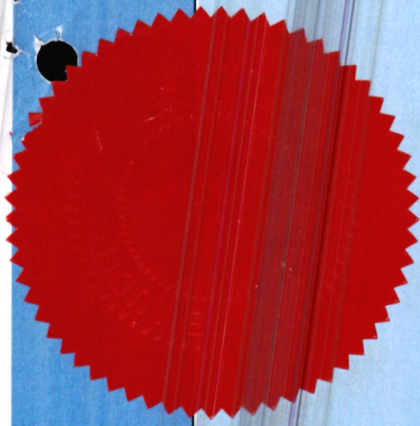


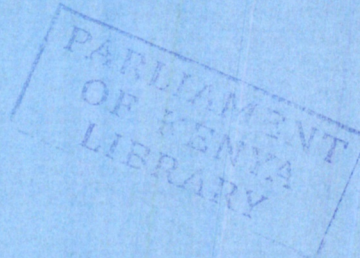
REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 23 JUL 2019	DAY: TUESDAY
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CONTROL TABLE:	



REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF

MACHAKOS UNIVERSITY

FOR THE YEAR ENDED

30 JUNE 2018





MACHAKOS UNIVERSITY

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDING 30 JUNE 2018

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



ISO 9001:2015 CertifiedSoaring Heights in Transforming Industry and Economy

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I. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

The entity (Machakos University) was started in 1957 as Machakos Technical Rural Training School. In 1958, the School was taken over by the Government and renamed Machakos Technical and Trade School. In 1967, the School was renamed Machakos Technical School. In 1987, the School became a purely post-secondary Institution called Machakos Technical Training Institute. On 7th October 2016, Machakos University became a fully-fledged University.

b) Principal Activities

The principal activity / mission of the entity is to provide scholarly education through Training, Research and Innovation for industrial and socio-economic transformation of our communities.

c) Key Management

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

- (a) University Council
- (b) The Vice Chancellor
- (b) University Management Board
- (c) University Senate

d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June, 2018 and who had direct fiduciary responsibility were:

Designation	Name
(a) Chairman of Council	Dr. Mechah Charles Moturi
(b) Vice Chancellor	Prof. Lucy W. Irungu
(c) DVC (Administration, Planning & Finance)	Prof. (Eng.) Douglas Shitanda
(d) DVC (Academic & Students' Affairs)	Prof. Joyce Agalo
(e) DVC (Research, Innovation & Linkages)	Prof. Peter N. Mwita
(f) Chief Finance Officer	CPA Aileen A. Nyatuga
(g) Ag. Registrar (Administration & Planning)	Dr. Susan Nzioki
(h) Registrar (Academic & Students' Affairs)	Prof. Ezra O. Okemwa
(i) Ag. Registrar (Research, Innovation & Linkages)	Dr. Wycliffe Amukowa



e) Fiduciary Oversight Arrangements

There exist fiduciary oversight arrangements coordinated by the following Council Committees also capturing their fiduciary duties/activities as follows:

1. FINANCE, PLANNING AND DEVELOPMENT COMMITTEE

Membership

- (1) Chairman
- (2) Council Member
- (3) Representative, Principal Secretary- State Department of University Education
- (4) Representative, Cabinet Secretary- The National Treasury
- (5) Vice-Chancellor – Secretary

Responsibilities:

- (1) To receive, consider and submit the proposed budget estimates from the various sections for approval by the Council;
- (2) To control the banking and investment operations of the Council and to make provision for the examination of all the bills and accounts and for the discharge of liabilities incurred by the University;
- (3) To control all the expenditure of the University under approved annual estimates;
- (4) To receive and consider all requests for authorization of expenditure more than the approved annual estimates and make recommendations to the Council;
- (5) To consider and propose fees and other rates to the Council;
- (6) To report to the Council all matters related to finance and development;
- (7) To ensure that accurate records are kept on the establishments in the University;
- (8) To consider and recommend to the Council the priority development projects and receive reports, and the recommendations of Management on the progress of the physical development of the University;
- (9) To report to the Council on the progress of physical infrastructure development of the University;



- (10) To prepare University Development plans for an approved period and submit to the Council; and
- (11) To exercise such other powers as the Council may from time to time delegate to the Committee.

2. ACADEMIC AFFAIRS COMMITTEE

Membership

- (1) Chairman
- (2) Council Member
- (3) Representative, Principal Secretary- State Department of University Education
- (4) Representative, Cabinet Secretary- The National Treasury
- (5) Vice-Chancellor – Secretary

Responsibilities:

- (1) To advise the Council on academic programmes where the University has competitive advantage;
- (2) To receive and recommend all policy documents dealing with academic and research.
- (3) To receive and recommend to the Council all Memorandum of Understanding/Agreement pertaining to collaboration and linkages;
- (4) To assist the University in establishing collaboration with industry and other stakeholders;
- (5) To lobby for bursaries, research grants, scholarships and funds for capacity building; and
- (6) To exercise such other powers as the Council may from time to time delegate to the Committee.

3. HUMAN RESOURCES COMMITTEE

Membership

- (1) Chairman
- (2) Council Member

- (3) Representative, Principal Secretary- State Department of University Education
- (4) Representative, Cabinet Secretary- The National Treasury
- (5) Vice-Chancellor - Secretary

Responsibilities:

- (1) To review and make recommendations to the Council on Staff Terms and Conditions of Service as and when necessary or when directed to do so by the Council from time to time;
- (2) To consider proposals of Terms and Conditions of Service made by staff unions through the University Management Board;
- (3) To receive and review, from time to time human resource policies and the code of conduct of the University employees;
- (4) To plan for human resource development in the University;
- (5) To receive, consider and recommend to the Council staff recruitment and promotion criteria;
- (6) To examine and recommend to the Council staff rationalization and career structures within the University; and
- (7) To exercise such other powers as the Council may from time to time delegate to the Committee.

4. AUDIT AND COMPLIANCE COMMITTEE

Membership

- (1) Chairman
- (2) Council Member
- (3) Representative, Principal Secretary- State Department of University Education
- (4) Representative, Cabinet Secretary- The National Treasury
- (5) Internal Auditor - Secretary

Responsibilities:

- (1) To evaluate adequacy of management procedure with regard to issues relating to risk management, control and governance;



- (2) To reviewing and approve the audit charter where applicable and internal audit annual work plans;
- (3) To review internal and external audit findings and recommendations and propose corrective and preventive actions where necessary;
- (4) To review the systems established to ensure sound public financial management and internal controls, as well as compliance with policies, laws, regulations, procedures, plans and ethics;
- (5) To initiate special audits and or investigations on any allegations, concerns and complaints regarding corruption, lack of accountability and transparency in consultation with the Accounting Officer; and
- (6) To exercise such other powers as the Council may from time to time delegate to the Committee.

5. GENERAL PURPOSES COMMITTEE

Membership

- (1) Chairman of Council as Chairman
- (2) Chairman of Finance, Planning and Development Committee
- (3) Chairman of Audit and Compliance Committee
- (4) Representative, Cabinet Secretary in the National Treasury
- (5) Vice-Chancellor as secretary

Responsibilities:

- (1) To act on behalf of the Council on emergency matters;
- (2) the Committee shall refer matters acted on to the next Council meeting for ratification;
- (3) To address any other matter that does not fall within the Council Committees; and provided the Committee shall not have the power to approve the annual estimates and expenditure.

f) Entity Headquarters

P.O Box 136-90100
Wote Road
Machakos, KENYA

g) Entity Contacts

Telephone: (254) 044-20353
Cell: 0735 247939 / 0723 805829
E-mail: info@mksu.ac.ke
Website: www.machakosuniversity.ac.ke

h) Entity Bankers

1. National Bank of Kenya
P.O. Box 274-90100
Machakos.
2. Kenya Commercial Bank
P.O. Box 30-90100
Machakos.
3. Co-operative Bank
P.O. Box 1250-90100
Machakos.
4. Standard Chartered Bank
P.O. Box 29-90100
Machakos
5. Barclays Bank of Kenya
P.O. Box 30120
Machakos

i) Independent Auditors

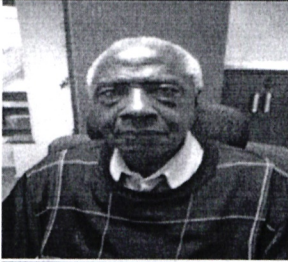



Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P. O. Box 30084, GPO 00100,
Nairobi, KENYA.






j) Principal Legal Adviser

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





II. UNIVERSITY COUNCIL MEMBERS

TITLE	NAME	QUALIFICATIONS
<p style="text-align: center;">Council Chairman (From 15th October, 2018)</p>	 <p style="text-align: center;">Prof. Gideon Hanjari</p>	<p>Date of Birth: 1945</p> <p>Key Qualifications: Ph.D.</p> <p>Work Experience: An Architect with many years of service. He is currently a Consultant with Baseline Architect limited</p>
<p style="text-align: center;">Council Chairman (From 1st August, 2017 to 12th October, 2018)</p>	 <p style="text-align: center;">Dr. Mechah Charles Moturi</p>	<p>Date of Birth: 1953</p> <p>Key Qualifications: Ph.D. (Environmental Science)</p> <p>Work Experience: Former C.E.O Kenya Industrial Research Development Institute (KIRDI).</p>
<p style="text-align: center;">Council Member (From 1st August, 2017 to 12th October, 2018)</p>	 <p style="text-align: center;">Mr. Tom Mboya Wambua</p>	<p>Date of Birth: 1968</p> <p>Key Qualifications: MBA (Strategic Management)</p> <p>Work Experience: Over 15 years in Management and Consultancy, Board member KEMSA.</p>
<p style="text-align: center;">Council Member</p>	 <p style="text-align: center;">Ms. Florence Muthoni Gichohi</p>	<p>Date of Birth: 1957</p> <p>Key Qualifications: On-going Ph.D. (Development Studies)</p> <p>Work Experience: Over 10 years' experience as a senior public administrator.</p>

<p style="text-align: center;">Council Member (From 1st August, 2017 to 12th October, 2018)</p>	 <p style="text-align: center;">Ms. Karen Basiye Itela</p>	<p>Date of Birth: 1978</p> <p>Key Qualifications: Masters' Degree (Environmental Studies)</p> <p>Work Experience: Senior Manager Sustainable Business, Safaricom Ltd.</p>
<p style="text-align: center;">Council Member</p>	 <p style="text-align: center;">Mr. Richard Mativu Musau</p>	<p>Date of Birth: 1985</p> <p>Key Qualifications: MBA (Strategic Management)</p> <p>Work Experience: Over 10 years' advocacy for people living with hearing disability.</p>
<p style="text-align: center;">Council Member</p>	 <p style="text-align: center;">Ms. Lorna Mbatia</p>	<p>Date of Birth: 1983</p> <p>Key Qualifications: LLM (Intellectual property rights)</p> <p>Work Experience: Partner, CFL Advocates.</p>
<p style="text-align: center;">Council Member (From 15th October, 2018)</p>	 <p style="text-align: center;">Mr. Patrick Ranga Abelle</p>	<p>Date of Birth: 1968</p> <p>Key Qualifications: MBA</p> <p>Work Experience: Over 10 years in sales and marketing of pharmaceutical products and vaccines in East Africa.</p>
<p style="text-align: center;">Council Member (From 15th October, 2018)</p>	 <p style="text-align: center;">Ms. Harriette Chiggai</p>	<p>Date of Birth: 1981</p> <p>Key Qualifications: MBA- Finance and Governance, CPM (Certified Mediator), certified governance trainer and Business development and company strategist</p> <p>Work Experience: Vice President Law Society of Kenya, Deputy Secretary General East Africa Law Society. Legal consultant and trainer in corporate governance, Labour Laws and Intellectual Property Rights</p>







Machakos University
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<p>Rep. Cabinet Secretary, The National Treasury</p>	 <p>Mr. Kenneth Waithiru</p>	<p>Date of Birth: 1965</p> <p>Key Qualifications: Masters of Economics</p> <p>Work Experience: 24 years in Policy Formulation.</p>
<p>Rep. Principal Secretary, State Department of University Education</p>	 <p>Ms. Cecilia Nzau</p>	<p>Date of Birth: 1958</p> <p>Key Qualifications: BSc (Education)</p> <p>Work Experience: Over 15 years in Policy Formulation.</p>
<p>Council Secretary / Vice Chancellor</p>	 <p>Prof. Lucy W. Irungu</p>	<p>Date of Birth: 1957</p> <p>Key Qualifications: Ph.D. – Medical Entomology and Applied Parasitology</p> <p>Work Experience: Over 30 years in University Management and Research.</p>




III. MANAGEMENT TEAM

TITLE	NAME	QUALIFICATIONS
Vice Chancellor	 Prof. Lucy W. Irungu	<p>Key Qualifications: Ph.D. – Medical Entomology and Applied Parasitology</p> <p>Responsibility: The Chief Academic Administrative and Financial head of the University.</p>
Deputy Vice Chancellor Administration, Planning and Finance	 Prof. (ENG.) Douglas Shitanda	<p>Key Qualifications: Ph.D. (Processing Engineering)</p> <p>Main area of Responsibility: In-Charge of Administration, Planning and Finance.</p>
Deputy Vice Chancellor Academic and Student Affairs	 Prof. Joyce J. Agalo	<p>Key Qualifications: Ph.D. (Education)</p> <p>Main area of Responsibility: In-Charge of Academic and Student Affairs.</p>
Deputy Vice Chancellor Research, Innovation & Linkages	 Prof. Peter N. Mwita	<p>Key Qualifications: Ph.D. (Statistics)</p> <p>Main area of Responsibility: In-Charge of Research, Innovation & Linkages.</p>



Machakos University
Financial year Reports and Financial statements for the year ended 30 June 2018

<p>Chief Finance Officer</p>	 <p>CPA Aileen A. Nyatuga</p>	<p>Key Qualifications: MBA (Accounting), CPA(K)</p> <p>Main area of Responsibility: Head of Finance Department.</p>
<p>Registrar Academic and Student Affairs</p>	 <p>Prof. Ezra O. Okemwa</p>	<p>Key Qualifications: Ph.D. (Knowledge Management)</p> <p>Main area of Responsibility: To support the functions of the Academic & Student Affairs Division.</p>
<p>Ag. Registrar Administration and Planning</p>	 <p>Dr. Susan Nzioki</p>	<p>Key Qualifications: Ph.D. (Human Resource Management)</p> <p>Main area of Responsibility: To support the functions Administration and Planning.</p>
<p>Ag. Registrar Research, Innovation & Linkages</p>	 <p>Dr. Wycliffe Amukowa</p>	<p>Key Qualifications: Ph.D. (Philosophy of Education)</p> <p>Main area of Responsibility: To support the functions of the Research, Innovation & Linkages Division.</p>



IV. CHAIRMAN'S STATEMENT

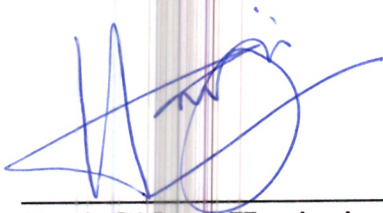
It is my pleasure to present the University's Annual Financial Statements for the financial year ended 30th June, 2018. The University Council notes with appreciation the continued support of the Government and other stakeholders in running the institution. We endeavor to continue restructuring our programmes in order to achieve efficiency in the management of academic affairs. The Council will endeavor to work with the industry and other strategic partners in order to provide facilities to meet the challenges the University is facing.

There has been a steady increase in student population which has exerted a lot of pressure on the existing facilities, thereby necessitating the need for putting up more facilities. The Council in collaboration with the relevant stakeholders is committed towards delivering the same.

During the financial year 2017/2018, the University embarked on various projects among them; Tuition and Office Block, Phase II of Building and Civil Engineering Workshops and acquisition of a 67-seater university bus.

We continued with the measures of setting up of management and governance structures that reflect university status.

Finally, I thank the Government and the local donor agencies, suppliers and service providers for their trust, support and continued cooperation.



Prof. Gideon Hanjari
Chairman of Council



V. REPORT OF THE VICE CHANCELLOR

I am pleased to present the Annual report and Financial Statements of Machakos University for the financial year ended 30th June, 2018. During the financial year under review, the University has remained on course. The main focus of which has been quality, relevance, access and sustainability intended to consolidate and reshape the University with a view to living up to the fully-fledged University status.

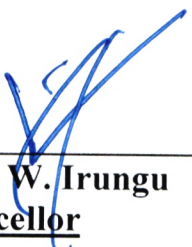
During the financial year, the University put in place the necessary financial, procurement and internal control measures on resource utilization to ensure that it meets the targets of revenue collection and cost control measures. Despite the many challenges the University has faced, I am glad to report that the University has managed to stay afloat financially.

Machakos University has continued with the construction of various projects geared towards achieving its objectives. These include but not limited to; Tuition and Office Block and Phase II of Building and Civil Engineering Workshops. In addition, the University managed to acquire a brand new 67-seater bus to cater for the increasing students' activities and initiated the development of games and sports facility.

During the period the University held its first international conference which would play a key role in global recognition and enhance its status in the area of research.

I am humbled to convey my appreciation and gratitude to the University Council, Management and all the members of staff for their support, commitment and dedication to their work and their efforts that have seen Machakos University move towards attaining its vision. Special recognition goes to all the students who have chosen Machakos University as their place of study.

Finally, I thank the Government of Kenya, the local community, donor agencies, our bankers, suppliers and service providers for their support and cooperation.



Prof. Lucy W. Irungu
Vice Chancellor

VI. CORPORATE GOVERNANCE STATEMENT

Good corporate governance is key to the integrity of state corporations and is central to their health and stability. Corporate governance plays a leading role in how corporations and their boards and management are directed, controlled and held to account. Corporate governance, therefore, encompasses the systems, practices and procedures by which the individual corporation is regulated in order to remain competitive, ethical, sustainable and fair.

The University Council follows principles of openness, integrity and accountability in its stewardship of the University's affairs. It recognizes the developing nature of corporate governance and assesses the University's compliance with generally accepted corporate governance practice on a regular basis, directly and through its Council committees and management. The role of the Council is to ensure conformance by focusing on and providing the University's overall strategic direction and policy-making as well as performance review through accountability and ensuring appropriate monitoring and supervision. The Council is also responsible for the overall system of internal control and for reviewing its effectiveness. The controls are designed to both safeguard the University's assets and ensure the reliability of financial information.

The University Management Board, comprising, the Vice Chancellor, Deputy Vice Chancellors, Registrars and Chief Finance Officer meets regularly to consider issues of operational and strategic importance to the University. Below are the key features of the existing corporate governance practices within Machakos University which are reviewed and improved on a regular basis: -

1. University Council

The University Council consists of the Chairman and eight members, who have been appointed in accordance with the Universities Act (2012). The full University Council meets at least four times a year.

The Council is responsible for setting the direction of the University through the establishment of strategic objectives, key policies and approval of budgets. It monitors the implementation of strategies and policies through a structured approach of reporting by management and consequent accountability.



VI. CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The Council is actively involved and brings strong independent judgment on its deliberations and discussions. The University Council members have diverse skill set, a wide range of knowledge and experience of University setting that is applied to the formulation of strategic objectives and decision making. The Council meets regularly and retains full and effective control over the University in all strategic, financial, operational and compliance areas.

To assist the Council in the discharge of its responsibilities, Council committees have been established. All the Council committees meet at least two times a year. The committees are as follows: -

COUNCIL COMMITTEES:

1. FINANCE, PLANNING AND DEVELOPMENT COMMITTEE

Membership

- (1) Chairman
- (2) Council Member
- (3) Representative, Principal Secretary- State Department of University Education.
- (4) Representative, Cabinet Secretary- The National Treasury
- (5) Vice-Chancellor - Secretary

Responsibilities:

1. To receive, consider and submit the proposed budget estimates from the various sections for approval by the Council;
2. To control the banking and investment operations of the Council and to make provision for the examination of all the bills and accounts and for the discharge of liabilities incurred by the University;
3. To control all the expenditure of the University under approved annual estimates;
4. To receive and consider all requests for authorization of expenditure more than the approved annual estimates and make recommendations to the Council;
5. To consider and propose fees and other rates to the Council;
6. To report to the Council all matters related to finance and development;



VI. CORPORATE GOVERNANCE STATEMENT (CONTINUED)

7. To ensure that accurate records are kept on the establishments in the University;
8. To consider and recommend to the Council the priority development projects and receive reports, and the recommendations of Management on the progress of the physical development of the University;
9. To report to the Council on the progress of physical infrastructure development of the University;
10. To prepare University Development plans for an approved period and submit to the Council; and
11. To exercise such other powers as the Council may from time to time delegate to the Committee.

2. ACADEMIC AFFAIRS COMMITTEE

Membership

- (1) Chairman
- (2) Council Member
- (3) Representative, State Department of University Education
- (4) Representative, Cabinet Secretary, The National Treasury
- (5) Vice-Chancellor - Secretary

Responsibilities:

- (1) To advise the Council on academic programmes where the University has competitive advantage;
- (2) To receive and recommend all policy documents dealing with academic and research.
- (3) To receive and recommend to the Council all Memorandum of Understanding/Agreement pertaining to collaboration and linkages;
- (4) To assist the University in establishing collaboration with industry and other stakeholders;
- (5) To lobby for bursaries, research grants, scholarships and funds for capacity building;
- (6) To exercise such other powers as the Council may from time to time delegate to the Committee.



VI. CORPORATE GOVERNANCE STATEMENT (CONTINUED)

3. HUMAN RESOURCES COMMITTEE

Membership

- (1) Chairman
- (2) Council Member
- (3) Representative, Principal Secretary- State Department of University Education
- (4) Representative, Cabinet Secretary- The National Treasury
- (5) Vice-Chancellor - Secretary

Responsibilities:

- (1) To review and make recommendations to the Council on Staff Terms and Conditions of Service as and when necessary or when directed to do so by the Council from time to time;
- (2) To consider proposals of Terms and Conditions of Service made by staff unions through the University Management Board;
- (3) To receive and review, from time to time human resource policies and the code of conduct of the University employees;
- (4) To plan for human resource development in the University;
- (5) To receive, consider and recommend to the Council staff recruitment and promotion criteria;
- (6) To examine and recommend to the Council staff rationalization and career structures within the University; and
- (7) To exercise such other powers as the Council may from time to time delegate to the Committee.

4. AUDIT AND COMPLIANCE COMMITTEE

Membership

- (1) Chairman
- (2) Council Member

VI. CORPORATE GOVERNANCE STATEMENT (CONTINUED)

- (3) Representative, Principal Secretary- State Department of University Education
- (4) Representative, Cabinet Secretary- The National Treasury
- (5) Internal Auditor - Secretary

Responsibilities:

- (1) To evaluate adequacy of management procedure with regard to issues relating to risk management, control and governance;
- (2) To reviewing and approve the audit charter where applicable and internal audit annual work plans;
- (3) To review internal and external audit findings and recommendations and propose corrective and preventive actions where necessary;
- (4) To review the systems established to ensure sound public financial management and internal controls, as well as compliance with policies, laws, regulations, procedures, plans and ethics;
- (5) To initiate special audits and or investigations on any allegations, concerns and complaints regarding corruption, lack of accountability and transparency in consultation with the Accounting Officer; and
- (6) To exercise such other powers as the Council may from time to time delegate to the Committee

5. GENERAL PURPOSES COMMITTEE

Membership

- (1) Chairman of Council as Chairman
- (2) Chairman of Finance, Planning and Development Committee
- (3) Chairman of Audit and Compliance Committee
- (4) Representative, Cabinet Secretary in the National Treasury
- (5) Vice-Chancellor as secretary

Responsibilities:

- (1) To act on behalf of the Council on emergency matters;
- (2) The Committee shall refer matters acted on to the next Council meeting for ratification;



VI. CORPORATE GOVERNANCE STATEMENT (CONTINUED)

- (3) To address any other matter that does not fall within the Council Committees; and
- (4) Provided the Committee shall not have the power to approve the annual estimates and expenditure

Besides the five main Council committees, there also exist other ad hoc committees namely:

- (a) Appeals committee.
- (b) Graduation and Sealing committee
- (c) Honorary degrees' committee
- (d) Appointments committee for grades 14 and 15
- (e) Senior management staff disciplinary committee for grade 14 and above

2. Internal Controls

The University has implemented and maintained internal controls designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard and maintain accountability of the University's assets. Such controls are based on Law, Government & University regulations, Policies and circulars and are implemented by trained personnel with appropriate segregation of duties. The effectiveness of the system of internal controls is monitored regularly through internal audit functions, operational meetings and the annual external audit.

3. Related Party Transactions (Council Members' Remuneration)

The remuneration for Council members consists of Chairman's monthly honoraria in addition to the sitting and subsistence allowances, together with mileage reimbursement for the services of council members in connection with council & council committee meetings during the financial year ended 30th June, 2018 are outlined under **Note 18(b) on page 32** of these Financial Report and Financial Statements (Council expenses)

4. Going Concern

The University Council confirms that Machakos University has adequate resources to continue in operation for the foreseeable future and, therefore, the continued use of going concern as a basis of preparing the financial statements.

VII. MANAGEMENT DISCUSSION AND ANALYSIS

SECTION A

OPERATIONAL AND FINANCIAL PERFORMANCE

A) INCOME ANALYSIS:

During the financial year ended 30th June 2018, the University raised a total of KShs. 1,246,550,815.00 in gross revenue against a target of KShs. 1,463,844,000.00. This represents 85.2% of the target revenue. The University has been experiencing a challenge on its low infrastructure to support research activities which has led to research and donor funding. The elimination of the May-August has also led to low students enrollment which translates to the less income from tuition and the related charges.

B) EXPENDITURE ANALYSIS

During the financial year ended 30th June 2018, the University had a total expenditure of KShs. 1,208,062,499.00 against budgeted expenditure of KShs. 1,404,576,000.00. Employee Costs took 64% of the total recurrent expenditure. The corresponding figures are; Remuneration of Council members 1% and General expenses 35% respectively. This expenditure was controlled aiming at sustenance and maintenance of operations at a low level in order for the university to meet its financial obligations.

C) STATEMENT OF THE FINANCIAL POSITION

The statement of financial position indicates that the university closed the financial year ended 30th June 2018, with total assets of KShs. 2,620,944,156.

D) STATEMENT OF CASHFLOWS AS AT 30TH JUNE 2018

As at 30th June 2018, the University had net cash inflow from operating activities of KShs. 146,565,555.

At the same time the university spent KShs. 141,452,338.00 for purchase of non-current assets.

The net change in cash and cash equivalents was KShs. 34,113,216.00



VII. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

SECTION C

KEY PROJECTS AND INVESTMENT DECISIONS PLANNED AND IMPLEMENTED

Within the financial year ended 30th June 2018, the University has been implementing the following projects in order of priority;

S/No	Project	% of Completion	Financing of the project	Remarks
1	Extension of ADB Building	90	G.O.K	On-going and on schedule
2	Development of Sports and Games facility (phase I)	2	A.I.A	On-going and on schedule
3	Tuition and Office Block	10	G.O.K	On-going and on schedule

Funding for the projects was based on expected development grants. However, the Government funding policy was reviewed and release of funds is only based on the projects listed in the Printed estimates. The Government Priority is also to fund ongoing projects before embarking on new ones.

Funding of development projects was reduced by more than 75% in the supplementary Budget which affected the implementation of the on-going development projects.

VII. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

SECTION D

MAJOR RISKS

Key risks facing the Machakos University

Type of risk	Definition	Remarks
Operational risks	Loss resulting from inadequate or failed procedures, systems or policies.	<p>Risks</p> <ol style="list-style-type: none"> 1) Failure to collect the full income owing 2) Some students fail to pay their full fees 3) Some debtors from non-tuition activities delay paying for services rendered. <p>Risk Mitigation Strategies</p> <ol style="list-style-type: none"> 1) Strict enforcement of the fees payment policy 2) Enhance debt collection measures 3) Enforcement of the 100% payment for the Hotel 4) Negotiation and mediation on legal matters
Market risks	Losses due to factors that affect the overall performance of markets.	<p>Risks</p> <ol style="list-style-type: none"> 1) There is a risk of not attracting enough module two students due to the competition from other universities. 2) Risk of failing to attract enough specialist lecturers to act as thematic leaders due to competition. <p>Risk Mitigation strategies:</p> <ol style="list-style-type: none"> 1) Aggressive marketing of programmes 2) Enhance the diversity and quality of our own programmes - Enhance the work environment 3) Improve staff welfare.
Capital risks	Lose all or part of the principal amount invested. The risk a company faces that it may lose value on its capital. The capital of a company can include equipment, factories and liquid securities.	<p>Risk- Loss of invested capital in campuses</p> <ol style="list-style-type: none"> 1) Since MksU closed Mlolongo Centre as directed by the Commission for University Education (CUE), there is a likely loss of goodwill by the publics' who had started putting confidence in the university's ability to expand. 2) Risk Mitigation strategy - The university will increase the marketing effort to attract more students who can



		take their studies in Machakos where the campus is located.
Liquidity risk	Inability to meet short term financial demands. This usually occurs due to the inability to convert assets like debts to cash	Risk - MksU has experienced financial challenges during the financial year ended 30 th June 2018, whereby the total liquid assets worth KShs 142,203,044 are not able to meet the short-term liabilities of KShs 192,423,703. Risk Mitigation strategies: 1) Step up efforts to collect outstanding fees 2) Aggressive debt collection at the hotel 3) Control expenditures to manageable levels

SECTION E

MATERIAL ARREARS IN STATUTORY/FINANCIAL OBLIGATIONS

The University has no material arrears in statutory/financial obligations to the national exchequer or any other Government agency.

SECTION F

FINANCIAL PROBITY AND SERIOUS GOVERNANCE ISSUES

The University does not have any major financial improbity as reported by internal audit/ Audit committee, external auditors, or other National Government Agencies providing oversight.

There are no serious governance issues among the Council or members of the Council and top management team, including conflict of interest.

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Machakos University being a public entity embraces the policy of Corporate Social Responsibility (CSR) through engaging herself with the following amongst many social responsibilities:

- (a) Offering financial support to the needy students through coordinating bursary support opportunities and sponsorship to such cadre of students where possible as well as work-study programme.
- (b) Offering both social and economic support to the external community through provision of casual labor opportunities and supplies wherever such opportunities arise.
- (c) Offering donations and other possible aid to the needy communities.
- (d) Mentoring other young and upcoming institutions of higher learning for both social-economic benefits of their neighboring communities.eg Masinga Technical Training Institute and Kituluni Vocational Centre.
- (e) Offering career advice to students within and around Machakos County.
- (f) Offering internship and industrial attachment to youth from the surrounding community and Institutions.
- (g) Participating in environmental awareness through presidential award scheme and introduction of communal monthly cleaning day (Ngwatanio).
- (h) Active participation in tree planting in collaboration with Machakos County, Kitui County and Kenya forest service. We participated in tree planting in various primary schools, churches and Machakos University environment.



IX. REPORT OF THE UNIVERSITY COUNCIL

1. Pursuant to the provisions of the Act and without derogating from the generality of its authority as provided in the Act and the Charter, the Council shall have the following functions: -

- (1) to provide oversight and strategic leadership;
- (2) to approve the Statutes of the University and cause them to be published in the Kenya Gazette;
- (3) to approve the policies of the University;
- (4) to approve the budget;
- (5) to determine the method of recruitment, appointment and promotion of all staff of the University;
- (6) to appoint all staff of the University;
- (7) to make new or additional Statutes;
- (8) to administer the property and funds of the University in a manner and for the purposes which shall promote the interest of the University; but the Council shall not charge or dispose-off immovable property of the University except in accordance with the procedures laid down by the Government of Kenya;
- (9) to receive, on behalf of the University, donations, endowments, gifts, grants or other moneys and make disbursements therefrom to the University or other bodies or persons;
- (10) to provide for the welfare of the staff and students of the University;
- (11) to have powers to establish its committees as per guidelines issued by the Government from time to time;
- (12) to confer after receiving a report from the Senate, the title of Emeritus Professor, Visiting Professor, Honorary Professor, Adjunct Academic Staff, Honorary Lecturer or Honorary Fellow;
- (13) to promote and to make financial provisions and facilities for execution of the functions of the University;
- (14) to ensure availability of adequate resources for the achievement of the University objectives;
- (15) to monitor the University performance and ensure sustainability;

IX. REPORT OF THE UNIVERSITY COUNCIL (CONTINUED)

- (16) to determine, after considering the recommendations of the Senate, all fees payable to the University;
- (17) to ensure that a proper management structure is in place and make sure that the structure functions to maintain corporate integrity, reputation and responsibility;
- (18) to monitor and evaluate the implementation of strategies, policies, management criteria and plans of the University;
- (19) to ensure that the University complies with all the relevant laws, regulations, governance practices, accounting and auditing standards;
- (20) to, on the recommendation of the Senate provide in accordance with the Statutes, for the creation of new Divisions, Campuses, Colleges, Schools, Institutes, Directorates, Departments, Centres or the sub-division of any one or more than one such new body or otherwise, and for the abolition from time to time of any such body or sub-division of any such body however so described;
- (21) to, subject to the laid down Government procedures, approve sale, purchase, exchange, lease or take on, leave movable and immovable property on behalf of the University;
- (22) to, subject to the laid down Government procedures, approve the borrowing of money on behalf of the University; and for that purpose and subject to the Act, to mortgage or charge all or any part of the property unless the conditions of the property so held provide otherwise, and to give such other security whether upon movable and immovable property or otherwise as it may deem fit;
- (23) to institute on the recommendation of Senate fellowships, scholarships, studentships, bursaries, prizes and other aids to study and research;
- (24) to upon recommendation by Senate determine and approve terms and conditions upon which internal and external examiners shall be appointed by the University;
- (25) to approve rules and regulations governing the conduct and discipline of the students of the University;
- (26) to exercise powers of removal from office for good cause of any officer or staff member and other disciplinary controls in the University: -
 - (a) the good cause for the purpose of these Statutes include but not limited to:-



IX. REPORT OF THE UNIVERSITY COUNCIL (CONTINUED)

- (i) conviction for an offence which may be deemed by the Council such as to render the person convicted unfit for the execution of his or her duties;
 - (ii) conduct of an immoral, scandalous or disgraceful nature that is incompatible with the duties of the officer or staff; and
 - (iii) Conduct constituting failure or persistent refusal, neglect or inability to perform his or her duties.
- (b) these powers shall include and not limited to:-
- (i) issuance of warning;
 - (ii) sending officer or staff on compulsory leave pending investigations in cases of professional misconduct;
 - (iii) suspension as per the Human Resource Policy;
 - (iv) termination of service; and
 - (v) Summary dismissal in case of gross misconduct as stipulated in the Employment Act of 2007.
- (c) These powers shall be exercised reasonably in accordance with these Statutes, Regulations and Procedures of the University and any relevant written Law.
- (d) in case of disciplinary action, staff shall have the right: -
- (i) to appear before the relevant University Staff Disciplinary Committee as stipulated in these Statutes;
 - (ii) to be represented by one representative from the relevant union;
 - (iii) to call and examine witnesses; and
 - (iv) To appeal to the Council.
- (e) In case of termination by either party, the Council or the staff member may opt to pay in lieu of notice period except for disciplinary case or cases where the University may be adversely affected by the sudden departure of an officer handling critical responsibilities.
- (27) to approve the constitution of the students' organization and any amendments submitted thereafter and in so far as is reasonably practicable, to ensure that the student organization operates in a fair and democratic manner and is accountable of its finances;

IX. REPORT OF THE UNIVERSITY COUNCIL (CONTINUED)

- (28) to approve academic affiliations and other association with Colleges and other institutions;
 - (29) to approve all unions Collective Bargaining Agreements;
 - (30) to constantly review the viability and financial sustainability of the University, and shall do so once every year;
 - (31) to approve the regulations governing the recruitment, conduct and discipline of the staff of the University;
 - (32) to select a Seal, Arms and Mace for the University;
 - (33) to ensure that the University complies with the Constitution, professional and accrediting bodies regulations, other laws and regulations, governance practices, accounting and auditing standards and;
 - (34) to perform such other duties as may be contained in the Charter and these Statutes and may have such other powers as contained in the Act.
2. Subject to any written law, the Council may refer any financial matters affecting the academic policy of the University to the University Senate for advice.
3. Subject to any written law, the Council shall determine the method and conditions of appointment and promotion, terms of service and remuneration of all staff of the University.
4. Subject to any written law, the Council shall authorize or control the establishment and disestablishment of Colleges, Campuses, Schools, Institutes, Departments, Units and Centres.
5. The Council shall authorize and control the establishment and abolition of academic, Library, administrative, technical, and secretarial and all other posts in the University necessary for the proper functioning of the University and
6. The Council shall control the appointment of any other persons working for the University, pay honoraria, fees and other remuneration as the Council may determine from time to time.




X. STATEMENT OF UNIVERSITY COUNCIL'S RESPONSIBILITIES

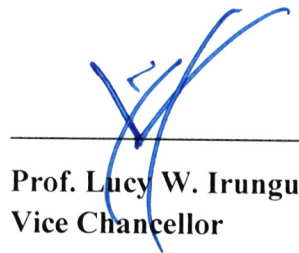
Machakos University is required to prepare statements and give a true and fair view of the state of affairs of the University as at the end of every quarter, and of its surplus or deficit for that quarter. The University Council is required to ensure that the University maintains proper accounting records, which disclose, with reasonable accuracy, the financial position of the University. The Council is also responsible for safeguarding the assets of the University.

The Council accepts responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, and in conformity with International Public-Sector Accounting Standards. The Council is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the University as at 30th June 2018 and of its statement of income for the financial year ended 30th June 2018.

The Council further confirms the accuracy and completeness of the accounting records maintained by the University, which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the system of internal financial controls. Nothing has come to the attention of the Council that the University will not remain a going concern for at least twelve months from the date of this statement. This statement is approved by the University Council and is signed on its behalf by:



Prof. Gideon Hanjari
Chairman of Council



Prof. Lucy W. Irungu
Vice Chancellor

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON MACHAKOS UNIVERSITY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Machakos University set out on pages 1 to 37, the statement of financial position as at 30 June 2018, and statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Machakos University as at 30 June 2018, 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 Universities Act, 2012.

Basis for Qualified Opinion

1. Tuition and Other Related Incomes

Note 14 to the financial statements reflects Tuition and Other Incomes figure of Kshs.305,045,098 which included tuition fees balance of Kshs.151,812,781 out of which Kshs.3,998,230 relates to fees banked by students directly to the bank but have not been receipted in the cash book as at 30 June 2018. Some of these direct bankings have been outstanding since 2015.

In the circumstances, the validity, completeness and accuracy of the tuition and other related incomes could not be confirmed.

2. Cash and Bank Balances

The statement of financial position as at 30 June 2018 reflects cash and bank balances of Kshs.95,430,594 out of which an amount of Kshs.18,346,126 for National Bank Operations Account whose bank reconciliation statement had unrepresented cheques

Report of the Auditor-General on the Financial Statements of Machakos University for the year ended 30 June 2018

amounting to Kshs.1,163,038 that had not been reversed in the cash book as at 30 June 2018.

In the circumstance, the accuracy and completeness of cash and bank balances balance of Kshs.95,430,594 could not be ascertained.

3. Other Income

The statement of financial performance reflects Income Generating Activities and other income balance of Kshs.74,762,561 includes an amount of Kshs.72,294,387 being revenue from their restaurant. Out of this amount a balance of Kshs.1,596,896 relates to bank transfers that have not been receipted in the cash book.

In the circumstances, the validity and accuracy of other income balances of Kshs.74,762,561 could not be confirmed.

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, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

1.0 Budgetary Control and Performance

1.1 Budget Absorption

The University had an approved total budget of Kshs.1,508,844,000 for the financial year 2017/2018 against an actual of Kshs.1,150,408,017 resulting to an under absorption of Kshs.358,435,983 as detailed in the table below:

Item	Budget Allocation 2017/2018 (Kshs)	Actual 2017/2018 (Kshs)	Variance (Kshs)	Absorption Rate in %
Recurrent Grants	720,979,000	727,975,082	(6,996,082)	-1%
Development Grants	45,000,000	30,000,000	15,000,000	33%
Donor Grants	40,803,000	0	40,803,000	100%
Research Grants	50,000,000	12,625,275	37,374,725	75%
Tuition Fees	421,188,000	295,655,729	125,532,271	30%
Accommodation Income	3,100,000	3,589,876	(489,876)	-16%

Item	Budget Allocation 2017/2018 (Kshs)	Actual 2017/2018 (Kshs)	Variance (Kshs)	Absorption Rate in %
Catering Income	15,280,000	5,799,493	9,480,507	62%
University Hotel Income	200,494,000	72,294,387	128,199,613	64%
Other Income	12,000,000	2,468,174	9,531,826	79%
Total Income	1,508,844,000	1,150,408,017	358,435,983	24%

It is evident that the University fell short of the budget by Kshs.358,435,983 due to shortfall of actual budget received from development grants, donor grants and research grants and revenue earned from tuition fees, accommodation income, catering income, University hotel and other income.

1.2 Recurrent Expenditure

Similarly, the University had a total recurrent expenditure of Kshs.1,069,163,063 against an approved budget of Kshs.1,404,576,000 resulting to under expenditure of Kshs.335,412,937 or 24% as detailed in the table below:

Item	Budget Allocation 2017/2018 (Kshs)	Actual 2017/2018 (Kshs)	Under Absorption (Kshs)	Absorption Rate in %
Personnel Emoluments	958,487,168	778,291,949	180,195,219	19%
Operations and Maintenance expenditure	446,088,832	290,871,114	155,217,718	35%
Total	1,404,576,000	1,069,163,063	335,412,937	24%

From the above analysis, the under absorption may have a negative impact on the implementation of the planned activities and service delivery to its stakeholders. The University management may also have over budgeted on the recurrent expenditure and therefore there is need for a more realistic budget in future.

1.3 Capital Expenditure Budget

In addition, the University incurred a total capital expenditure of Kshs.143,946,557 against an approved budget of Kshs.104,268,000 resulting to over absorption of Kshs.39,678,557 as detailed in the table below:

Item	Budget allocation 2017/2018 (Kshs)	Actual 2017/2018 (Kshs)	Variance (Kshs)	Absorption Rate in %
Extension of ADB Building	12,500,000	19,673,990	(7,173,990)	-57%
Tuition and other Blocks	30,000,000	36,767,890	(6,767,890)	-23%
Master Plan/Topo survey	1,500,000	0	1,500,000	100%
Furniture and Fittings	5,500,000	4,865,792	634,208	12%
ICT Equipment, Integration and Maintenance	12,168,000	17,470,268	(5,302,268)	-44%
Renovations of Buildings	2,500,000	4,595,360	(2,095,360)	-84%
Training Equipment and Machines	10,000,000	4,277,300	5,722,700	57%
Office Equipment	5,000,000	6,037,182	(1,037,182)	-21%
Motor vehicles	18,500,000	18,463,194	36,806	0%
Security Infrastructure & Street Lighting	1,000,000	0	1,000,000	100%
Development of Sports & Games facilities	5,600,000	1,438,000	4,162,000	74%
Lecture Hall & Classrooms (work-in-progress)	0	30,357,581	(30,357,581)	-100%
Total Development Expenditure	104,268,000	143,946,557	(39,678,557)	-38%

From the above analysis, the over absorption was as a result of the University management incurred unbudgeted capital expenditure in 2017/2018. This may also imply that the University management may also have under budgeted on the capital expenditure and therefore there is need for a more realistic budget in future.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for matters described in the Basis for Qualified Opinion and Basis for

Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Unisol Enterprise Resource Planning (ERP) System Development of

The University entered into a service level agreement with M/s Abno Softwares International Limited for provision of Unisol Enterprise Resource Planning System support at a total cost of Kshs.958,000 payable annually. The service level agreement covered ten ERP modules including Integrated Financial Management (IFM) of which a payment amount of Kshs.958,000 was paid on 29 January 2018. The system was installed in 2013/2014 financial year. However, the IFM generated statement of financial position balances as at 30 June 2018 differed with the financial statements submitted for audit as shown below:

Item	Financial Statement Balances Generated from Integrated Financial Management (Kshs)	Financial Statements balances Submitted for Audit (Kshs)	Variance Kshs
Cash and cash equivalent	(884,677,149)	95,430,594	(980,107,743)
Receivable from exchange transactions	134,263,739	140,207,228	(5,943,489)
Inventories	0	12,051,918	(12,051,918)
Receivable from non-exchange transactions	(50,278,063)	1,995,816	(52,273,879)
Trade and other payables	(791,536,271)	192,423,703	(983,959,974)
Property plant and equipment	513,449,142	2,371,499,293	(1,858,050,151)
Capital Reserves	252,308,751	2,606,063,018	(2,353,754,267)
Revenue reserves	(531,897,322)	(196,575,320)	(335,322,002)
Deferred income	500,000,000	19,273,448	480,726,552
Surplus (deficit) for the year	733,882,511	38,729,009	695,153,502

The resulting variances among the two sets of records had not been reconciled as at the time of our audit.

Consequently, it could not be ascertained whether the University obtained value for money for the expenditure of Kshs.958,000.

2. Property Plant and Equipment

Note 5 to the financial statements reflects property plant and equipment balance of Kshs.2,371,499,293 out of which an expenditure of Kshs.621,585,000 is in respect of buildings and site works. Examination of payment vouchers, payment schedules and interim certificates for Lecture Theatre and Classroom Complex Phase II indicate that the project was awarded to M/s Sinoe Construction Limited vide contract No. MUC/T/2/W/C/PH2/2013-2014 dated 9 January 2014 at a contract sum totaling Kshs.179,441,790. However, by the time of audit no landscaping had been done and the contractor of Phase II had vacated the site, yet the building was already in use.

Initially, these project had been awarded to Thwama Building Services Limited on 17 June 2013 at a contract sum of Kshs.40,330,307. The contractor of Phase I did not complete the works. Phase I was constructed up to the structural frame, at a cost of Kshs.49,364,073 with a variation of Kshs.9,033,766.50, being 22.39% of the initial contract.

University management had instructed the contractor of Phase II to complete the remaining works of Phase I. This was contrary to Public Procurement and Disposal Act 2015 section 153 (1) and (2) and Public Procurement and Disposal Regulations 2006, section 32, since the two contracts were separate and distinct from each other. No evidence was provided for audit review on the approval to terminate the Phase I contract by the tendering committee which authorized the original contract before Thwama Building Services Limited was released out of site.

In the circumstances, the University management was in breach of Public Procurement and Disposal Act 2015 section 153 (1) and (2); and Public Procurement and Disposal Regulations 2006, section 32 with regard to the termination of Lecture Theatre and Classroom Complex Phase I contract.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on audit procedures performed except for the matter described in the Basis for Qualified Opinion section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

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 maintaining effective 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 and for its assessment of the effectiveness of internal control, risk management and governance.

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

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the University's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

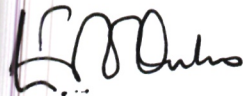
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material

uncertainty exists related to events or conditions that may cast significant doubt on the University's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the University to cease to continue as a going concern.

- 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

11 March 2019

XII. STATEMENT OF FINANCIAL PERFORMANCE

<u>INCOME</u>	Notes	2017-2018 Ksh	2016-2017 Ksh
Revenue from non-exchange transactions			Restated
Government Grants	12(a)	727,975,082	338,852,500
Research Grants	12(b)	12,625,275	5,322,179
CBA Grants	12(c)	120,851,721	-
Amortized Grants in kind	13	5,291,077	5,291,077
		866,743,155	349,465,757
Revenue from exchange transactions			
Tuition & Other Related Incomes	14	305,045,098	340,263,961
I.G.A. & Other Incomes	15	74,762,561	66,654,817
		379,807,660	406,918,778
Total Income		1,246,550,815	756,384,535
EXPENDITURE			
Operations & Maintenance	17	122,353,945	106,647,845
Administrative & Academic	18	993,491,702	658,526,525
Other Expenses	19	38,695,275	39,578,492
Depreciation	5	50,169,547	37,357,464
Increase in Provision for doubtful debts	7(a)	3,111,337	10,762,081
Total Expenditure		<u>1,207,821,806</u>	<u>852,872,407</u>
Surplus / Deficit		<u>38,729,009</u>	<u>(96,487,873)</u>

The notes set out on pages 12 to 34 form an integral part of the Financial Statements.



XII. STATEMENT OF FINANCIAL POSITION

<u>ASSETS</u>	<u>Notes</u>	2017-2018 Ksh	2016-2017 Ksh
NON-CURRENT ASSETS			
Property, Plant & Equipment	5	2,371,499,293	2,280,068,502
		2,371,499,293	2,280,068,502
<u>CURRENT ASSETS</u>			
Inventories			
Stocks-Inventories	6	12,051,918	4,810,792
		12,051,918	4,810,792
Trade and other Receivables			
Exchange transactions	7(a)	140,207,228	137,381,804
Non-Exchange transactions	7(b)	1,995,816	54,487,499
		142,203,044	191,869,303
Cash & Bank balances	8(a)	95,430,594	60,317,378
		249,685,556	256,997,473
Total Assets		<u>2,621,184,849</u>	<u>2,537,065,975</u>
<u>CAPITAL FUNDS & LIABILITIES</u>			
Net Assets			
Capital Reserve	9	2,606,063,018	2,576,063,018
Revenue Reserve	10(a)	(196,575,320)	(235,304,329)
Deferred Income	10(b)	19,273,448	24,564,525
Sub-total		2,428,761,146	2,365,323,214
Current liabilities			
Trade and other Payables	11	192,423,703	171,742,761
Total Net Assets and Liabilities		<u>2,621,184,849</u>	<u>2,537,065,975</u>

The Financial Statements set out on pages 1 to 4 were signed on behalf of the University Council by:

Prof. Lucy W. Irungu

Vice Chancellor

Date 18.3.2019

Prof. Gideon Hanjari

Chairman of Council

Date 21.3.19

XIII. STATEMENT OF CHANGES IN NET ASSETS

Description	Capital	Revenue	Deferred	Total
	Reserve	Reserve	Income	
	Ksh	Ksh	Ksh	Ksh
Balance as at 30th June 2016	1,828,637,068	(138,816,456)	12,473,016	1,702,293,628
Additional Capital (Note 9)	147,992,024	-	-	147,992,024
Additional Donations	-	-	17,382,586	17,382,586
Surplus for the year 2016/2017	-	(96,487,873)	-	(96,487,873)
Amortized for the year 2016/2017	-	-	(5,291,077)	(5,291,077)
Revaluation of Fixed assets	599,433,926			599,433,926
Balance as at 30th June 2017	2,576,063,018	(235,304,329)	24,564,525	2,365,323,214
Additional Capital (Note 9)	30,000,000	-	-	30,000,000
Surplus for the year 2017/2018	-	38,729,009	-	38,729,009
Amortized for the year 2017/2018	-	-	(5,291,077)	(5,291,077)
Balance as at 30th June 2018	<u>2,606,063,018</u>	<u>(196,575,320)</u>	<u>19,273,448</u>	<u>2,428,761,146</u>



XIV. STATEMENT OF CASH FLOWS

<u>Cash flows from Operating activities</u>	<u>Notes</u>	2017-2018	2016-2017
RECEIPTS		Ksh	Ksh
Revenue from non -exchange transactions	12	861,452,078	344,174,679
Revenue from exchange transactions	14/15	379,807,660	406,918,778
		1,241,259,737	751,093,457
PAYMENTS			
Operations and Maintenance	17	122,353,945	106,744,095
Administration and Academic	18	993,491,702	658,430,275
Other expense	19	38,695,275	39,578,492
		1,154,540,921	804,752,862
Cash flows from operating activities		86,718,816	(53,659,405)
Working Capital Adjustments			
Increase in Inventories	6	(7,241,126)	(543,165)
Decrease in Debtors & Receivables	7	46,554,922	(73,550,913)
Increase in Trade & Other payables	11	20,680,942	47,363,568
		59,994,739	(26,730,510)
Net cash flows used in operating activities		146,713,555	(80,389,915)
Cash flows from Investing activities			
Purchase of Property, Plant & Equipment	5	(141,600,338)	(70,544,750)
Development grants for the year	9	30,000,000	147,992,024
Net cash flow generated from investing activities		(111,600,338)	77,447,274
Cash flows from Financing activities		-	-
Net increase in cash & cash equivalents		35,113,216	(2,942,641)
Net cash & cash equivalents b/f		60,317,378	63,260,019
Cash & Bank balances as at 30.06.2017	8	<u>95,430,594</u>	<u>60,317,378</u>

XV. STATEMENT OF COMPARISON OF BUDGET VERSUS ACTUAL AMOUNTS

	Details	Original Budget	Adjustments	Final Budget	Actual Budget	Variance	%	Variance
				2017/2018	2017/2018	Final Budget- Actual	Variance	Notes
				Ksh	Ksh	Ksh	Ksh	
A	INCOME							
1	Recurrent Grant	660,979,000.00	60,000,000.00	720,979,000	727,975,082	(6,996,082.00)	(1)	
2	Development grant	180,000,000.00	(135,000,000.00)	45,000,000	30,000,000	15,000,000.00	33	1
3	Donor	40,803,000.00	-	40,803,000	-	40,803,000.00	100	2
4	Research Grants	50,000,000.00	-	50,000,000	12,625,275	37,374,724.90	75	3
5	Tuition Fees	421,188,000.00	-	421,188,000	295,655,729	125,532,271.00	30	4
6	Accommodation income	3,100,000.00	-	3,100,000	3,589,876	(489,876.00)	(16)	5
7	Catering income	15,280,000.00	-	15,280,000	5,799,493	9,480,507.00	62	6
8	University Hotel	200,494,000.00	-	200,494,000	72,294,387	128,199,613.00	64	7
9	Other Income	12,000,000.00	-	12,000,000	2,468,174	9,531,825.60	79	8
	Total Income	1,583,844,000	(75,000,000)	1,508,844,000	1,150,408,017	358,435,984		
B	RECURRENT EXPENDITURE							
	DETAILS							
	Personal Emoluments							
1	Basic salaries	432,088,052.00	39,966,000.00	472,054,052	330,134,109	141,919,943.00		
2	House allowance	183,023,073.39	20,034,000.00	203,057,073	172,061,478	30,995,595.39		
3	Pension & Gratuity	88,417,610.00	(31,324,232.64)	57,093,377	54,509,749	2,583,628.36		
4	NSSF	1,823,400.00	-	1,823,400	1,110,400	713,000.00		
5	Leave Allowances	3,259,157.00	890,255.00	4,149,412	4,433,395	(283,983.00)		
6	Commuter Allowances	37,531,928.00	(2,000,000.00)	35,531,928	30,880,905	4,651,023.00		
7	Part-time lecturers	37,000,000.00	(2,000,000.00)	35,000,000	44,903,557	(9,903,557.00)		
8	Adjunct Lecturers	10,400,000.00	(4,890,255.00)	5,509,745	4,548,571	961,174.00		
9	Locum Staff	1,000,000.00	-	1,000,000	272,164	727,836.00		
10	Casuals	12,660,000.00	(1,000,000.00)	11,660,000	10,424,323	1,235,677.00		

Machakos University
Financial year Reports and Financial statements for the year ended 30 June 2018

	Details	Original Budget	Adjustments	Final Budget	Actual Budget	Variance	% Variance	Variance Notes
				2017/2018	2017/2018	Final Budget-Actual		
11	Book & Research Allowances	2,840,000.00	-	2,840,000	2,464,000	376,000.00		
12	Other allowances	56,443,947.81	42,524,232.64	98,968,180	82,783,545	16,184,635.45		
13	Gratuity & Terminal Benefits	28,000,000.00	1,800,000.00	29,800,000	39,765,753	(9,965,753.00)		
	Total Personal Emoluments	894,487,168.20	64,000,000.00	958,487,168	778,291,949	180,195,219	19	9
	Operations & Maintenance							
15	Advertising	1,520,000.00	2,500,000.00	4,020,000	3,509,741	510,259.00	13	10
16	Audit Fees	1,000,000.00	-	1,000,000	960,000	40,000.00	4	
17	Bank Charges	1,000,000.00	-	1,000,000	271,323	728,677.00	73	11
18	Cleaning Materials & Sanitary Services	3,590,000.00	(200,000.00)	3,390,000	1,591,223	1,798,777.00	53	10
19	Conferences, Workshops & Seminars	7,000,000.00	-	7,000,000	3,328,845	3,671,155.00	52	12
20	Contracted Professional Fees	2,540,000.00	(1,000,000.00)	1,540,000	716,896	823,104.00	53	13
21	Council Expenses	14,000,000.00	-	14,000,000	9,111,481	4,888,519.00	35	14
22	Association of Governing Councils	500,000.00	-	500,000	-	500,000.00	100	14
23	Management Meetings	2,000,000.00	(500,000.00)	1,500,000	-	1,500,000.00	100	14
24	Electricity Expenses	9,120,000.00	500,000.00	9,620,000	8,043,781	1,576,219.00	16	15
25	Examinations expenses	10,260,000.00	-	10,260,000	6,151,662	4,108,338.00	40	13
26	External Travel & Accommodation	5,020,000.00	(4,000,000.00)	1,020,000	-	1,020,000.00	100	16
27	External Examination Expenses	3,000,000.00	(500,000.00)	2,500,000	707,964	1,792,036.00	72	17
28	Field Courses	3,020,000.00	(400,000.00)	2,620,000	962,290	1,657,710.00	63	18
29	Funeral Expenses	500,000.00	-	500,000	-	500,000.00	100	19
30	Security expenses	6,120,000.00	2,520,000.00	8,640,000	8,568,492	71,508.00	1	
31	Student Insurance Premium	5,550,000.00	-	5,550,000	3,090,891	2,459,109.00	44	20
32	KUCCPS Expenses	9,000,000.00	(700,000.00)	8,300,000	7,947,000	353,000.00	4	
33	Regulatory Bodies Expense	1,020,000.00	(700,000.00)	320,000	-	320,000.00	100	21



Machakos University
Financial year Reports and Financial statements for the year ended 30 June 2018

	Details	Original Budget	Adjustments	Final Budget	Actual Budget	Variance	%	Variance
				2017/2018	2017/2018	Final Budget- Actual	Variance	Notes
34	Laboratory Apparatus and Consumables	10,000,000.00	(1,450,000.00)	8,550,000	-	8,550,000.00	100	13
35	External Research Grants Expense	30,000,000.00	-	30,000,000	5,140,249	24,859,751.00	83	13
36	Land Rent and Rates	300,000.00	-	300,000	-	300,000.00	100	22
37	Library Books, Journals & Materials	35,700,000.00	(10,500,000.00)	25,200,000	2,553,549	22,646,451.00	90	13
38	Local Air Travel	1,520,000.00	(1,000,000.00)	520,000	-	520,000.00	100	16
39	Student Medical Expenses	3,921,000.00	-	3,921,000	1,726,840	2,194,160.00	56	23
40	M/Vehicles /Generator Fuel	3,360,000.00	500,000.00	3,860,000	3,287,229	572,771.00	15	13
41	Newspapers & Magazines	1,414,000.00	-	1,414,000	1,073,320	340,680.00	24	13
42	Office Tea Expenses	500,000.00	(400,000.00)	100,000	-	100,000.00	100	13
43	Office Consumables	1,000,000.00	-	1,000,000	492,565	507,435.00	51	13
44	Photocopy Services	800,000.00	(700,000.00)	100,000	-	100,000.00	100	24
45	Senate and Senate committees	2,000,000.00	-	2,000,000	-	2,000,000.00	100	14
46	Sports & Games	4,500,000.00	-	4,500,000	3,319,070	1,180,930.00	26	18
47	Stationery Expenses	9,160,000.00	1,500,000.00	10,660,000	7,996,319	2,663,681.00	25	13
48	Students' Activities	5,040,000.00	(500,000.00)	4,540,000	2,043,194	2,496,806.00	55	18
49	Subscriptions & Registration Fees	2,020,000.00	-	2,020,000	1,236,911	783,089.00	39	13
50	Teaching Materials	12,840,000.00	(1,000,000.00)	11,840,000	5,454,944	6,385,056.00	54	13
51	Telephone Expenses and Postage	1,500,000.00	-	1,500,000	787,250	712,750.00	48	13
52	Motor Vehicles/generator Maintenance	2,500,000.00	700,000.00	3,200,000	2,074,936	1,125,064.00	35	13
53	Local Traveling and Accommodation	8,260,000.00	-	8,260,000	4,746,851	3,513,149.00	43	13
54	MksU Hotel & Conference Centre (Le Technisch Expenses)	35,860,000.00	2,000,000.00	37,860,000	35,366,430	2,493,570.00	7	
55	Staff Development	5,600,000.00	(3,500,000.00)	2,100,000	182,000	1,918,000.00	91	25
56	Internal Research Fund	5,060,000.00	-	5,060,000	1,174,000	3,886,000.00	77	13



Machakos University
Financial year Reports and Financial statements for the year ended 30 June 2018

	Details	Original Budget	Adjustments	Final Budget	Actual Budget	Variance	% Variance	Variance Notes
				2017/2018	2017/2018	Final Budget-Actual		
57	Grounds Maintenance	1,720,000.00	(500,000.00)	1,220,000	174,714	1,045,286.00	86	13
58	Catering Expenses	15,900,000.00	(1,000,000.00)	14,900,000	8,767,115	6,132,885.00	41	13
59	Repairs and Maintenance	8,000,000.00	500,000.00	8,500,000	5,099,953	3,400,047.00	40	13
60	Accommodation Facilities	1,280,000.00	-	1,280,000	23,803	1,256,197.00	98	13
61	Plant & Equipment Maintenance	1,500,000.00	-	1,500,000	335,240	1,164,760.00	78	13
62	Industrial linkages	500,000.00	-	500,000	42,250	457,750.00	92	13
63	University Committee Expenses	1,800,000.00	400,000.00	2,200,000	7,664,330	(5,464,330.00)	(248)	14
64	Chancellors Expenses	2,500,000.00	(1,000,000.00)	1,500,000	900,000	600,000.00	40	13
65	Agricultural Training Farm	1,000,000.00	(200,000.00)	800,000	194,010	605,990.00	76	13
66	Marketing& Publicity	3,370,000.00	(1,000,000.00)	2,370,000	700,146	1,669,854.00	70	13
67	Academic Dress	5,000,000.00	-	5,000,000	5,397,200	(397,200.00)	(8)	
68	Staff Uniforms	1,000,000.00	-	1,000,000	407,070	592,930.00	59	13
69	ISO Expense	1,500,000.00	-	1,500,000	755,989	744,011.00	50	13
70	Graduation & Public Ceremonies Expense	12,000,000.00	(1,500,000.00)	10,500,000	10,235,945	264,055.50	3	
71	Official Entertainment	500,000.00	(250,000.00)	250,000	14,000	236,000.00	94	13
72	Curriculum Development	2,320,000.00	-	2,320,000	172,974	2,147,026.00	93	25
73	CUE Expenses	4,000,000.00	1,000,000.00	5,000,000	4,737,000	263,000.00	5	
74	Staff Medical Insurance	45,600,000.00	-	45,600,000	46,163,389	(563,389.00)	(1)	
75	Strategic Plan Activities	500,000.00	-	500,000	288,750	211,250.00	42	13
76	ICT Services and Maintenance	12,240,000.00	-	12,240,000	8,276,956	3,963,044.50	32	13
77	Hire of Facilities	200,000.00	-	200,000	800	199,200.00	100	13
78	Students Industrial Attachment	3,000,000.00	-	3,000,000	1,849,035	1,150,965.00	38	26
79	Teaching Practise	5,400,000.00	2,000,000.00	7,400,000	5,839,529	1,560,471.00	21	26
80	Water & Conservancy	7,500,000.00	950,000.00	8,450,000	7,456,385	993,615.00	12	15
81	Management Capacity Building	4,000,000.00	(500,000.00)	3,500,000	1,345,886	2,154,114.00	62	25
82	Vice Chancellors Committee	1,000,000.00	-	1,000,000	292,200	707,800.00	71	13



Machakos University
Financial year Reports and Financial statements for the year ended 30 June 2018

	Details	Original Budget	Adjustments	Final Budget	Actual Budget	Variance	% Variance	Variance Notes
				2017/2018	2017/2018	Final Budget-Actual		
83	Exhibitions & Shows	3,000,000.00	-	3,000,000	1,015,898	1,984,102.50	66	13
84	Students Bursary Fund	1,000,000.00	-	1,000,000	500,000	500,000.00	50	13
85	Students Scholarship	1,500,000.00	-	1,500,000	-	1,500,000.00	100	27
86	Student Work Study	1,120,000.00	-	1,120,000	-	1,120,000.00	100	27
87	Staff Welfare	1,840,000.00	(500,000.00)	1,340,000	80,000	1,260,000.00	94	19
88	Valuation of Assets	3,000,000.00	-	3,000,000	2,745,050	254,950.00	8	
89	Sundry Creditors	19,183,831.80	17,000,000.00	36,183,832	33,104,267.60	3,079,564.20	9	
90	Assets Insurance	4,000,000.00	-	4,000,000	2,671,185	1,328,815.50	33	28
91	Production Unit Expense	3,000,000.00	(2,070,000.00)	930,000	2,800	927,200.00	100	13
	Total Operations & Maintenance	449,588,831.80	(3,500,000.00)	446,088,832	290,871,114	154,921,718		
	Total Recurrent Expenditure	1,344,076,000.00	60,500,000.00	1,404,576,000	1,069,163,063	335,116,934		
	CAPITAL EXPENDITURE							
92	Extension of ADB Building	50,000,000.00	(37,500,000.00)	12,500,000	19,673,989.75	(7,173,989.75)	(57)	29
93	Tuition & Office Block	120,000,000.00	(90,000,000.00)	30,000,000	36,767,890.70	(6,767,890.70)	(23)	29
94	Master Plan/Topo survey	2,000,000.00	(500,000.00)	1,500,000	-	1,500,000.00	100	30
95	Furniture & Fittings	5,000,000.00	500,000.00	5,500,000	4,865,792	634,208.00	12	13
96	ICT Equip, Integration & Maintenance	10,168,000.00	2,000,000.00	12,168,000	17,470,268	(5,302,268.00)	(44)	31
97	Renovations of Buildings	10,000,000.00	(7,500,000.00)	2,500,000	4,595,360	(2,095,360.00)	(84)	29
98	Training Equipment and Machines	10,000,000.00	-	10,000,000	4,277,300	5,870,700.00	58	13
99	Office Equipment	4,500,000.00	500,000.00	5,000,000	6,037,182	(1,037,182.00)	(21)	31
100	Motor Vehicles	18,000,000.00	500,000.00	18,500,000	18,463,193.80	36,806.20	0	
101	Security Infrastructure & Street Lighting	4,000,000.00	(3,000,000.00)	1,000,000	-	1,000,000.00	100	30
102	Development of Sports & Games facilities	6,100,000.00	(500,000.00)	5,600,000	1,438,000	4,162,000.00	74	13



Machakos University
Financial year Reports and Financial statements for the year ended 30 June 2018

	Details	Original Budget	Adjustments	Final Budget	Actual Budget	Variance	% Variance	Variance Notes
				2017/2018	2017/2018	Final Budget-Actual		
103	Lecture hall & classrooms (W.I.P)	-	-	-	30,357,581	(30,357,581.20)	(100)	32
	Total Development Expenditure	239,768,000.00	(135,500,000.00)	104,268,000	139,351,197			
	Grand Total	1,583,844,000.00	(75,000,000.00)	1,508,844,000	1,208,662,260			

Note: Only the variances above 10% have been explained.

Variance Explanation notes

1. Only one term capitation had been received by the end of the financial year
2. There were no donations that the University had received by the end of the financial year
3. There were few projects that were initiated in 2017/2018 financial year
4. The university did not receive the anticipated tuition fees because of the withdrawal of May-August semester
5. The university accommodation facilities were full occupied
6. Most of the students prefer preparing their own meals and others do not use the catering facility
7. Hotel operations was affected by political environment
8. There were few activities that took place in the financial year therefore little income generated
9. The University did not recruit new staff in the period as anticipated.
10. The university employed internal control on the expenditure
11. The university negotiated for competitive bank charges.
12. There were few conferences held by the university and only a few university staff attended seminars
13. Prudent Expenditure controls were put in place to minimize the expenses incurred by the university
14. Payments were made as per the meetings held by the University council, committee and the management
15. Payments were made as per the bills presented of which some of them relates to FY 2016/2017 Which had not been presented in the period
16. There weren't external travels in the financial year
17. Most of the programmes offered in the university are examined internally
18. There were few field courses and student activities in the period
19. There were few bereavement cases in the financial year
20. Insurance Premiums were paid according to the number of students in the University
21. There were no invoices that were presented by the regulatory bodies



22. No invoices were presented for payment in the financial year
23. There were minimal cases of sickness in the Financial Year
24. Most of the photocopy services is done within the university
25. Most of the staff training and development were conducted internally
26. Expenditure on this vote heads was incurred in accordance with the number of students involved in attachment and teaching practice
27. No students who had benefited by the end of the financial year
28. Payment were made as per the bill that was presented by the insurance company on the assets insured
29. Development grants were reduced by 75% of the amount that was expected. This was done after expenditure had been incurred
30. The university did not incur an expenditure on this vote heads
31. Computers and furniture were purchased and installed in various offices during the financial year
32. The University had budgeted for the expense in the previous years but the project extended to the current financial year.

RECONCILIATION OF ACTUALS IN THE STATEMENT OF FINANCIAL PERFORMANCE AND THE BUDGET

INCOME	KShs	EXPENDITURE	KShs
Total Income as per the Statement of Financial Performance	1,246,550,815	Total Expenditure as per the Statement of Financial Performance	1,207,821,806
Add Back:		Add Back:	
Development Grants	30,000,000	Sundry Creditors	33,104,268
		Library books and journals(PPE)	2,379,549
Less:		Changes in Inventory	7,241,126
Amortized grant in kind	(5,291,077)	Less	
CBA Arrears	(120,851,721)	Renovation of Buildings (Budgeted under Capital Expenditure)	(4,595,360)
Total Income As per the Budget	1,150,408,017	Furnishing Computer Lab & ADB Offices (Budgeted under Capital Expenditure)	(130,409)
		CBA Arrears	(119,020,171)
		Machakos University Student Association Expenses	(4,356,862)
		Depreciation	(50,169,547)
		Increase in Provision for doubtful debt	(3,111,337)
		Total Expenditure as per the Budget	1,069,163,063

XVI. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Machakos University is established by and derives its authority and accountability from The Universities Act. The University is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to provide scholarly education through Training, Research and Innovation for industrial and socio-economic transformation of our communities.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION – IPSAS 1

The entity's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The University adopted IPSAS in the year 2014 following the gazettment of the Public-Sector Accounting Standard Board (PSASB), which was established by the Public Financial Management Act (PFM) No 18 of 24th July 2012. PSASB issues financial reporting standards and guidelines to be adopted by the state organs and public entities. The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity. The accounting policies have been consistently applied to all the years presented. The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

3. ADOPTION OF NEW AND REVISED STANDARDS

I. Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Standard	Impact
IPSAS 33: First time adoption of Accrual Basis IPSAS	In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. -Machakos University adopted IPSAS in the year ended 30 June 2015 and therefore provisions of first time adoption of accrual basis does not apply to the entity.
IPSAS 34: Separate	In January 2015, the IPSASB published IPSAS 34, Separate Financial Statements. IPSAS 34 prescribes the accounting and disclosure requirements

Standard	Impact
Financial Statements	for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements. -Machakos University does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply/ the entity is a parent company and has prepared consolidated financial statements and therefore the standard does not apply/ the entity is a parent company and has prepared separate financial statements and the following is the impact of application of the new standard:
IPSAS 35: Consolidated Financial Statements	In January 2015, the IPSASB published IPSAS 35, Consolidated Financial Statements. IPSAS 35 establishes principles for the preparation and disclosure of consolidated financial statements when an entity controls one or more entities. -Machakos University does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.
IPSAS 36: Investments in Associates and Joint Ventures	In January 2015, the IPSASB published IPSAS 36, Investments in Associates and Joint Ventures. Machakos University does not have investments in associates or joint ventures and therefore the standard does not apply.
IPSAS 37: Joint Arrangements	In January 2015, the IPSASB published IPSAS 37, Joint Arrangements. IPSAS 37 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly. Machakos University does not have an interest in a joint arrangement and therefore the standard does not apply.
IPSAS 38: Disclosure of Interests in Other Entities	In January 2015, the IPSASB published IPSAS 38, Disclosure of Interests in Other Entities. IPSAS 38 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with, its interests in controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows. -Machakos University does not have any interests in other entities and therefore the standard does not apply.
IPSAS 39: Employee Benefits	Applicable: 1st January 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.



XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

II. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

Standard	Effective date and impact:
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3(applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.

III. Early adoption of standards

Machakos University did not early – adopt any new or amended standards in the financial year 2017/2018.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue Recognition

(i) Revenue from non -exchange transactions-IPSAS 23

- Donations are recognized when received and the asset recognition criteria are met. Values for grants and donations related to property, equipment and other assets are estimated by the University or as advised by donors.
- Donations in kind of current nature are recognized in the year received and categorized as inventories while those of capital nature are prorated in their useful life in a systematic manner and categorized as deferred income in the financial statements in accordance with IPSAS 23.
- Transfer from government entities are measured at fair value and recognized on obtaining the asset 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 entity and can be measured reliably.



XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

(ii) Revenue from exchange transactions-IPSAS 9

- Fees and other incomes are recognized when earned during the financial year. 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 entity.

b) Budget Information-IPSAS 24

The Annual Budget is prepared on accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

c) Property, Plant and Equipment-IPSAS 17

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Depreciation is calculated on straight line basis over the estimated useful lives of the assets.



XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

The annual rates in use are:

Land	0%
Buildings	2.5%
Motor vehicles	25%
Property, Plant & Equipment	12.5%
Computers & Computer Software	33.33%
Library books	20%
Loose Tools	12.5%

Library books and Loose tools are accounted for under Property, Plant and Equipment as per the IPSAS 17.

d) Inventories-IPSAS 12

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

e) Nature and purpose of reserves

The entity creates and maintains reserves in terms of specific requirements. The reserves are maintained to cater for assets replacement, settlement of bad and doubtful debts, and any other contingency.

f) Changes in accounting policies and estimates – IPSAS 3

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

XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

g) Employee benefits-IPSAS 39

Retirement benefit plans

The University established a defined contributions benefits scheme by the name Machakos University Retirement Pension Scheme under the custodian of Machakos university pension scheme, where employees' contributions are channeled to. The fund is managed by Liberty Pension Scheme.

h) Related parties – IPSAS 20

The entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the entity, or vice versa. These parties offer managerial, advisory and regulatory services. The National Government, Members of Council and the management team are regarded as related parties in preparation of these financial statements. National Government transactions have been disclosed under revenue from non-exchange transactions (Recurrent grants) and under capital reserves (Development grants), Members of Council allowances and management team remuneration have been disclosed under Administrative and Academic expenses in the statement of financial performance. The related parties' transactions are summarized in tables (a), (b) and (c) below:

a) COUNCIL MEMBERS

	2017/2018	2016/2017
Sitting Allowances	3,585,500	7,475,000
Mileage Allowances	932,036	1,186,306
Subsistence Allowances	2,852,500	4,377,100
Honoraria and Telephone	957,000	1,044,000
Lunch Allowances	30,000	206,000
Others	754,445	741,908
Totals	9,111,481	15,029,796



XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

b) NATIONAL GOVERNMENT

Grants	2017/2018	2016/2017
Recurrent Grants	727,975,082	338,852,500
CBA Grants	120,851,721	-
Development Grants	30,000,000	147,992,024
	878,826,803	486,844,524

c) MANAGEMENT TEAM

	2017/2018	2016/2017
Total remuneration	69,364,032	50,095,198

i) Cash and cash equivalents – IPSAS 2

Cash and cash equivalents comprise cash on hand, M-Pesa, cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

j) Comparative figures

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

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

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

XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next quarter, are described below. The entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140;

Useful lives and residual values

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

The condition of the asset based on the assessment of experts employed by the entity

- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset.

Provisions:

- Provision for Doubtful debts policy
- A provision of 50% of any uncollected debt that is outstanding for 5 years and above as a doubtful debt is provided.

l) The Accounts Receivables

- The Accounts receivables are stated at their nominal value.

m) Accounts Payables

- The Accounts payables are stated at their nominal value.



XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

n) Deferred Income

Deferred income arises as a result of donation in kind of fixed assets from Netherlands and seeding Labs that are amortized annually at a rate of 12.5%. All other relevant costs being freight, custom and clearing charges are capitalized under Furniture & Equipment. Refer to note 10(B).

o) Capital Reserves

Capital reserves recognized in the financial statements comprises of development grants from the ministry and revaluations of property, plant and equipment

p) 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 financial year ended 30th June, 2018.

q) Corporate Tax

Machakos University is exempted from paying corporate tax by the Income Tax Act Cap 470 of the laws of Kenya.

r) Financial Risk Management

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

The university's financial risk management encompasses the scrutiny and proactive oversight of a number of key elements of the University's operations including Credit risk, Liquidity risk and market risk.

XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

(i) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the University. The University's credit risk is primarily attributable to its receivables. The amounts presented in the statement of financial position are net of provision for doubtful debts, estimated by the University's management based on prior experience and their assessment of the current economic environment. The management provides 50% for doubtful debts for Non-performing debts in every year to mitigate the financial risks.

	Performing (Below 5 years)	Non-Performing (5 years and above)	Total
As at 30th June 2018	Kshs	Kshs	Kshs
Student Fee arrears	70,509,160	35,648,049	106,157,209
Trade & Other debtors	51,522,424	703,238	52,225,662
Total	122,031,584	36,351,287	158,382,871
As at 30th June 2017	Kshs	Kshs	Kshs
Student Fee arrears	86,757,615	30,046,775	116,804,390
Trade debtors	35,559,882	81,838	35,641,720
Total	122,317,497	30,128,613	152,446,110

(ii) Liquidity risk management

The University's liabilities subject to financial risk are categorized as Sundry Trade Payables, Prepaid fees and Staff Gratuity Payable as shown in the table below:

	Performing (within a year)	Non-Performing (Over one year)	Total
As at 30th June 2018	Kshs	Kshs	Kshs
Sundry Trade Payables	25,964,475	-	24,235,677
Staff Gratuity Payable	77,826,479	-	77,826,479
Prepaid fees	34,512,248	6,881,827	41,394,075
Total			143,456,231
As at 30th June 2017	Kshs	Kshs	Kshs
Sundry Trade Payables	40,725,601	-	40,725,601
Staff Gratuity Payable	6,713,562	65,450,366	72,163,928
Prepaid student fees	24,188,034	3,506,989	27,695,023
Total	71,627,197	68,957,355	140,584,552



XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

The University has disclosed KShs 143.4 M being amounts owed to Trade and other payables as indicated above. However, the University has trade and other receivables amounting to KShs 158.4 M which can offset the liabilities hence mitigate the liquidity risks.

(iii) Market risk

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

(iv) Capital Risk Management

The objective of the entity’s capital risk management is to safeguard the Board’s ability to continue as a going concern. The entity capital structure comprises of the following funds:

	2017/2018	2016-2017
	KShs	KShs
Revaluation reserve	-	599,433,926
Retained earnings	(196,575,320)	(235,304,329)
Capital reserve	2,606,063,018	1,976,629,092
Deferred Income	19,273,448	24,564,524
Total funds	2,428,761,146	2,365,323,214
Total borrowings	-	-
Less: cash and bank balances	(95,430,594)	(60,317,378)
Net debt/ (excess cash and cash equivalents)	-	-
Gearing ratio	-	-

The University does not have any long-term obligations hence the gearing ratio does not apply.



XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)
5. NON-CURRENT ASSETS

	LAND	BUILDINGS & SITE WORKS	WORK IN PROGRESS	MOTOR VEHICLES	COMPUTERS & SOFTWARE	FURNITURE & EQUIPMENT	LOOSE TOOLS	LIBRARY BOOKS	TOTALS
	KSH	KSH	KSH	KSH	KSH	KSH	KSH	KSH	KSH
DEPRECIATION RATES	0.0%	2.5%	0.0%	25.0%	33.3%	12.5%	12.5%	20.0%	
<u>COST/ VALUATION</u>									
As at 30th June 2016	606,200,000	763,235,141	198,881,341	35,378,661	48,472,316	173,814,242	420,862	15,874,847	1,842,277,410
Additions	-	-	51,502,002	-	11,411,528	7,354,015	-	277,205	70,544,750
Donated equipment	-	-	-	-	-	17,382,586	-	-	17,382,586
Revaluation	678,800,000	(108,935,141)	10,316,657	(17,098,661)	(51,907,344)	(144,009,451)	29,365,638	-	396,531,698
As at 30th June 2017	1,285,000,000	654,300,000	260,700,000	18,280,000	7,976,500	54,541,392	29,786,500	16,152,052	2,326,736,444
Additions	-	-	88,107,053	18,463,195	17,470,268	15,180,274	-	2,379,549	141,600,338
As at 30th June 2018	<u>1,285,000,000</u>	<u>654,300,000</u>	<u>348,807,053</u>	<u>36,743,195</u>	<u>25,446,768</u>	<u>69,721,666</u>	<u>29,786,500</u>	<u>18,531,601</u>	<u>2,468,336,782</u>
<u>DEPRECIATION</u>									
As at 30th June 2016	-	66,888,695	-	23,271,665	40,415,717	72,119,978	206,174	9,310,478	212,212,706
Amortized Depreciation	-	(66,888,695)	-	(23,271,665)	(40,415,717)	(72,119,978)	(206,174)	-	(202,902,228)
Charge for the year 2016/2017	-	16,357,500	-	4,570,000	2,658,567	6,817,674	3,723,313	3,230,410	37,357,464
As at 30th June 2017	-	16,357,500	-	4,570,000	2,658,567	6,817,674	3,723,313	12,540,888	46,667,942
Charge for the year 2017/2018	-	16,357,500	-	9,185,799	8,481,408	8,715,208	3,723,313	3,706,320	50,169,547
Accumulated Depreciation	=	<u>32,715,000</u>	=	<u>13,755,799</u>	<u>11,139,975</u>	<u>15,532,882</u>	<u>7,446,625</u>	<u>16,247,208</u>	<u>96,837,490</u>
<u>NET BOOK VALUES</u>									
AS AT 30TH JUNE 2018	<u>1,285,000,000</u>	<u>621,585,000</u>	<u>348,807,053</u>	<u>22,987,396</u>	<u>14,306,793</u>	<u>54,188,784</u>	<u>22,339,875</u>	<u>2,284,393</u>	<u>2,371,499,293</u>
AS AT 30TH JUNE 2017	<u>1,285,000,000</u>	<u>637,942,500</u>	<u>260,700,000</u>	<u>13,710,000</u>	<u>5,317,933</u>	<u>47,723,718</u>	<u>26,063,188</u>	<u>3,611,164</u>	<u>2,280,068,502</u>

Note: The Value of land does not include the 18.14 Hectares (two parcels) donated during the FY2016/17 by County Government of Machakos which is under survey



XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. INVENTORIES

STOCKS -INVENTORIES

	2017-2018	2016-2017
	Ksh	Ksh
Kitchen Consumables	315,835	370,230
Central Stores	10,727,897	3,942,124
Closing Stocks- Le Technisch	1,008,186	498,438
Total	12,051,918	4,810,792

7. TRADE AND OTHER RECEIVABLES

	2017-2018	2016-2017
(a)	Kshs.	Kshs.
<u>Exchange Transactions</u>		
Student fee arrears	106,157,209	116,804,390
Trade Debtors	51,935,829	35,641,720
Other Debtors	289,833	-
	158,382,871	152,446,110
Provision for Doubtful debts (50% 35,648,048.50) & (50%*703,238)	(18,175,643)	(15,064,306)
	140,207,228	137,381,804

(b)

Non-Exchange Transactions	2017-2018	2016-2017
	Kshs.	Kshs.
Outstanding Imprests	1,995,816	1,347,020.00
Staff welfare Advance	-	165,600.00
Masinga project Account	-	79,100.00
Development grant receivable	-	52,895,779.00
	1,995,816	54,487,499
Total	<u>142,203,044</u>	<u>191,869,303</u>

XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

8(a) CASH & BANK BALANCES

			2017-2018	2016-2017
			Kshs.	Kshs.
Cash in hand			94,100	365,678
M-Pesa			<u>5,334,839</u>	<u>918,055</u>
Cash in Hand and M-Pesa A/c			<u>5,428,939</u>	<u>1,283,733</u>
<u>Bank</u>	<u>Branch</u>	<u>Account No.</u>		
<u>Standard Chartered:</u>				
Standard Chartered Bank	Machakos	0102016845602	3,807,018	1,302,331
Standard Chartered Bank	Machakos	0152016845602	<u>957,261</u>	<u>106,460</u>
			4,764,279	1,408,791
<u>National Bank:</u>				
National Bank of Kenya	Machakos	01020078499400	5,834,489	3,246,769
National Bank of Kenya	Machakos	01020078499401	18,346,126	15,229,851
National Bank of Kenya	Machakos	01020078499402	<u>31,930,785</u>	<u>36,663,626</u>
			56,111,400	55,140,246
<u>Kenya Commercial Bank:</u>				
Kenya Commercial Bank	Machakos	1137145064	14,055,032	702,458
Kenya Commercial Bank	Machakos	1180326849	14,261,305	1,646,279
Kenya Commercial Bank	Machakos	1211488594	400,000	-
Kenya Commercial Bank	Machakos	1211489167	50,000	-
			28,766,336	2,348,737
<u>Cooperative Bank of Kenya:</u>				
Co-operative Bank of Kenya	Machakos	01129277651100	359,641	135,871
			359,641	135,871
			95,430,594	60,317,378



XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. CAPITAL RESERVE

	2017-2018	2016-2017
	Kshs.	Kshs.
Balance as at 30th June 2017	2,576,063,018	1,828,637,068
Development Grants for the year: (Annex I.(a))	30,000,000	95,096,245
Development grants receivable: (Annex I.(b))	-	52,895,779
Revaluation of Non-Current Assets	-	599,433,926
Balance as at 30th June 2018	2,606,063,018	2,576,063,018

10. (a) REVENUE RESERVE

	2017-2018	2016-2017
	Kshs.	Kshs.
Balance B/f	(235,304,329)	(138,816,456)
Surplus/Deficit for the year	38,729,009	(96,487,873)
Balance as at 30th June 2017	(196,575,320)	(235,304,329)

10. (b) DEFERRED INCOME

	2017-2018	2016-2017
	Kshs.	Kshs.
Equipment from Netherlands Bal. as at 30th June 2017	9,354,762	12,473,016
Equipment from Seeding Labs as at 30th June 2017	15,209,763	17,382,586
	24,564,525	29,855,602
Amortization for June 2018 (24,946,032 @12.5%)	(3,118,254)	(3,118,254)
Amortization for June 2018 (17,382,586 @12.5%)	(2,172,823)	(2,172,823)
Balance as at 30th June 2018	19,273,448	24,564,525

NOTE: (a) Donated Assets in the year 2012/2013 comprised of;

1. Equipment from Netherlands KShs 24,542,200.00
2. Loose Tools from Netherlands KShs 403,832.00

(b) Donated Assets in the year 2016/2017 comprised of;

1. Equipment from Seeding Labs Ksh 17,382,586

XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. <u>TRADE & OTHER PAYABLES</u>	2017-2018	2016-2017
	Kshs.	Kshs.
Sundry Trade Payables	25,964,475	40,735,601
Prepaid fees	41,394,075	27,695,023
Refundable Caution fees	29,653,400	24,727,100
Audit fees	960,000	1,920,000
Leave Allowance Payable	2,217,772	1,933,789
Students Unallocated Sponsorship Fund	3,469,542	2,567,320
Chancellors Scholarship fund	400,000	-
Chancellors Endowment fund	50,000	-
Part Time Claims	10,487,960	-
Staff Gratuity Payable	77,826,479	72,163,928
(72,163,928 +15,134,359 - 9,471,808)		
	<u>192,423,703</u>	<u>171,742,761</u>
12. (a) <u>RECURRENT GRANTS</u>	2017-2018	2016-2017
	Kshs.	Kshs.
Recurrent Grants (Annex 1 (b))	727,975,082	338,852,500
	<u>727,975,082</u>	<u>338,852,500</u>
12.(b) <u>RESEARCH GRANTS</u>	2017-2018	2016-2017
	Kshs.	Kshs.
G.O.K Research Grants	5,300,000	-
External Grants	4,775,533	5,322,179
1 st MksU International Conference Grants	2,549,742	-
	<u>12,625,275</u>	<u>5,322,179</u>
12. (c) <u>CBA GRANTS</u>	2017-2018	2016-2017
	Kshs.	Kshs.
CBA Grants (Annex 1 (d))	120,851,721	-
	<u>120,851,721</u>	-
TOTAL GRANTS	<u>861,452,078</u>	<u>344,174,679</u>
13. <u>GRANTS IN KIND</u>	2017-2018	2016-2017
	Kshs.	Kshs.
Furniture & Equipment (24, 542, 200 x 12.5%)	3,067,775	3,067,775
Donated Loose Tools (403,832 x12.5%)	50,479	50,479
Equipment from Seeding Labs (17,382,586*12.5%)	2,172,823	2,172,823
	<u>5,291,077</u>	<u>5,291,077</u>



XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. TUITION & OTHER RELATED INCOMES

<u>VOTEHEAD</u>	2017-2018	2016-2017
	Kshs.	Kshs.
Repairs, Maintenance & Improvements	-	68,100
Electricity Water & Conservancy	-	90,800
Contingencies	-	34,400
Parents Teachers Association	-	2,400
Local Transport & Travelling	-	34,200
General damages	2,552	-
Material development	3,126,636	5,004,100
Tuition fee	151,812,781	176,241,642
Catering	5,799,493	6,716,129
Boarding	3,589,876	3,637,880
Teaching, Equipment & Registry	-	113,500
Activity fee	7,134,613	8,103,925
Integrated Computer Technology	17,686,375	11,969,591
Industrial Attachment & Insurance	41,375	92,875
Kenya National Examinations Council Exams Fee	41,850	-
Library fee	4,249,138	340,117
Medical fee	12,512,380	5,036,524
Computer Project fee	7,785,724	13,738,700
Registration fee	7,680,075	16,300,206
Examinations fee	22,352,027	9,079,584
Application fee	527,610	-
Centre fees	40,000	25,151,058
Students projects	36,000	-
Students Identity Cards	1,083,750	660,315
Attachment Fee	21,078,365	22,671
Machakos University Students Association	4,356,862	46,495
Students Insurance fee	6,074,403	102,000
Admission fee	4,758,000	1,237,500
Re-Take Fee	1,773,337	24,210,073
Service Gratuity	-	6,605,038

Personal Emoluments	458,083	5,297,663
Teaching Practice fee	2,840,776	-
Quality Assurance fee	4,254,818	185,228
R.D Cheques Charges Income	10,549	34,200
Laboratory/Workshop fee	11,476,451	489,972
Graduation Fees	2,376,400	6,334,350
Referral/ Supplementary	4,000	4,751,668
Statutory charges	22,800	6,981,101
Thesis Examination	40,000	1,549,956
Supervision fees	18,000	-
TOTAL	305,045,098	340,263,961

15. I.G.A AND OTHER INCOMES	2017-2018	2016-2017
<u>VOTEHEAD</u>	Kshs	Kshs
Le Technisch Restaurant	72,294,387	65,418,501
Production Unit -Food & Beverage	72,215	135,338
Production Unit -Mechanical	-	17,000
Production Unit - Agriculture	33,940	20,580
Auction	13,670	32,000
Seminar	700,000	10,000
Hire of facilities	499,000	177,000
Rent	540,100	534,000
Tender Fee	33,000	22,000
Miscellaneous Income	576,249	288,398
TOTAL	74,762,561	66,654,817



XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. <u>PERSONNEL EMOLUMENTS</u>	2017-2018	2016-2017
	Kshs	Kshs
Gross pay (Staff Payroll)	671,074,972	510,805,631
Provision for Leave Allowance	2,217,772	1,933,789
Provision for Staff Gratuity	15,134,359	10,201,904
Part-Time lecturers	44,903,557	31,243,819
Casual wages	10,424,323	12,249,780
Other staff allowances (staff Costs)	29,716,231	4,173,502
Adjunct Lecturers Pay	4,548,571	7,409,040
Locum Staff pay	272,164	51,300
TOTAL	778,291,949	578,068,765

XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. OPERATIONS AND MAINTENANCE EXPENSES

<u>VOTEHEAD</u>	2017-2018	2016-2017
	Kshs	Kshs Restated
Water & Conservancy	7,456,385	4,274,986
Staff welfare expenses	80,000	337,450
Cleaning & Sanitation	1,591,223	1,100,264
Grounds Maintenance	174,714	52,100
Motor Vehicles Maintenance	2,074,936	1,727,352
Electricity Expense	8,043,781	6,110,363
International Organizations for Standardization (ISO)	755,989	956,187
Travelling & Accommodation expenses	4,746,851	5,823,993
Newspapers & Magazines	1,073,320	817,260
Professional fees	716,896	1,658,390
Subscriptions & Registration Fees	1,236,911	568,370
Telephone & Postage	787,250	754,113
Motor vehicles & Generator fuel expenses	3,287,229	2,745,000
Office Consumables	492,565	375,285
Stationery Expenses	7,996,319	8,580,201
Security Expenses	8,568,492	8,039,814
Bank Charges	271,323	501,276
Audit fees	960,000	960,000
Repairs and Maintenance	5,099,953	4,912,494
Hire of Facilities expenses	800	1,093,045
Entertainment expenses	14,000	-
ICT Services and Maintenance	8,276,956	7,132,173
Equipment Maintenance	335,240	82,351
Land Rent & Rates	-	14,240
University Charter Award expenses	-	1,934,803
Health care services	46,163,389	36,295,561
Marketing & Publicity Expense	700,146	1,181,787
Change in Inventories	(7,241,126)	(543,165)
Furnishing Computer Lab & ADB Offices	130,409	3,734,413
Property Insurance	2,671,185	1,110,384
Master plan	-	164,000
Valuation of Assets	2,745,050	22,700
Staff Development	182,000	759,500
Renovation of buildings	4,595,360	3,002,165
Vice chancellor Committees expenses	292,200	356,490
University Committees Expenses	7,664,330	-
Production unit expenses	2,800	-
External Travelling expenses	-	12,500
Staff Uniforms	407,070	-
TOTAL	122,353,945	106,647,845



XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

18(a) <u>ADMINISTRATIVE AND ACADEMIC EXPENSES</u>	2017-2018	2016-2017
<u>VOTEHEAD</u>	Kshs	Restated Kshs
Teaching Materials and Expenses	5,454,944	11,188,320
Catering expenses	8,767,115	10,794,973
Boarding/Accommodation expenses	23,803	925,523
Students Activities expenses	2,043,194	1,927,386
Insurance (Students) expenses	3,090,891	3,151,019
Attachment expenses	1,849,035	2,376,129
Library expenses	174,000	489,000
Medical (Students) expenses	1,726,840	2,161,704
Advertisement expenses	3,509,741	1,290,407
Examinations expenses	6,151,662	7,038,864
Academic Research Expenses	5,140,249	4,134,030
Field courses expenses	962,290	664,700
Agricultural Farm Expenses	194,010	184,820
Machakos University Students Association expenses	4,356,862	5,338,531
Sports & Games	3,319,070	2,395,654
Exhibitions & Shows	1,015,898	499,487
Personnel Emolument (Note 16)	778,291,949	578,068,765
CBA Arrears	119,020,171	-
Students Work Study expenses	-	34,988
KUCCPS expenses	7,947,000	-
Senate & Senate Committees expenses	-	69,400
External examinations expenses	707,964	129,697
Commission for University Education expenses	4,737,000	72,800
Association of Government Council expenses	-	43,984
Graduation Expenses	10,235,945	6,319,033
Teaching practice expenses	5,839,529	4,076,558
Laboratory Apparatus, Tools and Machines	-	10,000
Management Capacity Building	1,345,886	-
Chancellors Expenses	900,000	-
Academic dress	5,397,200	-
Curriculum development expenses	172,974	-
Industrial linkages	42,250	-
Statutory charges	-	1,000
General damages	-	13,707
Strategic Planning expenses	288,750	96,250
Students Bursary fund expense	500,000	-
Internal Research expenses	1,174,000	-
	984,380,221	643,496,729
18(b) <u>COUNCIL EXPENSES</u>		
Sitting Allowances	3,585,500	7,475,000
Mileage Allowances	932,036	1,186,306
Subsistence Allowances	2,852,500	4,377,100
Honoraria and Telephone	957,000	1,044,000
Lunch Allowances	30,000	206,000
Others	754,445	741,390
	9,111,481	15,029,796
TOTAL (18a+18b)	993,491,702	658,526,525



XVI. NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. OTHER EXPENSES

VOTEHEAD

	2017-2018	2016-2017
	Kshs	Kshs
Conferences, Workshops and Seminars Expenses	3,328,845	3,232,689
Le Technisch Restaurant Expenses	35,366,430	36,345,803
TOTAL	38,695,275	39,578,492

ANNEX 1

(a) DEVELOPMENT GRANTS SCHEDULE

MONTH/YEAR	PAYER	2017-2018	2016-2017
NOV. 2016	State Department for University Education	-	18,325,000
FEB. 2017	State Department for University Education	-	22,692,550
MAR. 2017	State Department for University Education	-	3,850,085
MAY 2017	State Department for University Education	-	23,885,828
JUNE 2017	State Department for University Education	-	26,342,782
OCT. 2017	State Department for University Education	30,000,000	-
		30,000,000	95,096,245

(b) DEVELOPMENT GRANTS SCHEDULE

Development grants receivable	-	52,895,779
TOTAL	30,000,000	147,992,024

(c) RECURRENT GRANTS SCHEDULE

DATE	PAYER	2017-2018	2016-2017
AUG. 2017	State Department for University Education	55,081,575	28,237,708
SEP. 2017	State Department for University Education	55,081,575	28,237,708
OCT. 2017	State Department for University Education	55,081,575	28,237,708
NOV. 2017	State Department for University Education	55,081,575	28,237,706
DEC. 2017	State Department for University Education	82,996,652	28,237,706
JAN. 2018	State Department for University Education	60,664,590	28,237,706
FEB. 2018	State Department for University Education	60,664,590	28,237,706
MAR. 2018	State Department for University Education	60,664,590	28,237,706
APR. 2018	State Department for University Education	60,664,590	28,237,706
MAY 2018	State Department for University Education	60,664,590	28,237,706
JUNE 2018	State Department for University Education	60,664,590	28,237,706
JUNE 2018	State Department for University Education	60,664,590	28,237,727
TOTAL		727,975,082	338,852,500

(d) CBA GRANTS SCHEDULE

DATE	PAYER	2017-2018	2016-2017
JULY 2017	State Department for University Education	57,706,697	-
JULY 2017	State Department for University Education	63,145,024	-
TOTAL		120,851,721	-



XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issue raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal person to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

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)	Time frame: (put a date when you expect the issue to be resolved)
N/A	Other Matter- Increased deficit hence reduced Revenue reserves.	Management to explore more opportunities to increase revenue and control expenditure.	Prof. Lucy W. Irungu (Vice Chancellor)	In Progress	In the next 6 to 7 years.

Prof. Gideon Hanjari
Chairman of Council

Prof. Lucy W. Irungu
Vice Chancellor

XVIII. APPENDIX 1: PROJECTS IMPLEMENTED BY THE UNIVERSITY

Projects

Projects implemented by the University funded by Development partners.

S/n o	Project Number	Donor	Period/ duration	Donor commit ment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1.	None	N/A	N/A	-	-	-

Status of Projects completion

	Project	Total project Cost	Total expended to date	Completion % to date	Budget (2017/2018)	Actual 2017/2018	Sources of funds
1.	Tuition and Office Block	986,761,115.80	37,905,340.70	10	30,000,000	36,767,890.70	G. O. K
2.	Extension of ADB Building	58,217,640.00	39,060,070.75	90	12,500,000	19,543,580.75	G. O. K
3.	Development of Sports and Games facility (phase I)	12,000,000.00	1,438,000.00	2	5,600,000	1,438,000.00	A.I. A

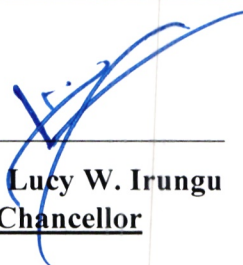


XIX. APPENDIX 2: INTER- ENTITY TRANSFERS

	ENTITY NAME:	MACHAKOS UNIVERSITY		
	Break down of Transfers from the State Department for University Education			
FY 2017/2018				
a.	Recurrent Grants	Bank Statement Date	Amount (KShs)	The FY to which the amounts relate
		August 2, 2017	55,081,575.00	2017-2018
		September 4, 2017	55,081,575.00	2017-2018
		October 3, 2017	55,081,575.00	2017-2018
		November 3, 2017	55,081,575.00	2017-2018
		December 2, 2017	82,996,652.00	2017-2018
		January 2, 2018	60,664,590.00	2017-2018
		February 8, 2018	60,664,590.00	2017-2018
		March 13, 2018	60,664,590.00	2017-2018
		April 6, 2018	60,664,590.00	2017-2018
		May 2, 2018	60,664,590.00	2017-2018
		June 11, 2018	60,664,590.00	2017-2018
		June 28, 2018	60,664,590.00	2017-2018
		TOTAL	727,975,082.00	
b.	CBA Grants	Bank Statement Date	Amount (KShs)	The FY to which the amounts relate
		July 03 2017	57,706,696.60	2017-2018
		July 19 2017	63,145,024.10	2017-2018
		TOTAL	120,851,720.70	
c.	Development Grants	Bank Statement Date	Amount (KShs)	The FY to which the amounts relate
		October 12, 2017	30,000,000.00	2017-2018
		TOTAL	30,000,000.00	



CPA Aileen Nyatuga
Chief Finance Officer



Prof. Lucy W. Irungu
Vice Chancellor

XX. APPENDIX 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds	Date received			Where Recorded/recognized					Total Transfers during the Year
	as per bank statement	Nature: Recurrent/Development /Others	Total Amount - KES	Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others	
NONE		-	-	-	-	-	-	-	-
Total		-	-	-	-	-	-	-	-