommodation | 28,500,000 | - | 28,500,000 | 26,027,344 | 2,472,656 |
| Academic services | 32,800,000 | (500,000) | 32,300,000 | 25,668,180 | 6,631,820 |
| Employee and part-time lecturers | 698,039,000 | 22,400,000 | 720,439,000 | 714,538,077 | 5,900,923 |
| Research grants | 34,000,000 | - | 34,000,000 | 21,530,890 | 12,469,110 |
| Depreciation and amortization | 96,000,000 | - | 96,000,000 | 62,356,201 | 33,643,799 |
| Audit fees | 696,000 | - | 696,000 | 696,000 | - |
| Total expenditure | 1,104,883,450 | - | 1,104,883,450 | 1,029,412,900 | 75,470,550 |
| Deficit for the period | - | - | - | (45,866,453) | (45,866,453) |

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XVI. NOTES TO THE FINANCIAL STATEMENTS

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

The Public Sector Accounting Standards Board (PSASB) was established by the Public Finance Management Act (PFM) No. 18 of 24th July, 2012. The Board was gazetted by the Cabinet Secretary, National Treasury on 28th February, 2014.

Its mandate is to provide framework and set generally accepted standards for the development and management of accounting and financial systems by all state organs and public entities.

In particular, the Board performs the following functions;

- (a) Set generally accepted accounting and financial standards.
- (b) Prescribe the minimum standards of maintenance of proper books of accounts for all levels of Government.
- (c) Prescribe internal audit procedures which comply with the Act.
- (d) Prescribe formats for financial statements and reporting by all state organs and public entities.
- (e) Publish and publicize the accounting and financial standards and any directives and guidelines.
- (f) Perform any other functions related to advancing financial and accounting systems management and reporting in the public sector.

The University's financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the University. 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 statement of cash flows has been prepared using the indirect method. The financial statements are prepared on accrual basis.

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2. Summary of significant accounting policies

a) Revenue recognition

Revenue measurement, recognition and disclosure has been made as follows:

i) Revenue from non-exchange transactions – IPSAS 23

Revenue

The University recognizes revenues when the event occurs and the asset recognition criteria is met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue.

Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the University and the fair value of the asset can be measured reliably.

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.

ii) Revenue from exchange transactions – IPSAS 9

Rendering of services

The University recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable. Tuition fee income is recognised when students admitted by the University report and not when they pay.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the other party.

Rental income

Rental income arising from operating leases on investment properties is recognised based on signed agreements with specific periods of leases, where upon rent is due in advance in every month of the lease.

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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 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.

Statement of comparison of budget and actual amounts:

Recurrent Grants

The Government allocated the University Kshs. 657,084,450.00. This amount was duly received in the financial year.

Tuition and other related fees

The University had projected to collect Kshs. 343,190,000.00 in the financial year. However, differences between the beginning and ending periods of academic and financial years caused part of the forecasted amount to go down to Kshs. 264,912,731.00

Administration expenses

The University management continued to rationalize and manage costs. Greater focus was put on information and communication technology to enhance capacity to deliver on the University mandate. Cost associated with information technology, therefore, went up substantially.

Employee costs

The Management continued to recruit key members of staff guided by approved staff establishment. The recruitment of additional members of staff is critical to achievement of the University mandate. Employee costs, therefore increased by Kshs. 50,964,360.00 over the years.

Revision of the budget

Un expected decrease or increase in some of the budget line items necessitated a realignment of the expenditure. This was approved by the University Council on 16th May, 2017.

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c) Biological assets – IPSAS 27

- (i) The University biological assets portfolio included cattle, pigs, poultry, goats and a donkey. These were measured, on initial recognition, at purchase price and at subsequent reporting dates at fair values less costs to sell with adjustments being made for purchases and disposal made in the years.
- (ii) Gain or loss that arose on initial recognition of biological assets and from subsequent changes in fair values during the period, were reported in the Statement of Financial Performance.
- (iii) Biological assets have been classified as non-current assets because they are held for business purposes as an income generating activity.
- (iv) Movement to changes in fair values of the biological assets is as shown below:

Biological assets

| Category | Balance at the beginning | Addition | Disposal | Revaluation gain | Balance as at 30 June 2017 |
|--------------|--------------------------|----------------|------------------|------------------|----------------------------|
| | Kshs | Kshs | Kshs | Kshs | Kshs |
| Cattle | 1,102,380 | - | (194,000) | 263,540 | 1,171,920 |
| Poultry | 25,200 | 70,470 | (37,770) | 730 | 58,630 |
| Goats | 1,047,720 | 436,000 | (215,620) | 600,796 | 1,868,896 |
| Pigs | 266,640 | 472,500 | - | 292,320 | 1,031,460 |
| Donkey | 12,000 | - | - | - | 12,000 |
| Total | 2,453,940 | 978,970 | (447,390) | 1,157,386 | 4,142,906 |

Revaluation of biological assets is based on the following assumptions:

- a) Live weight of biological assets determined by chest/heart girth measurement increased in the course of the year.
- b) Prevailing market rates per asset had increased by end of the year.

d) Property, plant and equipment – IPSAS 17

Property, plant and equipment under construction has been valued on the basis of expenditure incurred and certified work certificates up to 30th June, 2017.

Work in Progress is not depreciated. The total cost of a project will be transferred to the relevant asset class on completion and then depreciated.

During the year under review completed projects worth kshs 610,588,402.00 were capitalized and depreciated accordingly using depreciation rates as per policy.

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Property, plant and equipment items 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 is satisfied. All other repair and maintenance costs are recognized as expense and accounted for through the statement of financial performance.

Land improvements - include fencing, landscaping, parking lots, walkways and internal roads. These facilities are estimated to have a lifespan of twenty (20) years

Where an asset is acquired in a non-exchange transaction for nil or nominal consideration, the asset is initially measured at its fair value.

Depreciation is provided for at annual rates estimated to write off the assets over their expected useful lives.

The annual rates are as follows:

| | | |
|-------------------------|---|----------------------------|
| Furniture & Equipment | - | 15% on straight line basis |
| Motor vehicles | - | 25% on straight line basis |
| Buildings | - | 2% on straight line basis |
| Computers & Accessories | - | 25% on straight line basis |
| Land improvements | - | 5% on straight line basis |
| ICT Infrastructure | - | 15% on straight line basis |

Software amortization

Amortization: Costs are to be amortized over the expected useful life of the system. The University typically uses five (5) years for major system implementation

The purpose of amortization is to allocate the costs of the system to the periods for which benefits from the system's service is derived. Amortization is to begin when the software is ready for its intended use and placed in-service (system of record), which is after signing off and commissioning. The system software in place was still being implemented hence no amortization was done.

Land ownership

The ownership of land- parcels reference L.R. No. 209/10350 (Nairobi), L.R No. 13529 (Kitui) and L.R. No. 12970 (Emali) which is the land amounting to Kshs. 1,036, 600,000 included in the Plant, Property and Equipment schedule have not been registered in the name of the University as a result of land disputes.

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There are several cases pending in court with both the University Management and lawyers making efforts to have them registered in the name of the University.

The University also has interest in other parcels of land which will be recognized and disclosed in financial statements after processing ownership documents and valuation. These include:

(i) Land in Mwingi/Nzeluni/1970 and Mwingi/Mwingi/5713

The University has physical possession and title deeds over the land which was received as a donation on 13th July, 2015 and 22nd September, 2015 respectively..

(ii) Land in Kitui

This land was awarded to the University by the then Municipal Council of Kitui through the Town Planning Committee in a meeting held on 2nd March, 2011. Ownership documents have been forwarded to the Director of Physical Planning for verification and approval of allotment which will pave way for processing of title deed.

(iii) Land in Wote town

The University received 30 acres of land via a letter dated 27th July, 2016 from the County Government of Makueni. The National Land Commission has directed the Director of Land Administration to process title in favour of the University.

(iv) Land in Mtitio-Andei

The University has a certificate of ownership for plot number 3756 Mangelete Settlement Scheme measuring 20 acres from the District Land Adjudication & Settlement Officer, Ministry of Lands, Kibwezi District dated 29th July, 2013. It is currently processing ownership documents of the land.

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Fully depreciated assets

Included in the net book value of motor vehicles is revaluation resulting from vehicles which had been depreciated to zero. The gross carrying amount as at 30th June 2017 was Kshs. 6,056,518 which was revalued by Automobile Association of Kenya to Kshs. 3,680,000. This was written back to form part of motor vehicles cost and will be depreciated at 25% p.a. for the next three years.

An adjustment of one year depreciation on revalued motor vehicles amount has been charged to the revaluation reserves and a corresponding entry passed to the retained earnings in the year under review.

Financial instruments

Financial assets and liabilities are initially measured at fair value plus transaction costs.

Foreign currency transactions are translated into the local currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of financial performance.

e) Research and development costs

The University expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the University can demonstrate:

- (i) The technical feasibility of completing the asset so that the asset will be available for use or sale
- (ii) Its intention to complete and its ability to use or sell the asset
- (iii) How the asset will generate future economic benefits or service potential
- (iv) The availability of resources to complete the asset
- (v) The ability to measure reliably the expenditure during development

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

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Unexpended research grants

This represents unspent external grants and donations for sponsored research and other restricted purposes. The balance has decreased from the previous year due to the timing of research expenditures. This amounted to Kshs.17,281,118.00 which is recognised as unexpended research grants.

Expenditure on research initiatives is recognised as an expense through the statement of financial performance.

A corresponding amount is recognised as revenue in the statement of financial performance through the unexpended research grants.

f) Inventories – IPSAS 12

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and condition is accounted for, as follows:

- (i) Raw materials: Purchase cost using the weighted average cost method
- (ii) Finished goods and work in progress: Cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

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

g) 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.

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Where the University expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision was presented in the statement of financial position net of any reimbursement as follows:

(i) Contingent liabilities

The University had a potential liability relating to penalty and interest due to delayed payment of tax expense (PAYE) lost through fraud for the month of June 2015. This amount of Kshs.3,454,154.00 is recognised as a contingent liability in the statement of financial position pending determination of a petition written to Kenya Revenue Authority for its write off.

(ii) Contingent assets

The University does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the University in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs. No such contingent assets existed in the year under review.

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 only if retrospective application is impractical.

i) Foreign currency transactions – IPSAS 4

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported in the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise. During the year under review, some transactions were done through euros and dollars and were treated as aforementioned.

j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are

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readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

k) Deferred Income tax

Pursuant to section 26 of the Income Tax Act CAP. 470. the University is exempted from paying income tax. However income from employment or from services rendered to the University and paid to the individuals is subjected to Pay as You Earn and remitted to the Government.

Similarly no deferred tax arises from University operations.

l) Comparative figures

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

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

The preparation of the University 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, there was no uncertainty about these assumptions and estimates that could result in outcomes that require a material adjustment to the carrying amount of any asset or liability likely to be affected in future periods.

n) 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:

- (i) The condition of the asset based on the assessment of experts employed by the University
- (ii) The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- (iii) The nature of the processes in which the asset is deployed
- (iv) Availability of funding to replace the asset
- (v) Changes in the market in relation to the asset

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Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured by 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

o) Related party disclosures– IPSAS 20

The University is wholly owned by the Government of Kenya.

Related party transactions: -

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party organization and another are subject to common control.

During the year the following transactions were carried out with related parties:

(i) Members of the University Management Board

Members of the University Management Board include the Vice chancellor, the Deputy Vice chancellors, registrars and the finance officer. They are paid salaries.

During the year under review, members of the University Management Board were paid Kshs.70,463,596.00 as salaries which was included in the employee cost .

(ii) The Council

The Chancellor and the Chairman of the University Council are paid monthly honoraria as per Government guidelines. Except for the Vice-Chancellor, members of the Council are paid sitting allowance for every meeting attended. –

Council member’s emoluments in the year were as follows:

| | 2016-2017 | 2015-2016 |
|---|-------------------|-------------------|
| | Kshs | Kshs |
| Council expenses | | |
| Sitting allowance | 3,562,158 | 4,420,060 |
| Travelling and accommodation allowances | 5,221,101 | 7,269,770 |
| Honorarium | 2,431,613 | 2,160,000 |
| Total council expenses | 11,214,872 | 13,849,830 |

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p) Financial risk management objectives and policies- IPSAS 30

Exposure to credit, rate and currency risk arise in the normal course of University business. The main aim of financial risk management is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the University financial performance. The University risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and at the same time ensuring adherence to laid down limits.

Risk management is carried out by the University Management Board under the supervision of the University Council. Management in conjunction with the Council Audit Committee then identifies, evaluates and addresses risks accordingly abiding to policies approved by the Council. They also review market trends and information available to evaluate the potential exposures and then arrive at strategies to mitigate against market risks.

In addition, the University has an independent internal audit department which reports directly to the Council Audit Committee. This department is responsible for the independent review of risk management and the control environment.

The University generates income from fees billed to students, budgetary support from the Government of Kenya, donations from donors and development partners and returns from various income generating activities. These activities expose the University to a variety of financial risks, including credit risk and foreign currency risks.

Currency risk

Foreign currency exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the University functional currency.

The functional currency of the University is Kenya shillings. The University had bank accounts denominated in euros and dollars and some transactions were done through these currencies.

Foreign exchange differences arising from settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, were recognized as income or expenses in the period.

Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the University. The University has adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The University also operates prepaid refundable deposits to further minimise credit risk. The University uses publicly available information and its own records to rate its major customers. The credit risk exposure to the University is continuously monitored and the aggregate value of transactions concluded is spread amongst approved counter parties.

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Financial assets, which potentially subject the University to concentrations of credit risk, consist principally of cash, short-term deposits and trade receivables. The University cash and cash equivalents are placed with high credit quality financial institutions. Trade receivables are presented net of an allowance for doubtful receivables.

The University's largest customers were students. There were, however, no significant concentrations of credit risk as at the end of the reporting period.

There has been no significant change during the financial year, or since the end of the reporting period, to the University's exposure to credit risk in the approach to the measurement or the objectives, policies and processes for managing this risk.

The maximum exposure to credit risk represents a worst case scenario of credit risk exposure to the University at the comparative period end dates, without taking account of any collateral held or other credit enhancements attached. For assets in the statement of financial position, this exposure is based on net carrying amounts as reported.

Classification of credit risk bearing assets

The table below shows the ageing profile of trade receivables:

The credit risk exposures are classified in three categories as follows:

- (1) Fully performing
- (2) Past due
- (3) Impaired

Credit risk

| As at 30 June 2017 | Fully performing Kshs | Past due Kshs | Impaired Kshs |
|---------------------|--------------------------|------------------|------------------|
| Outstanding imprest | 1,092,354 | - | - |
| Students debtors | 64,197,580 | - | - |
| General debtors | 188,244 | - | - |
| GoK capital grant | 16,480,487 | - | - |
| Bank balances | 58,181,650 | - | - |
| Total | 140,140,315 | - | - |
| | | | |
| As at 30 June 2016 | Fully performing Kshs | Past due Kshs | Impaired Kshs |
| Outstanding imprest | 1,670,023 | - | - |
| Students debtors | 91,800,644 | - | - |
| General debtors | 589,929 | - | - |
| Internal debtors | 10,000 | - | - |
| Staff debtors | 113,718 | - | - |
| Bank balances | 76,117,263 | - | - |
| Total | 170,301,577 | - | - |

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The parties under the fully performing category are paying their debts as and when they fall due. Past due amounts are those beyond the maximum established credit period and represents slow but paying customers. The receivable balance continues to be serviced even though this is not done on the contractual dates. The finance department is actively following up on these receivables. The amounts that are impaired have been fully provided for. All the financial assets, as analysed here above, were fully performing as at the end of the reporting period.

Liquidity risk

Liquidity risk is the risk that the University will encounter difficulties in meeting its maturing obligations attributable to financial liabilities. The University's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the University's reputation.

The ultimate responsibility for the liquidity risk management rests with the University Council, which has established an appropriate liquidity risk management framework for the management of the University's short, medium and long-term funding and liquidity management requirements.

The University manages liquidity risk through continuous monitoring of forecast and actual cash flows. The University also maintains a balanced budget and produces quarterly management accounts to monitor performance. An annual procurement plan is drawn at the beginning of every financial year to guide on commitments to be made in the year taking into account the resources envelop.

The University ensures that it has sufficient funds on demand to meet expected operational expenses, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

The table below provides a contractual maturity analysis of the University's financial liabilities:

Liquidity risk

| As at 30 June 2017 | 6 months Kshs | 6-12 months Kshs | 1> years Kshs | Total Kshs |
|---|-------------------|---------------------|------------------|-------------------|
| Unpaid contractors certificates | 8,423,548 | 2,807,849 | - | 11,231,397 |
| Recurrent creditors suppliers | 14,234,704 | 4,744,901 | - | 18,979,605 |
| Contractor's retention | 29,761,273 | 9,920,424 | - | 39,681,697 |
| Commissioner of domestic taxes (Withholding tax) | 479,772 | 159,924 | - | 639,696 |
| Withholding tax (VAT) | 2,500,746 | 833,582 | - | 3,334,328 |
| Refundable customer deposits | 71,813 | 23,938 | - | 95,750 |
| Total | 55,471,855 | 18,490,618 | - | 73,962,473 |

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| As at 30 June 2016 | 6 months Kshs | 6-12 months Kshs | 1> years Kshs | Total Kshs |
|---|-------------------|---------------------|------------------|-------------------|
| Unpaid contractors certificates | 14,440,384 | 4,813,461 | - | 19,253,845 |
| Recurrent creditors suppliers | 8,776,307 | 2,925,436 | - | 11,701,743 |
| Internal creditors | 122,862 | 40,954 | - | 163,816 |
| Contractor's retention | 28,976,608 | 9,658,869 | - | 38,635,477 |
| Commissioner of domestic taxes (Withholding tax) | 1,112,960 | 370,987 | - | 1,483,947 |
| Withholding tax (VAT) | 1,492,429 | 497,476 | - | 1,989,905 |
| Refundable customer deposits | 68,063 | 22,688 | - | 90,750 |
| Total | 54,989,612 | 18,329,871 | - | 73,319,483 |

q) Disclosure of new and revised standards and interpretations not yet adopted.

IPSAS 33 provides transitional exemptions to organizations that are adopting accruals basis IPSASs for the first time. The aim of the standard is to provide relief to entities where the cost of complying with IPSASs would likely exceed the benefits to users of financial statements. The standard also enables first-time adopters to report their transition to accrual basis IPSASs transparently.

It provides participants with a thorough understanding of the requirements, covering all the transitional arrangements and disclosure requirements relating to the first-time adoption of accruals basis IPSASs.

The transitional exemption did not affect the fair presentation of the financial statement neither the ability to assert compliance with accrual basis International Public Sector Accounting standards.

IPSAS 34 Prescribes the accounting and disclosure requirements for investment in controlled entity, joint venture and associate when it elects, or is required to prepare separate financial statements.

IPSAS 35 Consolidated financial statements-The standard requires that control be assessed having regard to benefits and power. Definition of control focuses on an entity's ability to influence the nature and amount of benefits through its power over another entity.

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

To reduce unnecessary differences between IPSASs and Government Finance Statistics reporting guidelines, the IPSASB has aligned the principles in IPSAS 35 with the Government Finance Statistics Manual 2014.

IPSAS 36 explains the application of the equity method of accounting, which is used to account for investments in associates and joint ventures. Equity accounting must now be used when accounting for joint venture and does not permit a different accounting treatment for temporary investments.

IPSAS 37 Establishes requirements for classifying joint arrangements and accounting for those different types of joint arrangements. Joint arrangements are classified as either joint operations or joint ventures. In a joint operation, the parties to the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. In a joint venture, the parties to the arrangement have rights to the net assets of the arrangement.

It requires that an entity account for its interest in a joint operation by recognizing its share of the assets, liabilities, revenue, and expenses of the joint arrangement and that joint ventures be accounted for using the equity method.

IPSAS 38 Introduces new disclosure requirements, including those related to structured entities that are not consolidated and controlling interests acquired with the intention of disposal.

IPSAS 39 replaced IPSAS 25 Employee Benefits on 1 January 2018.

Changes include:

- 1) Removing an option that allows an entity to defer the recognition of changes in the net defined benefit liability
- 2) Introducing the net interest approach for defined benefit plans
- 3) Amending certain disclosure requirements for defined benefit plans and multi-employer plans.
- 4) Simplifying the requirements for contributions from employees or third parties to a defined benefit plan when those contributions are applied to a simple contributory plan that is linked to service and removing requirements for composite social security programmes.

IPSAS 40 specifically addresses the needs of the public sector when accounting for combinations of entities and operations by providing two types of public sector combinations as amalgamations and acquisitions.

For amalgamations, the standard requires use of the “modified pooling of interests” method of accounting in which the amalgamation is recognised on the date it takes place.

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

Use of the “acquisition” method of accounting is recommended for acquisitions which is supplemented with additional guidance for public sector specific situations.

r) Subsequent events – IPSAS 14

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

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2017

| | 2016-2017 | 2015-2016 |
|---|--------------------|--------------------|
| | Kshs | Kshs |
| 3 Transfer from Ministries, Departments and Agencies | | |
| (a) Recurrent grants | | |
| Bank statement date | | |
| 10/08/2016 | 54,757,038 | |
| 26/08/2016 | 54,757,037 | |
| 30/09/2016 | 54,757,037 | |
| 09/11/2016 | 54,757,036 | |
| 13/12/2016 | 54,757,036 | |
| 30/12/2016 | 54,757,036 | |
| 09/02/2016 | 54,757,036 | |
| 15/03/2017 | 54,757,036 | |
| 07/04/2017 | 54,757,036 | |
| 02/05/2017 | 54,757,036 | |
| 02/06/2017 | 54,757,036 | |
| 27/06/2017 | 54,757,050 | |
| Total recurrent grants | 657,084,450 | 647,626,262 |

These are non-conditional funds received from the Government to support recurrent expenditure of the University.

(b) Capital grants

| | | |
|-----------------------------|--------------------|--------------------|
| 24/10/2016 | 2,216,173 | |
| 18/11/2016 | 500,000 | |
| 07/12/2016 | 10,997,687 | |
| 20/12/2016 | 500,000 | |
| 23/03/2017 | 52,776,796 | |
| 10/05/2017 | 3,858,476 | |
| 10/05/2017 | 4,350,044 | |
| 30/05/2017 | 28,950,507 | |
| 16/06/2017 | 7,477,399 | |
| 27/06/2017 | 33,643,014 | |
| 05/07/2017 | 4,655,705 | |
| 04/07/2017 | 8,375,012 | |
| 10/07/2017 | 3,449,770 | |
| Total capital grants | 161,750,583 | 100,888,551 |

These are conditional funds received from the Government to support development expenditure of the University.

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2017

| | 2016-2017 | 2015-2016 |
|---|--------------------|--------------------|
| | Kshs | Kshs |
| 4 Research grants | | |
| ICRAF 12017 Project | 121,621 | 283,784 |
| IGAD/INWRMP | - | 511,206 |
| GCFSI Project | 2,603,271 | - |
| International Foundation | 1,144,440 | - |
| Niche Project | 14,035,175 | 10,390,395 |
| NACOSTI Project | - | 848,689 |
| Asali project (Tarc) | - | 13,092,037 |
| World Health Organization | 803,661 | - |
| EDULINK Project | 1,178,560 | 2,925,128 |
| Total research grants | 19,886,728 | 28,051,238 |
| | | |
| 5 Tuition and other related fees | | |
| Tuition fees | 153,021,487 | 166,362,246 |
| Application fees | 962,156 | 1,334,500 |
| Registration fees | 7,119,000 | 5,906,850 |
| Student identification card fees | 2,723,500 | 2,710,250 |
| Activity fees | 6,717,500 | 6,483,577 |
| Student medical fees | 14,726,313 | 14,844,000 |
| Examination fees | 20,631,375 | 20,844,200 |
| Library fees | 10,793,920 | 10,347,065 |
| Supervision fees | 162,000 | 624,000 |
| Field trips/attachment fees | 185,870 | 500,500 |
| Thesis fees | 63,000 | 279,000 |
| Project fees | 1,523,000 | 2,035,000 |
| Computer fees | 19,504,191 | 19,231,350 |
| Student Union fees | - | 1,481,850 |
| Teaching practice fees | 7,152,500 | 5,341,000 |
| Student union subscription fees | - | 577,200 |
| Accommodation fees | 19,626,919 | 20,634,600 |
| Total tuition and other related fees | 264,912,731 | 279,537,188 |

Students' union and subscription fees were accounted for as a liability since this belongs to South Eastern Kenya University Students Association. The University only offers facilitation in collecting these dues as part of fees.

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2017

| | 2016-2017 | 2015-2016 |
|--|-------------------|-------------------|
| | Kshs | Kshs |
| 6 Rental revenue income and other sources | | |
| Library fine | 11,000 | 3,313 |
| Graduation fees | 4,181,000 | 3,263,600 |
| Tender fees | 119,111 | 47,500 |
| General fines-keys and others | 1,176,868 | 636,226 |
| Miscellaneous income | 1,059,145 | 4,870,418 |
| Gain on foreign exchange | 87,651 | 899,254 |
| Consultancy fee | 345,450 | - |
| Hire of conference facilities | 1,437,150 | - |
| Rent income | 764,712 | 1,173,127 |
| Income from computer science | 1,620,341 | 10,825 |
| Milk and dairy products | 49,675 | 42,465 |
| Accommodation receipts guest house | 2,647,996 | 931,845 |
| Food sales- income generating activities | 4,703,191 | 5,548,052 |
| Gain on disposal of asset | 765,875 | - |
| Farm proceeds | 3,340 | 230,915 |
| Other grants and donations | - | 976,463 |
| Total rental income and other sources | 18,972,505 | 18,634,003 |
| 7 Other incomes | | |
| Increase in net worth of biological assets | 1,688,966 | 808,040 |
| Students mess sales-Pay as you eat | 21,001,067 | 24,520,325 |
| Total other income | 22,690,033 | 25,328,365 |
| 8 Administration expenses | | |
| Student bursaries expenses | 3,534,272 | 2,849,500 |
| Student sponsorship expenses | 199,900 | 587,800 |
| Corporate social responsibility | - | 683,950 |
| Guest house expenses | 2,941,667 | 3,278,114 |
| Cafeteria expenses | 438,618 | 1,591,665 |
| Travelling and subs. staff | 15,835,083 | 13,748,313 |
| Passage, baggage and leave days | 171,015 | 503,378 |
| External travel and accommodation | 285,105 | 366,485 |
| Staff training and development | 1,720,690 | 993,850 |

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2017

| | 2016-2017 | 2015-2016 |
|--|--------------------|--------------------|
| | Kshs | Kshs |
| Staff fees waiver | 2,888,538 | 1,666,200 |
| Medical insurance cover and staff hospitalization expenses | 22,095,090 | 27,585,699 |
| Staff performance appraisal and reviews | 83,520 | - |
| Staff funeral expenses | - | 50,000 |
| Postage and courier services | 53,060 | 34,960 |
| Electricity expenses | 10,657,900 | 10,667,414 |
| Water expenses | 9,574,190 | 11,313,437 |
| General insurances - properties and others | 3,954,287 | 5,489,883 |
| Professional, Legal and other fees | 7,017,007 | 5,688,522 |
| Official entertainment | 564,940 | 892,221 |
| Conference and seminars | 275,100 | - |
| University subscription to other bodies | 888,733 | - |
| Newspapers, journals and videos | 27,570 | - |
| Internet and ICT infrastructure expense | 19,665,805 | 15,241,870 |
| Office running expenses | 3,110,941 | 5,594,379 |
| Students union expenses | - | 1,596,504 |
| Management, Senate and other internal comm. Expenses | 3,715,863 | 1,957,445 |
| Cleaning and Sanitary Services | 1,682,428 | 2,151,392 |
| Performance contracting | 262,900 | 667,365 |
| Telephone expenses | 139,490 | 222,803 |
| Farm expenses | 1,745,893 | 427,871 |
| Transport expenses | 6,176,539 | 6,523,636 |
| Loss on foreign exchange | 371,568 | 632,407 |
| Alcohol and drug abuse | - | 66,375 |
| HIV/AIDS Control unit | 89,660 | 137,242 |
| Tax expense | - | 13,844,707 |
| Bank charges, commissions and errors | 1,171,529 | 1,156,849 |
| Total administration expenses | 121,338,901 | 138,212,236 |
| 9 Council expenses | | |
| Sitting allowance | 3,562,158 | 4,420,060 |
| Travelling and accommodation allowances | 5,221,101 | 7,269,770 |
| Honorarium | 2,431,613 | 2,160,000 |
| Total council expenses | 11,214,872 | 13,849,830 |

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2017

| | 2016-2017 | 2015-2016 |
|---|-------------------|-------------------|
| | Kshs | Kshs |
| 10 Repairs and maintenance, rents & rates | | |
| Repairs and maintenance of motor vehicles | 7,470,403 | 7,065,455 |
| Repairs and maintenance of buildings | 8,353,669 | 5,298,855 |
| Repairs and maintenance equipment & machinery | 2,552,306 | 4,352,282 |
| Rent and rates | 12,545,363 | 12,751,326 |
| Land improvement expenses | 1,197,537 | 300,401 |
| Total repairs and maintenance, rents and rates | 32,119,278 | 29,768,319 |
| | | |
| 11 Marketing Expenses | Kshs | Kshs |
| Printing and publishing | 1,603,441 | 1,599,850 |
| Marketing, Publicity & advertising | 11,905,216 | 14,606,463 |
| Shows and exhibitions | 414,500 | 278,500 |
| Total marketing expenses | 13,923,157 | 16,484,813 |
| | | |
| 12 Catering and accommodation | | |
| Catering and accommodation | 26,027,344 | 33,197,174 |
| This is expenditure incurred to purchase food stuff for students at the University. | | |
| | | |
| 13 Academic services | | |
| Teaching materials expenses | 3,375,307 | 4,440,349 |
| Graduation expenses | 6,580,253 | 6,112,050 |
| Sports expenses | 3,440,600 | 2,944,800 |
| Teaching practice & field attachment | 4,997,300 | 3,155,249 |
| Academic field trips | 1,284,662 | 1,487,184 |
| Research expenses | 21,530,890 | 28,344,601 |
| Subsistence allowance - external examiners | 1,447,693 | 1,220,238 |
| Student activities | 1,843,701 | 949,952 |
| Library expenses | 2,564,429 | 1,930,659 |
| Internally funded research | 134,235 | - |
| Total academic services | 47,199,070 | 50,585,082 |

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2017

| | 2016-2017 | 2015-2016 |
|---------------------------------------|--------------------|--------------------|
| | Kshs | Kshs |
| 14 Employee costs | | |
| Basic pay | 274,070,772 | 256,421,622 |
| House allowances | 162,075,272 | 153,630,422 |
| Commuting allowance | 62,407,579 | 49,001,068 |
| Entertainment allowance | 10,193,419 | 7,633,000 |
| Hardship allowance | 47,347,674 | 44,482,210 |
| Professorial allowance | 492,000 | 468,000 |
| NSSF-employer contribution | 1,051,200 | 1,014,000 |
| Pension-employer contribution | 42,032,596 | 39,384,882 |
| Acting allowance | 267,377 | 70,158 |
| Leave travelling allowance | 1,816,696 | 1,772,535 |
| Responsibility allowances | 16,598,490 | 15,444,920 |
| Allowances arrears | 1,576,457 | 1,901,977 |
| Uniform expense | 87,600 | 231,250 |
| Book Journal/ICT allowance | 1,137,500 | 1,020,000 |
| Gratuity and pensions contributions | 8,989,628 | 11,188,756 |
| Teaching claims - part time lecturers | 23,981,298 | 24,529,074 |
| Casual labour expenses | 27,864,991 | 28,165,200 |
| Telephone allowances | 6,057,581 | 5,455,300 |
| Time Tabling allowances | 1,087,167 | 832,312 |
| Facilitation allowance | 390,000 | 280,500 |
| Extraneous allowances | 4,253,581 | 1,651,833 |
| Security guard allowances | 1,818,839 | 1,904,000 |
| Water and electricity allowances | 2,571,419 | 2,569,000 |
| Risk allowances | 392,750 | 540,200 |
| Other employee allowances | 15,976,191 | 13,981,498 |
| Total employee costs | 714,538,077 | 663,573,717 |

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2017

| 5 Property, plant and equipment Description | Land | Land Improv. | Buildings | Furniture, plant&equi | Motor veh. | Computers | Work in progress | Soft ware | Total |
|---|----------------------|---------------------|---------------------|-----------------------|---------------------|---------------------|----------------------|------------------|----------------------|
| | Kshs | Kshs | Kshs | Kshs | Kshs | Kshs | Kshs | Kshs | Kshs |
| Cost | | | | | | | | | |
| At 1 July 2015 | 1,036,600,000 | - | 243,008,364 | 92,621,964 | 64,313,713 | 40,101,347 | 1,034,824,250 | 5,577,600 | 2,517,047,238 |
| Additions | - | - | - | 13,457,491 | - | 415,000 | 93,324,563 | 1,949,120 | 109,146,174 |
| Revaluation | - | - | - | - | - | - | - | - | - |
| Transfers/adjustments | - | - | - | - | - | - | - | - | - |
| At 30 June 2016 | 1,036,600,000 | - | 243,008,364 | 106,079,455 | 64,313,713 | 40,516,347 | 1,128,148,813 | 7,526,720 | 2,626,193,412 |
| Additions | - | - | - | 20,178,332 | 9,030,000 | 2,554,196 | 142,924,514 | - | 174,687,041 |
| Revaluation | - | - | - | - | 3,680,000 | - | - | - | 3,680,000 |
| Adjustments on Revaluation | - | - | - | - | 6,056,518 | - | - | - | 6,056,518 |
| Disposal | - | - | - | - | (2,890,000) | - | - | - | (2,890,000) |
| Capitalization | - | 220,033,881 | 378,743,995 | 11,810,526 | - | - | (610,588,402) | - | - |
| At 30 June 2017 | 1,036,600,000 | 220,033,881 | 621,752,359 | 138,068,313 | 68,077,195 | 43,070,543 | 660,484,925 | 7,526,720 | 2,795,613,935 |
| Depreciation | | | | | | | | | |
| At 1 July 2015 | - | - | (23,296,416) | (49,069,555) | (19,106,687) | (37,575,725) | - | - | (129,048,382) |
| Depreciation | - | - | (4,860,167) | (15,911,918) | (16,078,428) | (735,155) | - | - | (37,585,669) |
| At 30 June 2016 | - | - | (28,156,583) | (64,981,473) | (35,185,115) | (38,310,880) | - | - | (166,634,052) |
| Depreciation | - | (11,001,694) | (12,435,047) | (20,710,247) | (17,019,299) | (1,189,914) | - | - | (62,356,201) |
| Adjustment on revaluation | - | - | - | - | 6,056,518 | - | - | - | 6,056,518 |
| Disposal | - | - | - | - | 1,445,000 | - | - | - | 1,445,000 |
| At 30 June 2017 | - | (11,001,694) | (40,591,630) | (85,691,720) | (44,702,896) | (39,500,794) | - | - | (221,488,735) |
| Net book values | | | | | | | | | |
| At 30 June 2017 | 1,036,600,000 | 209,032,187 | 581,160,729 | 52,376,593 | 23,374,299 | 3,569,749 | 660,484,925 | 7,526,720 | 2,574,125,201 |
| At 30 June 2016 | 1,036,600,000 | - | 214,851,781 | 41,097,982 | 29,128,598 | 2,205,467 | 1,128,148,813 | 7,526,720 | 2,459,559,360 |

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2017

| | 2016-2017 | 2015-2016 |
|---|--------------------|-------------------|
| | Kshs | Kshs |
| 15B- | | |
| (1) Additions to work in progress are analysed as follows: | | |
| (i) Students hostel and kitchen-II-Elephant Const. ltd | - | 9,427,186 |
| (ii) Cabro works-Charwins | - | 5,799,763 |
| (iii) Tuition and office block-II-Northern Const. ltd | 5,624,770 | 27,486,253 |
| (iv) Students hostel phase V -Glanak Investments | 13,452,089 | 20,599,778 |
| (v) Sports ground-Geokarma Const. ltd | - | 7,324,523 |
| (vi) Security Flood lights- Beshamu Enterprises | - | 2,894,000 |
| (vii) Fencing of Hostels-Ponika Enterprises | - | 1,037,799 |
| (viii) Fencing of Hostels-Civistruct ltd | - | 1,052,885 |
| (ix) Fencing of Hostels-Ngaaka Yakwa const. | - | 623,152 |
| (x) Fencing of Hostels-Pacific General works. | - | 999,340 |
| (xi) Centrl stores-Jap International | 2,106,091 | 15,123,883 |
| (xii) Car shades-Pavetract Const. | - | 956,000 |
| (xiii) School of Humanities-Dama Services /Veevee Enterprises | 39,999,911 | - |
| (xiv) Kitui Campus-Aaki Consultants/Stepal Builders. | 30,174,330 | - |
| (xv) Wote Campus-Heritage Associates /Arcon Works Ltd. | 40,000,332 | - |
| (xvi) Cctv Camera-Jigsys Technologies | 6,879,902 | - |
| (xvii) Ict Cabling-Fast Cellular | 4,687,088 | - |
| Total | 142,924,514 | 93,324,562 |

(2) Depreciation on work in progress

Depreciation is only charged on completed projects based on applicable depreciation rates. No depreciation charge is made on work in progress.

| | | |
|----------------------|---------|---------|
| 16 Audit fees | 696,000 | 696,000 |
|----------------------|---------|---------|

This is a prescribed fee paid to the Office of the Auditor General for services rendered of auditing the University Annual Report and Financial Statements.

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2017

| | 2016-2017 | 2015-2016 |
|--|-------------------|-------------------|
| | Kshs | Kshs |
| 17 Cash and cash equivalents | | |
| (i) Current accounts | | |
| NBK Fees collection A/C No.01021052862000 | 276,460 | 934,056 |
| NBK Development A/C No.01021053129200 | 37,654,065 | 35,546,861 |
| NBK Income generating units A/C No.01021053129100 | 2,235,881 | 805,734 |
| NBK Research A/C No.01021053302500 | 2,906,207 | 1,803,041 |
| NBK Dollar A/C No.02020052862000 | 3,870,245 | 2,439,022 |
| NBK Euro A/C No.03020052862000 | 7,035,856 | 9,662,018 |
| NBK Payment A/C No.01020088710300 | 1,444,901 | 1,025,432 |
| NBK Catering and accom. A/C No.01020088710400 | 123,655 | 48,710 |
| NBK Caution money A/C No.01020017462300 | 394,229 | 392,657 |
| KCB Fees collection A/C No.1127693166 | 152,097 | 1,867,371 |
| KCB ASDSP A/C No.167543262 | - | 769,978 |
| Co-op. Bank fees collect. A/C No.01129300544600 | 804,419 | 16,136,154 |
| Equity Bank fees collect. A/C No.0720295920757 | 615,352 | 2,430,115 |
| Barclays Bank fees collect. A/C No.2021558152 | 634,388 | 2,162,264 |
| Total of current accounts | 58,147,755 | 76,023,413 |
| (ii) Others | | |
| Cash in hand | - | 540 |
| M-PESA Fees payment account | 26,000 | 62,270 |
| M-PESA IGU payment account | 7,895 | 31,040 |
| Total of others | 33,895 | 93,850 |
| Total cash and cash equivalents | 58,181,650 | 76,117,263 |
| 18 Receivables from exchange transactions | | |
| Outstanding imprest | 1,092,354 | 1,670,023 |
| Students debtors | 64,197,580 | 91,800,644 |
| General debtors | 188,244 | 589,929 |
| Internal debtors | - | 10,000 |
| Staff debtors | - | 113,718 |
| Other current assets | | |
| BOC cylinders deposits | 171,000 | 171,000 |
| KPLC co ltd. deposits | 110,000 | 110,000 |
| Prepaid rent | - | 789,417 |
| Rent deposits | 310,000 | 310,000 |
| Total receivables from exchange transactions | 66,069,178 | 95,564,731 |
| 19 Receivables from non-exchange transactions | 16,480,487 | - |
| Total receivables | 82,549,665 | 95,564,731 |

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2017

2016-2017 2015-2016

This denotes a commitment from the Government on account of capital grants due in the Year which were received after the year end on 10th July, 2017.

| | Kshs | Kshs |
|---|------------------|------------------|
| 20 Inventories | | |
| Central store inventory | 6,247,772 | 3,701,872 |
| Cleaning materials | 20,955 | 45,518 |
| Food stuffs inventory | 232,650 | 355,988 |
| Medical drugs | 782,974 | 369,905 |
| Purchases for sale IGU | 49,801 | 103,750 |
| Farm inventory | 230,881 | 135,355 |
| Total inventories | 7,565,033 | 4,712,388 |
| 21 Biological assets | | |
| Cattle | 1,171,920 | 1,102,380 |
| Poultry | 58,630 | 25,200 |
| Goats | 1,868,896 | 1,047,720 |
| Pigs | 1,031,460 | 266,640 |
| Donkey | 12,000 | 12,000 |
| Total biological assets | 4,142,906 | 2,453,940 |
| 22 Trade and other payables from exchange transactions | | |
| Unpaid contractors certificates | 11,231,397 | 19,253,845 |
| Recurrent creditors suppliers | 18,979,605 | 11,701,743 |
| Retention-contractors | 39,681,697 | 38,635,477 |
| Commissioner of domestic taxes (Withholding tax) | 639,696 | 639,696 |
| Withholding VAT | 3,334,328 | 2,441,240 |
| Customer deposits(refundable) | 95,750 | 90,750 |
| Customer prepayment | 38,301 | - |
| Insurance and investments | 8,677 | - |
| Net outstanding salaries | 79,431 | - |
| Pay as you earn tax | 99,827 | 77,287 |
| SEKU pension scheme | 357,240 | 4,618,148 |
| Other societies deductions | - | 24,077 |
| Kenya Univ. and Colleges Placement Services fee | 2,388,000 | 2,388,000 |
| Staff bank loan deductions | - | 3,119,427 |
| Kenya Universities Staff Union | - | 397,297 |
| Student pre-paid fees | 54,815,298 | 53,379,297 |

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2017

| | 2016-2017 | 2015-2016 |
|--|--------------------|--------------------|
| | Kshs | Kshs |
| Provision for part-time claims | 62,238,646 | 102,681,392 |
| Provision for audit fees | 1,392,000 | 696,000 |
| HELB-Loan | 5,834,985 | 637,820 |
| CDF- Constituency Development Fund | 2,524,104 | 1,976,335 |
| Other pensions scheme | 160,952 | 122,424 |
| National Hospital Insurance Fund | - | 1,700 |
| National Social Security Fund | - | 800 |
| Imprest recoveries refund | 432,890 | 442,890 |
| SEKU-general recoveries | 471,268 | - |
| Other sponsors | 1,164,186 | 361,430 |
| Un-identified direct banking | 3,734,686 | 4,018,086 |
| Students Union membership and subscription fees | 1,139,893 | 1,139,893 |
| Total | 210,842,857 | 246,488,412 |
| | | |
| 23 Unexpended research grants | 17,281,118 | 18,925,280 |
| This constitutes the unspent money on account of funds received for various research projects | | |
| | | |
| 24 Refundable deposits from students-caution money | | |
| Balance at the beginning | 17,746,700 | 22,683,000 |
| Provision for class 2013 to be paid in 2017 | - | (3,390,000) |
| Caution money collected in financial year 2016/2017 | 4,430,800 | 5,162,200 |
| Previous years caution money paid and reversals | (192,600) | - |
| Adjustment on provision for 2012/2013 financial year | - | (6,708,500) |
| Balance at the end | 21,984,900 | 17,746,700 |
| | | |
| This a provision in recognition of money paid by students on account of caution money which is refundable on upon completion of studies or transfer to other institutions. | | |
| | | |
| 25 Contingent liabilities | | |
| Tax penalty and interest | 3,454,154 | 3,454,154 |

The penalty arose as a result of payment of PAYE in 2015/2016 financial year. Kenya Revenue Authority has been petitioned to write it off.

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2017

| | 2016-2017 | 2015-2016 |
|--|-----------------------------|-----------------------------|
| | Kshs | Kshs |
| 26 Revenue reserve | | |
| This constitutes the accumulated surplus and deficits over the period the University has been in existence | | |
| Analyzed as follows: | | |
| Balance at the beginning | (45,010,036) | (78,798,628) |
| Deficit/Surplus for the period | (45,866,453) | 15,224,216 |
| Adjustment on unexpended research grants | 1,644,160 | 293,359 |
| Adjustment on depreciation of revalued motor vehicles | 7,081,281 | 7,081,281 |
| Adjustment on provision for audit fees | - | 638,392 |
| Adjustment on caution money account balance | - | - |
| Balance at the end | <u><u>(82,151,048)</u></u> | <u><u>(45,010,037)</u></u> |
| 27 Capital fund | | |
| Balance at the beginning | 1,897,310,797 | 1,796,422,246 |
| Capital grants received in the year | 161,750,583 | 100,888,551 |
| Balance at the end | <u><u>2,059,061,380</u></u> | <u><u>1,897,310,797</u></u> |
| 28 Revaluation reserves | | |
| Balance at the beginning | 499,492,375 | 510,416,500 |
| Motor vehicles revaluation | 3,680,000 | - |
| Adjustment of depreciation on revalued motor vehicles | (7,081,281) | (10,924,125) |
| Balance at the end | <u><u>496,091,094</u></u> | <u><u>499,492,375</u></u> |

These reserves relate to recognition of carrying amounts of items either donated to the University or whose future economic benefits have been re-determined based on their probable extended economic lifespans. Subsequent depreciation on re-valued amount is charged against the reserves and an entry is passed to the revenue reserves.

SOUTH EASTERN KENYA UNIVERSITY ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2017

XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor and management comments that were provided to the auditor. Our principal legal adviser and the University Management are doing everything possible to help resolve the various legal cases in court relating to land occupancy ownership and title deeds.

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Focal Point person to resolve the issue (Name and designation) | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|---|--|---|---|--|---|
| 1.0 | Property, plant and equipment. Land- | There are several cases pending in court details of which have been presented to the office relating to the ownership of the parcels of land. The University Management and lawyers are making efforts to have them registered in the name of the University. | Prof. Geoffrey M.Muluvi, (Ph.D) Vice-Chancellor | Not Resolved | In progress |


PROF. GEOFFREY M. MULUVI (Ph.D)
VICE-CHANCELLOR

Date.....15/3/2018


DR. REUBEN K. CHIRCHIR (Ph.D)
CHAIRMAN OF COUNCIL

Date.....19-03-2018.