


REPUBLIC OF KENYA



Enhancing Accountability

REPORT

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ON

KARATINA UNIVERSITY

**FOR THE YEAR ENDED
30 JUNE, 2019**





Inspiring Innovation and Leadership

KARATINA UNIVERSITY

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 02 MAR 2021

DAY.

TABLED

BY:

ANNUAL REPORT

AND

CLERK-AT
TABLE:

FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING 30TH

JUNE 2019

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

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I. KEY UNIVERSITY INFORMATION AND MANAGEMENT

a) Background

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

b) Principal Activities

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

Mission

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

Vision

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

c) Registered Place of Business

Karatina University
P.O BOX 1957 - 10101,
KARATINA

d) Contacts

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

e) University Bankers

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

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

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

f) Independent Auditors

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

g) Principal Legal Adviser

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

h) Key Management

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

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

i) Fiduciary Management


The key management personnel who held office during the financial period ending 30th June 2019 and who had direct fiduciary responsibility were:



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

j) Fiduciary Oversight Arrangements





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




II. MEMBERS OF THE UNIVERSITY COUNCIL

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

Title	Name	Qualification
Member	Mr. Felix Owaga Okatch 	MBA (Finance and Marketing) - Assam Don Bosco University, India Bachelor of Commerce (Hons) – University of Nairobi
Member	Dr. Doris N. Mutta 	Ph.D. Environmental Studies - University of Strathclyde, Scotland, UK MSc. Botany - University of British Columbia, Canada BSc. Forestry - Moi University, Kenya
Rep. Principal Secretary – State Department of University Education, Ministry of Education	Mr. Clement Obure Odeka 	Exe-MBA (Public Policy and Administration)- Kenyatta University MSc. Information Systems – University of Nairobi BSc. Maths and Physics, major - University of Nairobi
Member	Mr. John Kanyakiri 	MSc. Entrepreneurship –JKUAT BSc. Horticulture – JKUAT
Rep. Cabinet Secretary, The National Treasury	Dr. Dunstone Ulwodi 	PhD Economics – University of Nairobi MA Economics – University of Nairobi MSc. Population Studies – University of Nairobi BE.d Arts – (Economics and Statistics) – University of Nairobi

III. MANAGEMENT TEAM

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

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

IV. COUNCIL CHAIRMAN'S REPORT

I am pleased to present annual report and financial statements for the year that ended on 30th June 2019. This was the seventh year in operation as a fully-fledged University. This marks the end of the second full year of service for the current Council. Council Members have been performing their duties well, both at the Committee and Council level.

Some of the most outstanding achievements during the year include:

- a) Launch of the BSc. in Nursing. The University obtained authority to run the programme and admitted the first batch of thirty (30) students in August, 2018. The University will continue to invest additional resources so as to roll out more health related programmes. In the meantime, the University intends to market the programme aggressively so as to attract self-sponsored students;
- b) Approved key policies including the Human Resource Policy, Marketing Policy, Resource Mobilization Policy and the Karatina University Students Association (KUSA) Constitution to align it with the amendments incorporated in the Universities Act(2012). These policies are important in streamlining operations in the University.
- c) Commenced construction of the University Library. This is a four storey building that is aimed at enhancing teaching and learning facilities. Council hopes to complete the construction within the next two years;
- d) Recruitment of additional staff to support academic programmes.

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

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

- i. The funding of University operations was affected by Supplementary I budget cuts. This affected the University's core mandate, particularly leading to delay in payment of part-time lecturers' dues.
- ii. Reduction in appropriation-in-aid (A-I-A) generated by the University. This was occasioned by a reduction in the number of students admitted under the PSSP programme.

As a way forward, the University Council is working on income generating strategies. As a first step, a Directorate of Resource Mobilization was established to coordinate resource mobilization activities. This, coupled with regular sensitization of staff is expected to reduce overreliance on government capitation and tuition fees from PSSP students. Further, members of staff are encouraged to be involved in activities such as consultancies so as to get a feel of the business world, thereby enhancing their teaching experience.

We are grateful that so far, the Government has supported the University by remitting recurrent capitation and capital grants on time.

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

Council remains committed to work closely with the University management led by the Vice-Chancellor in order to realize further development.



Prof. John Kobia Ataya, PhD
Chairman, Karatina University Council

V. VICE CHANCELLOR'S REPORT

I hereby present the Annual Report and Financial Statements of Karatina University for the year that ended on 30th June 2019 as required by the Universities Act 2012, Karatina University Charter and the Public Financial Management Act 2012.

Economy and Sector Review

Karatina University operates under the social sector of Kenya's Economy by providing access to university education. Education sector witnessed a general increase in the number of educational institutions across all categories. The most notable increase was in public vocational training centres, which went up by 26.6 per cent to 1,502 in 2018, while that of universities rose from 61 in 2017 to 63 in 2018. Similarly, the total number of primary schools rose by 7.0 per cent to 37,910 in 2018. However, University enrolment declined by 1.7 per cent to 513,182 in 2018/19 academic year.

Performance Review

During the year under review, the University fell short of its targeted incomes in respect to internally generated funds; specifically, research and consultancies income because donors did not release funds as had been projected. It is our hope that the efforts being put to raise additional resources will bear fruit so that the University moves from over reliance on government funding. Further, Government recurrent capitation was reduced by Kshs. 13million during Supplementary I thereby affecting planned activities. However, the University appreciates the additional funding given by the government during supplementary II in the month of June 2019.

The University has continued with its core business of disseminating knowledge through training, research, innovation and community outreach. The University had a student population of 5,611 and 406 members of staff at the end of the financial year. The institution produced 1,200 graduands during its 6th graduation ceremony in November 2018.

Operations and Management Review

The University had several achievements and challenges during the year under review. Key achievements include:

- i. Signing of additional MoUs with industry players as well as other academic institutions. In particular, renewal of the MoU with Zhangzhou College of Science and Technology in China is expected to open up great opportunities not only in training tea specialists but also the possible construction of a Tea Institute. In addition, the University started working with Huawei Authorized Information and Network Academy (HAINA) in establishing the Huawei ICT Academy. The first batch of students has already been trained.
- ii. The University developed and begun administering a tracer study tool. This is aimed at identifying where KarU graduates end up in the labour market with the aim of assessing employability of our graduates and establishing a link between study programs offered at

- the University and the job market. The results so obtained will inform future review of curricula.
- iii. The University was accredited by the Kenya Nutritionists and Dietetics Institute (KNDI). In addition, the Institute agreed to work with the University towards establishment of a Centre of Excellence.
 - iv. The University in conjunction with three other local universities and Saarland University in Germany is working on a project to make African Universities entrepreneurial. This involves training university lecturers in competency-based teaching formats, increasing idea incubation into business start-ups for increased job creation and improving communication between universities and business enterprises/industry.
 - v. To strengthen the relationship between the University and the community, several activities including training of care givers, and a medical camp were organized. The University will continue playing a key role in assisting the community to develop solutions to problems affecting them. In the process, the initiatives are expected to increase visibility and thereby attract more students to enroll.

The main challenge experienced by the University was related to declining enrollments both for GSSP and PSSP students thereby reducing A-in-A. This particularly affected the Schools of Agriculture and the School of Natural Resources. It is hoped that performance in sciences (biology) will improve in the coming years so as to reverse the trend.

Risk Management

The University has put in place a robust risk management strategy. This involves a quarterly review of the risks the University faces and developing mechanisms to mitigate them. In addition, the University has ensured a strict adherence to statutory requirements.

Future Developments

Universities are under reforms to ensure there is a balance between enhancing financial sustainability and offering quality education. Karatina University is therefore reviewing its programmes to ensure sustainability not only now but in the long run. The University will review its Strategic Plan (2015-2020), whose period of implementation ends in this financial year. Some of the areas the University will be focusing on include:

- i. Emphasis on the Green University Concept so as to incorporate environmental sustainability and efficiency in its operations, curriculum development and implementation, physical developments and university lifestyles. In addition, there will be greater effort in building the capacity of its human resource so as to achieve a sustainable future through training, research, innovation and community outreach.

- ii. Strengthening training in health sciences beginning with nursing. The University will increase relevant infrastructure and human resources to ensure the training meets international standards.
- iii. Piloting of the Open and Distance Learning (ODEL). This mode of learning is expected to not only save staff costs but also increase the number of students given its flexibility. Relevant infrastructure has been put in place and the development of teaching modules is almost complete.
- iv. Strengthening collaborations with industry and other institutions for mutual benefit. Besides getting opportunities for its graduates, the linkages will ensure the University does not operate in isolation and that its impact is felt within and outside Kenya.
- v. To inculcate a mindset change from a status quo to one with prospects of more innovative research, new teaching and generation of academic products

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

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

Thank you.



Prof. Mucai Muchiri, PhD
Vice Chancellor

VI. CORPORATE GOVERNANCE STATEMENT

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

Corporate Governance Principles

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

Size and Composition of Council

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

The Role and Functions of Council

The role and functions of council have been indicated on page (xxxv) and is separate from that of management. The collective responsibility of Council has been set out on page (xxxviii).

Appointment, Removal from Office and Succession Plan

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

Appointed council members are required during the first meeting to determine by lot which two of their number shall vacate office after a period of three and four years respectively to ensure continuity in the activities of the Council. Council is yet to do so. However, they will deliberate on succession before end of their term and report to Ministry of Education given that the appointments were for a period of three (3) years. Independent Council Members were appointed on 10th March 2017 for a period of three years. New representatives of the

Principal Secretary, Education and Cabinet Secretary, The National Treasury and Planning were appointed on 18th November, 2018 and 26th November, 2018 respectively. The different appointment dates provide room for successful transition period.

Capacity building for Council members

Training and development programs were put in place to equip Council members with necessary skills required in discharging their mandate. During the year ending 30th June 2019 only two members namely; Dr. Dunstone Ulwodi and Mr. Clement Odeka underwent a three-day induction organized by the State Corporations Advisory Committee (SCAC). In the subsequent year, the University intends to conduct one block training while at the same time facilitate members to attend individualized trainings. Further, Council has been sensitized on changes in practices, policies, laws and regulations governing the institution's operation from time to time

Council Remuneration

Council members are remunerated as per guidelines set out in State Corporations Advisory Committee circulars and National Treasury directives in respect to sitting allowance for every meeting attended, lunch allowance (in lieu of lunch being provided), mileage and accommodation allowance are reimbursed where applicable. Also, the Chairman is paid a monthly honorarium.

Council Charter and Meetings

The Council has a board charter which defines the role, functions and responsibility of the board in governance of the institution. The Council has committees whose roles are clearly defined and reviewed annually. Council meets at least once in a quarter i.e. 4 times in a year, unless there are urgent matters that call for a special meeting. These regular meetings are intended to receive reports from the committees of Council that will have considered the matters in detail. Members receive adequate notice and board papers in advance to enable them review and prepare for the meeting.

Council Meetings and Attendance

Council conducts its business under four (4) committees as listed below: -

- 1 Academic, Research and Enterprise Development Committee
- 2 Finance, Planning and Human Resource Management Committee (Formerly Finance and Planning Committee)
- 3 Audit and Risk Management Committee
- 4 Governance and Resource Mobilization Committee

In addition to these committees, Council constituted two ad-hoc committees, one to conduct interviews for staff and another to review and advise on capital projects to be factored in the MTEF Budget for the financial years 2019/2020-2021/2022.

Composition of each committee is shown below:

Name of the Committee	Members
1. Governance and Resource Mobilization	<ul style="list-style-type: none"> i). Ms. Mary Reba Chabeda-Ouko – Chair ii). Vice Chancellor iii). Mr. Dan Nguri Nguchu iv). Mr. Felix Owaga Okatch v). Dr. Dunstone Ulwodi vi). Mr. Clement O. Odeka
2. Academic, Research and Enterprise Development Committee	<ul style="list-style-type: none"> i). Dr. Doris N. Mutta – Chair ii). Vice Chancellor iii). Mr. John Kanyakiri iv). Ms. Mary Reba Chabeda-Ouko v). Mr. Clement O. Odeka
3. Finance and Planning Committee	<ul style="list-style-type: none"> i) Mr. Dan Nguri Nguchu – Chair ii) Vice Chancellor iii) Dr. Doris N. Mutta iv) Dr. Dunstone Ulwodi v) Mr. Clement O. Odeka
4. Audit and Risk Management Committee	<ul style="list-style-type: none"> i) Mr. Felix Owaga Okatch – Chair ii) Mr. John Kanyakiri iii) Ms. Mary Reba Chabeda-Ouko iv) Dr. Dunstone Ulwodi
5. Ad-hoc Committee on Council Appointments	<ul style="list-style-type: none"> i) Dr. John Kobia Ataya – Chair ii) Vice Chancellor iii) Mr. Dan Nguri Nguchu iv) Mr. Clement O. Odeka v) Dr. Dunstone Ulwodi vi) Dr. Doris N. Mutta
6. Ad-hoc Committee on Capital Projects	<ul style="list-style-type: none"> i) Dr. John Kobia Ataya – Chair ii) Vice Chancellor iii) Dr. Dunstone Ulwodi iv) Mr. Dan Nguri Nguchu v) Mr. Felix Owaga Okatch

During the year, Council held a total of seven (7) meetings. Individual attendance is tabulated below:

S. No	Name	No of meetings attended
1	Dr. John Kobia Ataya – Chairman	7
2	Prof. Mucai Muchiri – Vice Chancellor/ Secretary	7
3	Mr. Stephen O. Barongo - Rep. Principal Secretary, Ministry of Education	1
	Mr. Clement O. Odeka - Rep. Principal Secretary, Ministry of Education	3
4	Ms. Grace Nyarango – Rep. Cabinet Secretary, The National Treasury	3
	Dr. Dunstone Ulwodi – Rep. Cabinet Secretary, The National Treasury and Planning	3
5	Mr. Felix Owaga Okatch	7
6	Mr. Dan Nguri Nguchu	7
7	Ms. Mary Reba Chabeda-Ouko	5
8	Dr. Doris N. Mutta	6
9	Mr. John Kanyakiri	7

Note:

1. Mr. Clement O. Odeka replaced Mr. Stephen Barongo w.e.f 16th November 2018
2. Dr. Dunstone Ulwodi replaced Ms. Grace Nyarango w.e.f 26th November, 2018

Academic, Research and Enterprise Development Committee

The Committee does the following: Receive and consider reports from the Research and Outreach Committee of Senate and to transmit such reports to the Council; Consider and advise on policy and plans for the exploitation of the University's Intellectual Property and other commercial activities flowing from its research; Advise council on budgetary allocation of research funds and their effective administration for the support of research and enterprise activities; To receive, consider and make recommendations to Council on matters relating to implementation of academic programmes; To receive and recommend to Council for approval qualified students to be conferred with degrees and awarded diplomas and certificates of the University that the Senate may refer to the Committee; and to review and recommend to the Council various policies to assist in the overall management of the academic and research function of the University.

The committee held five (5) meetings and individual participation is tabulated below:

S. No	Name	No of meetings attended
1	Dr. Doris N. Mutta – Chair	5
2	Prof. Mucai Muchiri -Vice Chancellor	5
3	Mr. John Kanyakiri	4
4	Ms. Mary Reba Chabeda-Ouko	5
5	Mr. Stephen O. Barongo - Rep. Principal Secretary, Ministry of Education	3
6	Mr. Clement O. Odeka - Rep. Principal Secretary, Ministry of Education	2

Note:

1. Mr. Clement O. Odeka replaced Mr. Stephen Barongo w.e.f 16th November 2018

Finance, Planning and Human Resource Management Committee

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

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

S. No	Name	No of meetings attended
1	Mr. Dan Nguri Nguchu – Chair	4
2	Prof. Mucai Muchiri - Vice Chancellor	4
3	Dr. Doris N. Mutta	3
4	Ms. Grace Nyarango – Rep. Cabinet Secretary, The National Treasury	2
	Dr. Dunstone Ulwodi – Rep. Cabinet Secretary, The National Treasury	2
5	Mr. Stephen O. Barongo - Rep. Principal Secretary, Ministry of Education	4
	Mr. Clement O. Odeka - Rep. Principal Secretary, Ministry of Education	2

Note:

1. Mr. Clement O. Odeka replaced Mr. Stephen Barongo w.e.f 16th November 2018
2. Dr. Dunstone Ulwodi replaced Ms. Grace Nyarango w.e.f 26th November, 2018

Governance and Resource Mobilization Committee

The Committee was established to undertake the following functions;- Ensure the University effectively monitors compliance with legislative and regulatory requirements and promotes a culture committed to lawful and ethical behavior; Develop and recommend to the Board for approval, governance related policies of Council including a Code of Conduct for Employees and a Code of Conduct for Members of Council; advise Council on matters relating to Performance Contracting and in conjunction with the Chair of the Council, annually conduct and report to the Council the results of a performance appraisal of the Staff of the University; consider and recommend to Council the formation, acquisition, investment or wind up of Income Generating Units (IGUs); Map donors' strategic areas of interest, funds available, grantees, funding windows, requirements and guidelines and interest in funding key result areas and advise Council on matters to do with resource mobilization and Governance.

The committee held four (4) meetings and the individual attendance is tabulated below:

S. No	Name	No of meetings attended
1	Ms. Mary Reba Chabeda-Ouko – Chair	4
2	Prof. Mucai Muchiri -Vice Chancellor	4
3	Mr. Dan Nguri Nguchu	4
4	Mr. Felix Owaga Okatch	4
5	Ms. Grace Nyarango – Rep. Cabinet Secretary, The National Treasury	2
	Dr. Dunstone Ulwodi – Rep. Cabinet Secretary, The National Treasury	2
6	Mr. Stephen O. Barongo - Rep. Principal Secretary, Ministry of Education	2
	Mr. Clement O. Odeka - Rep. Principal Secretary, Ministry of Education	2

Note:

1. Mr. Clement O. Odeka replaced Mr. Stephen Barongo w.e.f 16th November 2018
2. Dr. Dunstone Ulwodi replaced Ms. Grace Nyarango w.e.f 26th November, 2018

Audit and Risk Management Committee (ARMC)

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

The committee is required to:- review and report to the Council on the comprehensiveness, reliability and integrity of internal controls measures; recommend to the Council quality

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

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

S. No	Name	No of meetings attended
1	Mr. Felix Owaga Okatch – Chair	4
2	Mr. John Kanyakiri	4
3	Ms. Mary Reba Chabeda-Ouko	4
4	Ms. Grace Nyarango– Rep. Cabinet Secretary, The National Treasury	1
	Dr. Dunstone Ulwodi – Rep. Cabinet Secretary, The National Treasury	2

Note:

1. Dr. Dunstone Ulwodi replaced Ms. Grace Nyarango w.e.f 26th November, 2018.

Ad hoc Committees

Both *ad-hoc* committees on capital projects and staff recruitment interviews met once each.

Council evaluation

Council evaluation is essential in assessing performance, efficiency and effectiveness of the board and individual members. The evaluation of council is an annual exercise conducted by the State Corporations Advisory Committee (SCAC). During the financial year, Council conducted self-evaluation with respect to the FY 2017/2018 on 17th August, 2018. The results were presented and discussed on 18th February, 2019. The performance was very good.

Ethics and Conduct

Council has an approved Karatina University Code of Ethics and Conduct which governs the general conduct of Council members, management and staff. The code binds both the Council members and staff as they are required to sign and abide with requirements upon joining the University.

Whistle Blowing Policy

Karatina University has a Whistle Blowing Policy which protects the identity and well-being of employees and stakeholders when they provide information on corruption related matters. The institution has four reporting channels through which anonymous reports in respect to corruption can be made. These channels are; reporting hotlines, corruption reporting boxes, the institution's official website link and email.

Governance and Legal Audit

The Council formed a standing committee on governance to ensure compliance with all statutory requirement during the year. Governance and legal audits are to be performed on an annual basis indicating scope and the person who conducts them. During the year under review, the University was unable to conduct both governance and legal audit.

Risk Management

Risk management is a strategic function monitored under the audit and risk management committee of Council and applied in the day to day functions of the University. The University compiles its risk register on a quarterly basis, in addition to reports on mitigation measures implemented. This is to ensure risks are managed in compliance with the approved policies and principles of good corporate governance. The University conducted its an annual risk assessment with guidance from the internal audit department.

Conflict of Interest

Council members and staff are required make disclosure of any potential or real conflict of interest while conducting matters that pertain to the institution. During meetings, members are expected to declare any conflict of interest in the agenda items under discussion. In case of conflict, the affected member is excluded from discussions and/or decisions on the matter in question.

IT Governance

The University is implementing its approved ICT policy which governs the management of its ICT infrastructure. The ICT Security Framework provides guidance and control over ICT Services, Facilities and Infrastructure and defines the rights and responsibilities of University members in their use of ICT Services and Facilities. This ensures that ICT Security Risks are mitigated and that the Framework remains relevant to the strategic goals of the University.

The process conducted of risk assessment, Audit of ICT controls, and Incident Management and Response provides input into the review of the University's IT governance measures so as to align with the Business Continuity processes.

VII. MANAGEMENT DISCUSSION AND ANALYSIS

SECTION A

Karatina University Operational and Financial Performance

The University has reported a deficit of Kshs 8.04M as at 30th June 2019. This is a decline in performance from a surplus of Kshs 9.5M reported in the previous year. This is because during 2017/2018 FY Universities implemented 2013-2017 Collective Bargaining which resulted to increased employment expenses. However, recurrent grants allocated to the University during 2018/2019 FY were reduced when compared to the previous FY. Further, the University's recurrent grants were cut by Kshs 13M after approval of the Supplementary I budgets. This affected both academic and administrative functions of the University. Due to the difficulties experienced, during budget Supplementary II in the fourth quarter, the University was allocated additional funding of Kshs 68M. Besides that, the University did not meet its projected A-I-A income target in respect to research & consultancies and other incomes.

The University expects an improvement of its cash flow projections during 2019/20 FY. This is because reviews it has had with the Ministry of Education and National Treasury on its financial requirements. In terms of A.I.A, the University may experience decline in student-related revenue streams as a result of the decline in University enrolment across the country.

Pertaining to trends within the Education Sector, the government has increased access to higher education by having more learning institutions, with its focus being TVETs. This policy change has affected the number of students enrolling for diploma programmes in the University. Consequently, it is expected that A.I.A income from tuition fees will decline. Further, there are more University admission spaces across the Universities, while the number of KCSE graduates who meet the minimum criteria for University admission has declined in the past three calendar years. The University Management is working on resource mobilization strategies so as to enhance its A.I.A.

SECTION B

Compliance with Statutory Requirements

During the reporting period the University has complied with all statutory requirements. The institution has no non-compliance that may expose it to potential contingent liabilities. The University has two ongoing court cases and is exposed to the following charges: -

	Suit No and details	Subject Matter	Implication/ contingency Kshs
1	Nyeri Court of Appeal no. 52 of 2014- Oindi Zaipeline vs Karatina University	The student contested being conferred with Karatina University degree instead of degree by Moi University	479,073/-
2	Nyeri Employment & Labour Relations Court Cause no. 212 of 2018- Valentine Ataka vs Karatina University	Claimant sued for unpaid part-time dues for courses taught from September 2014.	395,600/-

SECTION C

Key projects and investment decisions the University is planning/implementing

The University has four on-going key projects, i.e. 750 bed capacity Student Hostel; Resource Centre; Library Phase I and Perimeter Fence. The Students' Hostel and Resource Centre are at 99% and 99% completion rates respectively. The two projects will be completed by the first quarter of 2019/2020 financial year.

Library Phase I and Perimeter Fence construction started in 2017/2018 FY. The two projects are at 26% and 87% completion rates respectively. The Perimeter Fence is expected to be complete by first quarter of 2019/2020 FY. Library Phase I has been projected for completion in 2020/2021 FY and the progress of works done is satisfactory. The figures computed for completion rate for all the projects are based on the amounts of works certified and not funds disbursed by GOK to finance the projects.

The Resource Centre will provide space for lectures, laboratories, offices, specialized library collection, boardrooms and other learning facilities. This will increase access to University education by providing space and facilities for quality teaching, learning and research which is in line with the Government of Kenya strategic objective of increasing access to University education in support of Vision 2030. Consequently, the University will be able to increase the number of students it admits for programmes such as Nursing, Food Science and Nutrition since the University is an enabler of the "Big four" Agenda in respect to health and food security.

Whereas accommodation of students is not a core function of universities, Karatina University Council and Management Board have deemed it necessary to provide affordable accommodation, especially to first years who come from all over the country and are therefore, not conversant with local surrounding. The 750 bed capacity hostel will provide accommodation facilities to a large number of first year students, thereby according them time

to adjust to their new environment. In subsequent years the students are able to identify accommodation developed by investors within the neighbourhood of the university.

Construction of the Library Phase I is an integral component of teaching, learning and research requirements of the growing Karatina University academic community. It is also a requirement by the Commission for University Education that a Library be established to support learning and research for use by students and lecturers, in constructing a library, the University will adequately support the Big Four agenda.

The Construction of the Perimeter Fence is for safeguarding the University's assets and as a measure of providing of security for its occupants.

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

SECTION D

Major Risks facing the University

The University's activities are exposed to a variety of financial risks including credit and liquidity risks and changes in market prices. The University's overall risk management framework focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The specific details of each risk component have been discussed on pages 16 to 18 of this report.

SECTION E

Material Arrears in Statutory and Financial Obligations

The University has significant amounts outstanding relating to part-time lectures payments and loan due to the GoK in respect to acquisition of the Tea Training Institute, the fore runner of Karatina University, by Moi University. Karatina University is awaiting consent from National Treasury in order to take up the obligation for payment of principal amount of Kshs 194M and accrued interest of Kshs 22M computed as at 31st December 2018. At the end of the reporting period, the University had Kshs 172M outstanding in respect to part-time lectures payment. The Management Board has been settling amounts claimed using available funds.

SECTION F

Financial Probity and serious Governance issues

During the reporting period, the University underwent several internal audit reviews and external audit by Office of the Auditor General. There were no cases of financial improbity reported. The University management had a cordial working relationship with Council members and no governance issues were raised.

SECTION G

Trend analysis of the University's Financial Performance

From figure 1 below, the performance of the University which has been fluctuating over the years, which is brought about by the varying incomes received vis-à-vis the expenditure incurred during the financial year. The analysis shows yearly performance from July 2012 to June 2019.

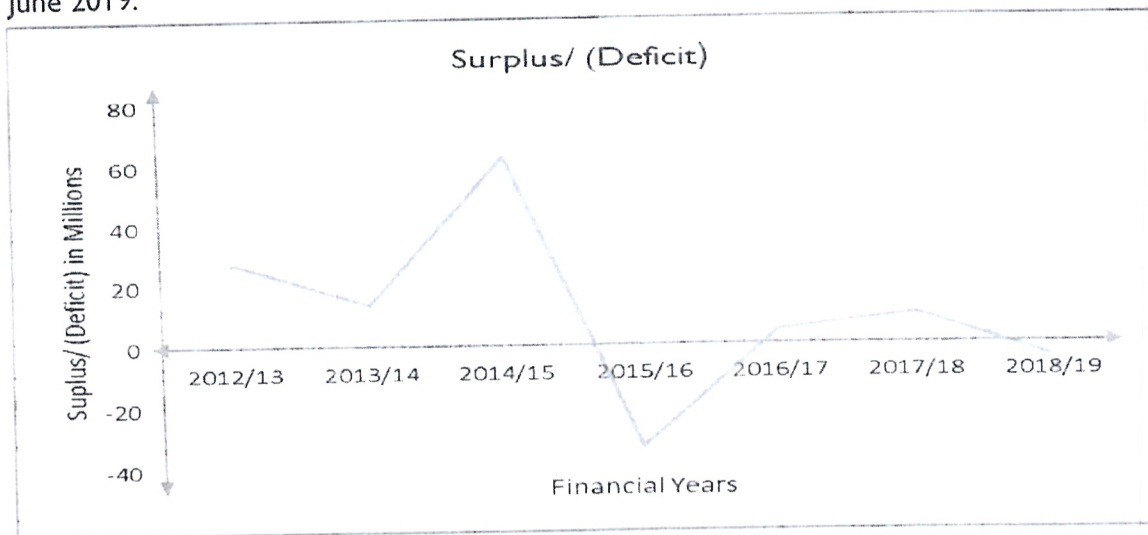


Figure 1: Trend of the University's financial performance

From figure 2 below, from FY 2012-13 to 2018-19 the total income and the recurrent grants have an upward trend as compared to the A-I-A. The A-I-A has a downward trend occasioned by a reduction in the number of students enrolled under the PSSP programme since FY 2015-16.

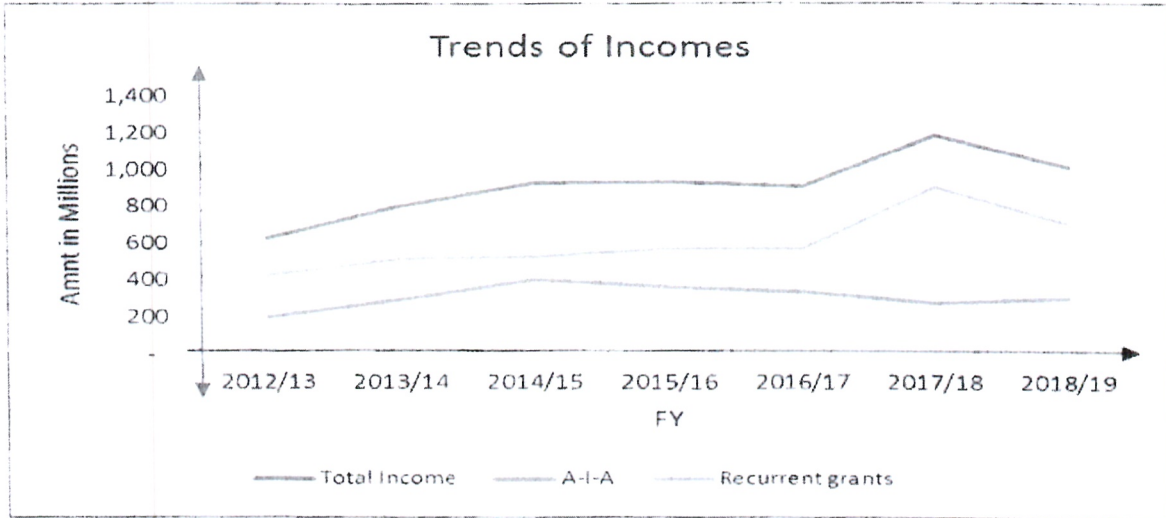


Figure 2: Trend of University's Incomes

Figure 3 below, shows an analysis of individual expenditure categories vis-à-vis total expenditure for the current FY 2018-19. Significant amount of the expenditure relates to employment expenses, at 67% because the University is more of a service industry in transferring knowledge.

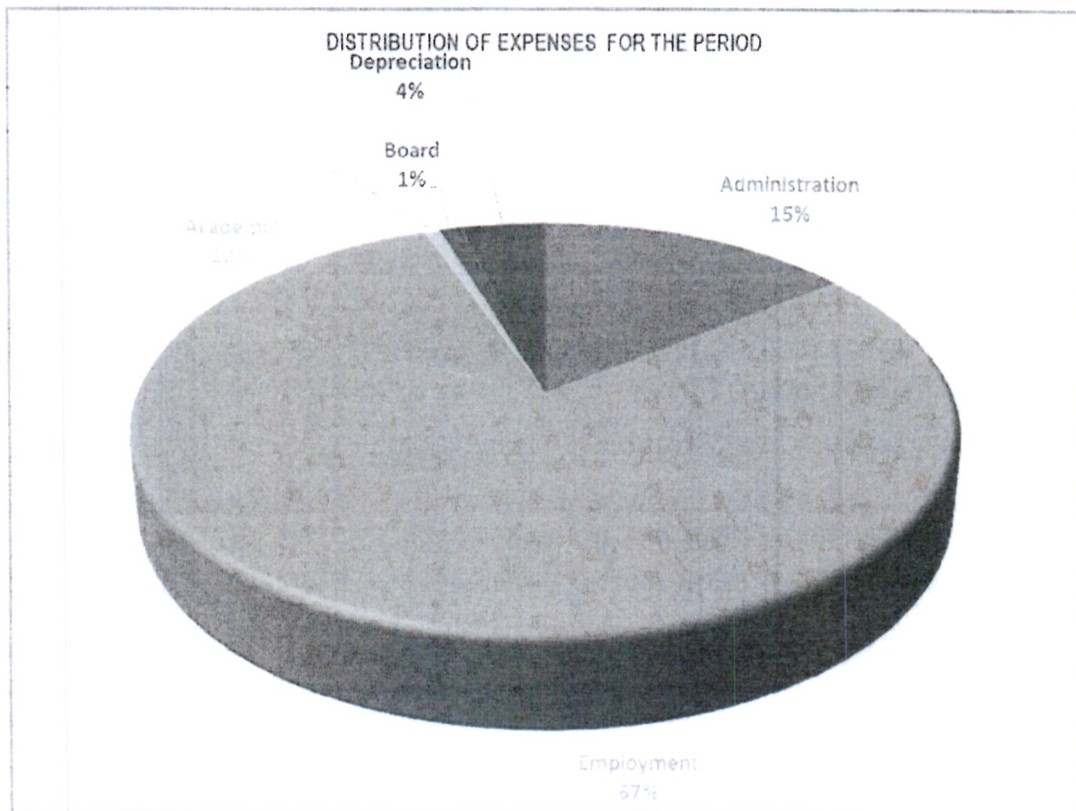


Figure 3: Distribution of recurrent expenses during the FY 2018/19

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Corporate Social responsibility (CSR) activities form a critical part of the strategies enshrined in the Karatina Universities Medium Term Strategic plan. The University prioritized its CSR activities as discussed below and implemented them within the approved budgets.

I. Education

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

a. Mathira West Academic Mentorship Day

The University in conjunction with Mathira West Secondary Schools Heads Association and the Sub-County Directorate of Education organized mentorship activities. This was held in five centers in Mathira West which involved Tumutumu Girls; Ngunguru Secondary; Kianjogu Secondary; Kiangoma Secondary; and Ngaini Secondary. The Theme for the mentorship programme was “*Developing Total Individual Potentialities Towards Excellence*”. The meetings were planned to motivate students improve their academic performance in high schools.



Mentoring of students happening in the University Senior Common Room

b. Career Week

Karatina University hosted its 6th Annual Career Week and its 2nd annual 4th Year Mentorship forum with the 2019 theme Career Week dubbed “*Equipping the 21st Century Graduate: Promoting Innovation and Professional Career*”. During the forum, a number of activities took place.



Participants of the 6th Annual Career Week

High School students were taken through the process of career choice and insights on the available learning opportunities. Mentorship seminar addressed various aspects such as how a student can build their personal brands and adapt to the dynamic 21st Century job market; Importance of developing Interpersonal Skills and Etiquette; Career progression and development in the 21st century, emphasizing on the dynamism of careers in the age of technology; Developing a mind-set for a purpose-driven career; How to prepare for an interview; and Why entrepreneurship and self-employment are important.

2. Environmental Issues

The University has an Environmental Policy that provide a framework for:

- a) Reducing negative environmental impacts such as energy or water consumption, waste production or impacts on natural systems
- b) Create a healthier, safer workplace
- c) Reduce costs, thereby improving financial bottom line
- d) Enhancing our image in the community and influencing key stakeholders to improve their environmental performance
- e) making sustainability a driving principle or value
- f) Developing leadership in the environmental management
- g) Interpreting and implementing of the national environmental policy
- h) Ensuring requisite environmental safeguards in development:

- i) Waste management and Pollution control:
- j) Mitigating against climate change:
- k) Promoting public participation, environmental education and awareness:
- l) Data and information management
- m) Strengthening enforcement of environmental laws and implementation of environmental policies
- n) Promote adoption of integrated and ecosystem approaches to the management of natural resources

The University has taken lead in proposition and advocacy of a sustainable and environmentally friendly society. The University is therefore increasingly proactive on green issues taking advantage of its ideal location with natural laboratories as well as endowment with rich agricultural soils being at the foothill of the snow-capped Mount Kenya. Some of the projects and research areas that are driving the University Green forte are flagged within the School of Agriculture and Natural Resources. Some of key activities are establishment of a botanical garden and setting up of a micro tea cottage among others projects. The University has been involved in a number of environmental conservation activities.

Key Successes

1. Environmental conservation awareness programme to the community which has embraced “adopt a tree programme”
2. Tree nursery
3. establishment of a botanical garden
4. Reduced electricity bill in the University after no cooking in the hostels directive
5. Establishment of Centres for Mountain Studies and Community Outreach

Shortcomings

Limited financial resources required to undertake the environmental sustainability projects

Other related activities that the University engaged in include: -

a) Participation in Environmental Education and Awareness Activities

Karatina University in collaboration with Rufford Foundation (UK), has established 36 Environmental Clubs in primary schools in Nyeri County; such as Kieni East, Kieni West, Othaya, Tetu, Mukurueni and Mathira East. The Project has also focused on rehabilitating the environmentally degraded parts of Nyeri County such as Muringato Forest Station and Tanyai Forest in Kieni West.



The Vice Chancellor spearheading tree planting exercise in Nyeri County

Students' clubs have also been supported in different activities such as The Red Cross Society of Clean-up of Karatina Town, Nature Club Clean-ups and tree planting at Othaya Girls, The Bright Future Club Visits to Karatina Children Home for donation of foodstuff and Clean-up of the Home.

b) University's Effort to manage Biodiversity

One major project is establishment of a botanical garden, located on a 5 hectare (12.5 acres) piece of land (0.4800° S, 37.1250° E) within the University compound. There are diverse microhabitats which includes; open grassland, wooded grass land, forest, wetland vegetation, spring and a dam. Within these habitats, there are a variety of grass species, natural forest tree species, macrophytes species, bird's species, and aquatic and terrestrial animals. The garden is being established with the following objectives: to provide an outdoor laboratory for students of natural resources, both terrestrial and aquatic environments, ecology and wildlife studies; To act as a research and conservation centre for diverse species of flora and fauna; to create awareness among the local community and other visitors on matters related to natural resources conservation and management; serve as a recreational centre/sport fishing site for the students, local community, and national and international visitors. So far the following developments have been/ being made towards establishment of botanical garden: Water reservoir site; Home of diverse birds and aquatic community Nature Trails leading to different sites; Cascaded open platform: Picnic/training/team building site Ethno-botanical site; Planting of medicinal trees/ shrubs/plants; Open grassland picnic site/training/team building site and tree nursery.

c) Waste Management

Waste management in the University is guided by the Environmental Sustainability Policy. Some of the efforts engaged in during the year to reduce environmental impact from University services and product included; use of e-documents in meetings; outlined cost cutting measures on use of stationery and separation of waste through use of easily accessible waste bins that are well labelled

Lastly, Climate Change has been an area of focus in the University. Some the initiatives made to address this phenomenon are:

- i) Presence of the School of Agriculture and Natural Resources
- ii) Development of common courses in Climate change within the Centre for Mountain Studies
- iii) Including it as a research area for Post graduate students

3. Health Issues

a) Medical Camps

The University in collaboration with the family of the Late Nyeri County Governor - Hon Nderitu Gachagua and other stakeholders, held a Medical Camp at Railways Ground Karatina Town in commemoration of the late Governor's contributions to the development agenda of the entire County and Kenya at large. The Governor succumbed to the deadly cancer scourge and in purpose to sensitize the residents of Nyeri County on the effects of the disease. Members of the public, estimated to be over 5000, attended the function to receive diverse medical care including screening for cancer, blood pressure, blood sugar, BMI, eye check- ups and other general medical examinations.

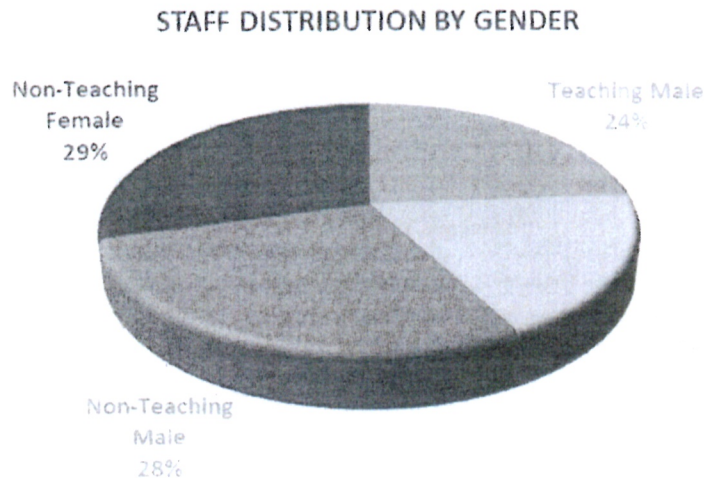


Free medical checkup being offered to the community

4. Staff Welfare

Karatina University staff population was four hundred and six (406) as at 30th June, 2019. This consisted of one hundred and seventy-two (172) academic staff comprising of ninety-seven (97) males and seventy-five (75) females making up 42.36% of the staff population.

The administrative and support staff were two hundred and thirty-four (234) comprising of one hundred and fifteen (115) males and one hundred and nineteen (119) females making 50.85% of staff.



During the FY, twelve members of the teaching staff who graduated with PhDs were reviewed and were promoted to the position of Lecturers. Three members who earned their master's degrees were designated as Tutorial Fellows. Following the restructuring of Departments, expiry of tenure of some staff and the consequent appointment of new Coordinators, HoDs and Directors, an induction workshop was held on 18th January, 2019 to induct the newly appointed Coordinators, HoDs and Directors and to re-fresh the continuing Heads of their expected duties and responsibilities, Financial Planning and Administration Aspects, Examination procedures, Interpersonal relations and complaint management and Operational procedures in Procurement, Finance and Audit Department. The induction was attended by 34 invited Coordinators, HoDs and Directors.

In commitment to promote employee well-being at the workplace, the University has a Work Environment, Health and Safety policy which outlines guidelines and standards for the prevention and protection of University staff against accidents and occupational hazards arising at the work place. Further, the University has three Unions: Academic Staff (UASU); Administrative staff (KUSU) and for ancillary staff (KUDHEIHIA) whose roles are to look after the interests of their members. During the reporting period the Unions have been negotiating 2013-2017 internal Collective Bargaining Agreements with an aim of improving staff welfare.



The Deputy Vice chancellor (P, F&A) with UASU officials during CBA negotiations

5. Market Place Practices

The University has Marketing Policy with an objective to enhance the visibility of the University and its programmes and as well as positioning KarU as a university of choice. The specific objectives of the policy are to:

- i) Enhance the university's reputation through linkages and partnerships.
- ii) Promote Karatina University brand by offering unique student-focused market-driven programs.
- iii) Increase demand of Karatina University's programs by 15 percent yearly.
- iv) Increase the numbers of privately sponsored students both locally and internationally.
- v) Increase the University's financial base
- vi) Enhance public private partnerships through event sponsorship.
- vii) Enhance the social economic contribution locally and regionally through corporate Social Responsibility programmes.

IX. REPORT OF THE COUNCIL MEMBERS

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

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

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

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

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

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

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

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

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

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

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

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

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

Principal Activities

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

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

Results

The results of the University for the year ending 30th June 2019 are set out on page 1

Council Members

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

Auditors

The Auditor General is responsible for the statutory audit of the University in accordance with Article 229 of the Constitution of Kenya and Public Audit Act (2015). The Auditor General is empowered to nominate other auditors to carry out the audit on his behalf.

Kenya National Audit Office staff were nominated by the Auditor General to carry out the audit of the University for the period ending 30th June, 2019.



Prof. Mucai Muchiri
Council Secretary/ Vice Chancellor

Date:

X. STATEMENT OF COUNCIL MEMBERS' RESPONSIBILITIES

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

Council is responsible for the preparation and presentation of financial statements, which give a true and fair view of the state of affairs of the University as at the end of the financial period ended on 30th June, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that they are effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy the financial position of the University; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the University's assets; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable.

The Council accepts the responsibility for the Annual Report and Financial Statements, which have been prepared using appropriate accounting policies and supported by prudent judgments and estimates, in conformity with International Public Sector Accounting Standard (IPSAS) and requirements of the PFM Act (2012) and State Corporations Act (2012). The Council is of the opinion that the financial statements give a true and fair view of the state of financial affairs of the University as at 30th June, 2019 and the University's financial position. Council further confirms the completeness of the accounting records maintained for the University, which have been relied upon in the preparation of the University's financial statements as well as the adequacy of the internal financial control systems. University Council is optimistic that the University will remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

Karatina University annual financial statements have been prepared in accordance with Section 83 of the PFM Act 2012 and were approved by the Council on 23rd August, 2019 and signed on its behalf by:



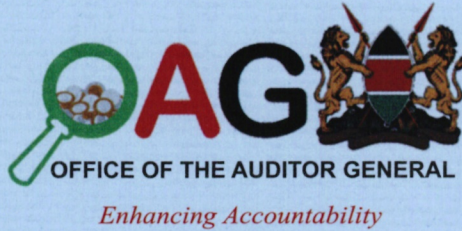
Prof. Mucai Muchiri, PhD
Vice Chancellor



Prof. John Kobia Ataya, PhD
Chairman of Council

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KARATINA UNIVERSITY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Karatina University set out on pages 1 to 32, which comprise the statement of financial position at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Karatina University as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Universities Act, 2012 and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Karatina University Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

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 the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section 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. Irregular Expenditure on Telephone Allowance

Included in employment expenses of Kshs.708,469,791 is an expenditure of Kshs.602,742 relating to telephone allowance arrears paid to a senior management officer for the period between August, 2011 and July, 2013. According to the University's policy governing benefits to senior management team, telephone benefit is a reimbursable expense and not a remunerative allowance. The expenditure of Kshs.602,742 was, therefore, irregularly incurred.

2. Non-Compliance with Ethnic Diversity

During the financial year ended 30 June, 2019, the University had a total staff of 411 out of which 259 (or 63%) were from one dominant ethnic community contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community.

3. Loss Due to Breach of Bond Agreement

Available records indicate that an assistant lecturer was sponsored by the University in 2014 to pursue a PhD in Veterinary Medicine at Yangzhou University in China for three (3) years and ten (10) months with effect from 1 September, 2014 to 31 July, 2018. The course and financial support were approved by the University at a cost of Kshs.5,662,798 on condition that the lecturer be bonded to the service of the University for a period equivalent to the duration of the course (3 years, 10 months) on completion of the course in line with the Government policy on sponsored trainings. The bond terms stipulated that he shall pay back the total amount incurred on him should he abscond.

Examination of personal file and other records revealed that the lecturer returned from study leave and took up a position at Kilifi County Government, despite being bonded for service at the University after completion of studies. As a result of the lecturer absconding duty, the University is at risk of losing Kshs.5,662,798 being bonded principal sum.

Although, the University management demanded for payment from the former lecturer on 20 August, 2019, the amount remain outstanding as at the time of the audit in September, 2019.

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 complying, 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 EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, 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.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. 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 overall 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 sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the University or to cease operations.

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 non-compliance. 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 University's 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 applicable 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 sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the University to cease sustaining its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the University to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

08 February, 2021

XI. STATEMENT OF FINANCIAL PERFORMANCE

KARATINA UNIVERSITY			
STATEMENT OF FINANCIAL PERFORMANCE			
FOR THE PERIOD ENDING 30TH JUNE 2019			
INCOME	Notes	2018/2019	2017/2018
		Kshs.	Kshs.
Revenue from Non Exchange Transaction			
Government Grants	4	705,924,892	904,761,152
Amortization of Granted Assets	5	8,195,237	5,735,867
Donations	6	697,800	646,500
		714,817,929	911,143,519
Revenue from Exchange Transaction			
Tuition and Related Charges	7	300,354,156	255,165,783
I.G.A and Other Incomes	8	25,146,261	22,745,850
		325,500,417	277,911,632
Total Income		1,040,318,346	1,189,055,152
EXPENDITURE			
Administration Expenses	9	151,901,104	159,897,809
Employment Expenses	10	708,469,791	813,726,296
Academic Expenses	11	129,462,693	145,717,434
Repairs and maintenance	12	7,659,346	9,249,667
Board Expenses	13	9,944,073	14,216,298
Finance Expenses	14	619,270	622,035
Depreciation and amortization expense	15	40,303,097	36,119,499
Total Expenditure		1,048,359,375	1,179,549,038
Surplus /(Deficit)		(8,041,029)	9,506,114


The statement of financial performance is to be read in conjunction with notes to and forming part of financial statements set out on pages 19 to 28.

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CPA Grace Kakiya (M/No. 7315)
Deputy Finance Officer



Prof. Mucai Muchiri, PhD
Vice Chancellor



Prof. John Kobia Ataya, PhD
Chairman of Council

XII. STATEMENT OF FINANCIAL POSITION

KARATINA UNIVERSITY			
STATEMENT OF FINANCIAL POSITION			
AS AT 30TH JUNE 2019			
	Notes	2018/2019	2017/2018
		Kshs.	Kshs.
Current Assets			
Cash & Bank Balances	16	159,083,970	61,701,572
Prepayments	17	5,855,431	5,036,130
Receivable from exchange transaction- Restated	18	91,219,211	89,405,189
Receivable from non-exchange transaction	19	68,038,421	-
Inventories	20	10,723,990	9,343,121
Total Current Assets		334,921,023	165,486,011
Non-Current Asset			
Biological Assets	21	4,432,884	4,777,156
Property, Plant & Equipment	22	932,080,724	937,294,260
Intangible Assets- Computer software	23	2,570,964	3,082,633
Capital Work in Progress	24	1,134,463,003	963,743,667
Total Non-Current Assets		2,073,547,575	1,908,897,716
Total Assets		2,408,468,598	2,074,383,728
Current Liabilities			
Trade & Other Payables - Restated	25	274,769,929	207,417,277
Current Deferred Income	5b	8,195,237	5,735,867
Provisions	26	16,167,521	4,240,613
Total Current Liabilities		299,132,687	217,393,757
Non-Current Liabilities			
Deferred Income – Grant	5b	129,863,369	124,452,938
Total Non-Current Liabilities		129,863,369	124,452,938
Capital Funds			
Accumulated Capital Fund	27	1,445,224,082	1,177,786,095
Revenue Reserve	28	(27,568,464)	(22,526,466)
Revaluation Reserve	29	561,816,923	577,277,404
Total Capital Fund		1,979,472,542	1,732,537,033
Total Funds & Liabilities		2,408,468,598	2,074,383,728

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



Prof. Mucai Muchiri, PhD
Vice Chancellor



Prof. John Kobia Ataya, PhD
Chairman of Council

The statement of financial position is to be read in conjunction with notes to and forming part of financial statements set out on pages 19 to 28.

XIII. STATEMENT OF CHANGES IN NET ASSETS

KARATINA UNIVERSITY					
STATEMENT OF CHANGES IN NET ASSET					
AS AT 30TH JUNE 2019					
		Accumulated Capital Fund	Revenue Reserve	Revaluation Reserve	Total
		Kshs.	Kshs.	Kshs.	Kshs.
Balance as at 30/6/17		1,148,824,637	42,680,242	-	1,191,504,879
Surplus/Deficit for the period		-	9,506,114		9,506,114
Valuation of Assets- PPE	21	-	-	581,160,824	581,160,824
Transfer of amortized revalued PPE			3,883,420	(3,883,420)	-
Valuation of Biological Assets		-	67,900		67,900
Prior year adjustment of student balances		-	(2,790,537)		(2,790,537)
Prior year adjustment of Depreciation -Library books			(65,777)		
Prior year adjustment of creditors			219,215		219,215
Capital Grants		28,961,458			28,961,458
Prior year adjustment on Work in Progress			(803,043)		(803,043)
Prior year adjustment on Part timers			(69,376,676)		(69,376,676)
Prepayments			(7,423,763)		(7,423,763)
Contractors' Balance			1,576,439		1,576,439
Balance as at 30/06/18		1,177,786,095	(22,526,466)	577,277,404	1,732,602,810
Surplus/Deficit for the period		-	(8,041,029)		(8,041,029)
Transfer of amortized revalued PPE			15,460,481	(15,460,481)	-
Prior year adjustment of student balances		-	(12,019,988)		(12,019,988)
Prior year adjustment on telephone allowance			(602,742)		
Valuation of Biological Assets		-	161,280		161,280
Capital Grants		267,437,987			267,437,987
Balance as at 30/06/19		1,445,224,082	(27,568,464)	561,816,923	1,980,141,060

Notes

1. Prior year adjustments on student balances relates to overstatement of tuition income for the financial year 2017/2018. This was caused by deferments of registered students not recognized in the respective student's statements at the close 2017/18 FY. This led to restatement of the opening balance in respect to receivables from exchange transaction to Kshs 86,505,725.50
2. Prior year adjustment on trade creditors relates to understatement of creditors during the last financial year who were recognized at start of the year. This has led to restating of Trade & Other Payables figure at the close 2017/18 FY appearing in the statement of financial position.
3. The statement of reserves has recognized part-time expenses that relates to previous periods i.e. 2012-2013 to 2015-2016 which were claimed during this financial year. The expenditures ought to have been recognized in the FYs when they occurred.

XIV. STATEMENT OF CASH FLOWS

KARATINA UNIVERSITY			
STATEMENT OF CASHFLOWS			
AS AT 30TH JUNE 2019			
	Notes	2018/2019	2017/2018
		Kshs.	
Cash flow from Operating activities			
Surplus		(8,041,029)	9,506,114
Adjustment For			
Depreciation & Amortization	14	40,303,097	36,119,499
Loss of Biological Asset	8	505,552	1,065,480
Amortization of Granted Assets	4	(8,195,237)	(5,735,867)
Prior year adjustment of creditors		-	(4,276,975)
Overstated student Income		(12,019,988)	(2,790,537)
Prior Year Adjustment on telephone allowance		(602,742)	
Valuation loss-evaluation of intangible asset			698,272
Prior year Adjustment on Part timers			(69,376,676)
Prior year Adjustment on Prepayments			(7,423,763)
Contractors' Balance			1,576,439
Contractors' Retention Fees			3,565,656
		11,949,653	(37,072,358)
Operating Activities			
Change in:-			
Inventories	20	(1,380,869)	(2,012,369)
Receivable from exchange transaction	18	(1,814,023)	8,909,911
Receivable from non-exchange transaction	19	(68,038,421)	5,000,000
Prepayments	17	(819,301)	3,267,537
Accounts Payable	25	67,352,651	70,868,122
Provisions	26	11,926,908	4,240,613
Current Deferred Income	5b		1,824,620
Cash From Operating Activities		7,226,944	92,098,434
Net Cash from Operating Activities		19,176,597	55,026,076
Investing Activities			
Property, Plant & Equipment	22	(34,005,039)	(38,887,939)
Capital Work-in-Progress	24	(170,719,337)	(38,671,619)
Intangible Assets- Computer software	23	(572,850)	1,332,574
Granted asset- Library Books	22	16,065,039	17,198,358
Net cash from investing activities		(189,232,186)	(59,028,626)
Financing Activities			
Capital Reserve		267,437,987	28,961,458
Net cash flow from financing activities		267,437,987	28,961,458
Net increase/(Decrease) In Cash & Cash Equivalents		97,382,398	24,958,906
Cash & Cash Equivalent at Start of Year	16	61,701,572	36,742,666
Cash & Cash Equivalent at End of the Period	16	159,083,970	61,701,572
Analysis of Cash & Cash Equivalents			
Cash & Bank Balances		159,083,970	61,701,572

The statement of financial position is to be read in conjunction with notes to and forming part of financial statements set out on pages 19 to 28.

XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

KARATINA UNIVERSITY							
STATEMENT OF BUDGET VS ACTUAL AMOUNTS AS AT 30TH JUNE 2019 (KSHS)							
S/No	DESCRIPTION	Original Budget	Adjustments	Final Budget	Actual on comparable basis	Performance Difference	Explanation of material variances
		2018/2019 Kshs.	2018/2019 Kshs.	2018/2019 Kshs.	2018/2019 Kshs.	Kshs. %	
	INCOME						
1	Exchequer grants	650,904,561	55,020,330	705,924,891	705,924,892	1	a
2	Tuition fees and related charges	262,000,000		262,000,000	300,354,156	38,354,156	15
3	Catering Services	15,356,880		15,356,880	12,417,780	(2,939,100)	-19
4	Research and Consultancies Income	50,000,000		50,000,000	7,026,942	(42,973,058)	-86
5	Farm Income	1,200,000		1,200,000	3,164,087	1,964,087	164
6	Other income	5,000,000		5,000,000	3,235,252	(1,764,748)	-35
7	GOK Capital Grants	300,142,853		300,142,853	267,437,987	(32,704,866)	-11
		1,284,604,294	55,020,330	1,339,624,624	1,299,561,096	(40,063,529)	
	EXPENDITURE						
	Personnel Emoluments						
1	Personnel Emoluments	681,975,565	(28,200,000)	653,775,565	652,474,686	1,300,879	-
2	Casual Wages	18,000,000	2,200,000	20,200,000	19,890,727	309,273	2
3	Gratuity	24,800,000	-	24,800,000	29,833,439	(5,033,439)	-20
	TOTAL P.E	724,775,565	(26,000,000)	698,775,565	702,198,852	(3,423,287)	
	Board Expenses						
4	Council expenses	10,000,000		10,000,000	9,944,073	55,927	1
		10,000,000	-	10,000,000	9,944,073	55,927	
	Operating/ Administrative Expenses						
5	Stationery	3,330,250		3,330,250	3,297,064	33,186	1
6	Vehicle Repairs & maintenance	3,000,000	900,000	3,900,000	3,850,015	49,985	1
7	Generator fuel & Maintenance	1,375,000	2,500,000	3,875,000	3,909,184	(34,184)	-1
8	Fuel – Vehicles	5,000,000	1,200,000	6,200,000	6,243,875	(43,875)	-1
9	Office expenses and entertainment	2,004,000	(950,000)	1,054,000	1,055,519	(1,519)	-
10	Postal expenses	100,000	60,000	160,000	160,480	(480)	-
11	Publishing & printing	1,000,000	900,000	1,900,000	1,906,300	(6,300)	-
12	Computer expenses & Maintenance	550,000	(90,000)	460,000	455,853	4,147	1
13	ISO training & Implementation	2,500,000	(1,800,000)	700,000	687,250	12,750	2
14	Shows & Exhibition expenses	1,000,000	(400,000)	600,000	612,668	(12,668)	-2
15	Performance Contracting	962,500	(600,000)	362,500	349,928	12,572	3
16	Legal expenses	412,500	(400,000)	12,500	706,350	(693,850)	-5551
17	Strategic Plan Implementation & Monitoring & Review	275,000	(200,000)	75,000	-	75,000	100

DESCRIPTION	Original Budget	Adjustments	Final Budget	Actual on comparable basis	Performance Difference	Explanation of material variances
	2018/2019 Kshs.	2018/2019 Kshs.	2018/2019 Kshs.	2018/2019 Kshs.	Kshs. %	
EXPENDITURE						
8 Subscription to Professional Bodies	775,000		775,000	704,110	70,890	9
9 Professional Services	1,456,626		1,456,626	1,365,022	91,604	6
0 Newspaper & journals	1,710,000	(600,000)	1,110,000	1,072,155	37,845	3
1 Cleaning/sanitary materials	1,100,000	800,000	1,900,000	1,828,448	71,552	4
2 Telephone expenses	2,928,000	(150,000)	2,778,000	2,734,500	43,500	2
3 Insurance Expenses	2,800,000	3,800,000	6,600,000	6,554,738	45,262	1
4 Open Day & cultural celebration	275,000	(110,000)	165,000	156,735	8,265	5
5 Public celebrations & funerals	550,000	(200,000)	350,000	337,887	12,113	3
6 Staff Training expenses	825,000	200,000	1,025,000	977,064	47,936	5
7 Security services	8,939,520		8,939,520	9,066,300	(126,780)	-1
8 Water & Sewerage Expenses	5,000,000	2,000,000	7,000,000	7,137,162	(137,162)	-2
9 Electricity Expenses	7,000,000	3,650,000	10,650,000	10,638,321	11,679	-
0 Rent & Rates	23,571,216	1,200,000	24,771,216	24,760,575	10,641	-
1 Uniforms	412,500	(220,000)	192,500	191,844	656	-
2 Medical expenses	18,000,000	(2,300,000)	15,700,000	15,695,715	4,285	-
3 Advertising & publicity	3,000,000	(300,000)	2,700,000	2,655,129	44,871	2
4 Internet services	19,700,000	(450,000)	19,250,000	19,238,969	11,031	-
5 Farm expenses	660,000	150,000	810,000	821,415	(11,415)	-1
6 Catering expenses	14,000,000		14,000,000	14,060,436	(60,436)	-
7 Audit fees	750,000	650,000	1,400,000	1,392,000	8,000	1
8 Travelling & Accommodation	2,466,750	1,850,000	4,316,750	4,314,152	2,598	-
9 External travelling	1,000,000	750,000	1,750,000	1,745,418	4,582	-
0 Resource Mobilization	2,786,435	(2,200,000)	586,435	578,634	7,801	1
1 Pension Scheme Administration	1,400,000	(1,000,000)	400,000	86,414	313,586	78
	142,615,297	8,640,000	151,255,297	151,347,628	(92,331)	
Academic expenses						
2 students activities	1,650,000	300,000	1,950,000	1,912,003	37,997	2
3 Curriculum development/review	1,000,000	(850,000)	150,000	129,674	20,326	14
4 External examiners	2,500,000	1,400,000	3,900,000	3,867,765	32,235	1
5 Graduation Expenses	5,000,000	800,000	5,800,000	5,812,340	(12,340)	-
6 Industrial Attachment/ Teaching Practice	8,500,000	1,800,000	10,300,000	10,334,717	(34,717)	-
7 Games & Sports	1,058,750	200,000	1,258,750	1,198,584	60,166	5
8 Library Subscription	2,200,000	(1,100,000)	1,100,000	1,083,489	16,511	2
9 Dean & senate committees	247,500		247,500	201,810	45,690	18
0 University Committees	962,500	2,200,000	3,162,500	3,147,002	15,499	-

S/No	DESCRIPTION	Original Budget	Adjustments	Final Budget	Actual on comparable basis	Performance Difference	Explanation of material variances
		2018/2019 Kshs.	2018/2019 Kshs.	2018/2019 Kshs.	2018/2019 Kshs.	Kshs. %	
	EXPENDITURE						
51	Teaching materials	3,000,000	(2,300,000)	700,000	691,439	8,561	1
52	Field trip	8,000,000	2,400,000	10,400,000	10,350,141	49,859	-
53	Research expenses	9,000,000		9,000,000	9,104,782	(104,782)	-1
54	Botanical garden	200,000	(30,000)	170,000	166,740	3,260	2
55	PSSP Disbursement	28,000,000	44,000,000	72,000,000	71,915,586	84,414	-
56	Examination materials	2,548,250	(1,300,000)	1,248,250	1,189,990	58,260	5
57	Seminars & Conferences	1,000,000	(100,000)	900,000	868,796	31,204	3
58	Annual International Conference	1,000,000		1,000,000	1,000,000	-	-
59	Placement Board charges	1,650,000	500,000	2,150,000	2,185,350	(35,350)	-2
60	Accreditation for Programmes	1,000,000		1,000,000	960,000	40,000	4
61	Nursing Skills lab	1,650,000	(900,000)	750,000	727,600	22,400	3
62	Tea Institute expense	1,000,000	(500,000)	500,000	466,354	33,647	7
63	Counselling services	200,000	(110,000)	90,000	89,898	102	-
64	CUE Student Accreditation fee	2,200,000	(900,000)	1,300,000	1,252,000	48,000	4
65	Community Engagement	500,000	(270,000)	230,000	227,685	2,315	1
		84,067,000	45,240,000	129,307,000	128,883,743	423,257	-
	Repairs and Maintenance						
66	General Refurbishment	3,000,000	1,350,000	4,350,000	4,359,105	(9,105)	-
67	Maintenance of building	1,000,000	850,000	1,850,000	1,845,145	4,855	-
68	Maintenance of plant & Equipment	275,000	-	275,000	279,494	(4,494)	-2
69	Maintenance of play grounds	1,000,000	(980,000)	20,000	12,165	7,835	39
70	Maintenance of Catering equipment	137,500	(60,000)	77,500	72,400	5,100	7
71	Maintenance of Hostel equipment	137,500	(137,500)	-	-	-	-
72	Water supply equipment	200,000	900,000	1,100,000	1,091,037	8,963	1
		5,750,000	1,922,500	7,672,500	7,659,346	13,154	
	Total	967,207,862	29,802,500	997,010,362	1,000,033,643	(3,023,281)	
	Purchases						
73	Installation of Solar Panels	1,500,000	(1,500,000)	-	-	-	-
74	Purchase of computer	1,000,000	1,500,000	2,500,000	2,498,293	1,707	-
75	Purchase of library books	4,400,000	3,500,000	7,900,000	7,826,670	73,330	1
76	Purchase of Motor Vehicle-Ambulance			-	-	-	-
77	Purchase of plant & equipment	1,500,000	3,000,000	4,500,000	4,342,650	157,350	3
78	Purchase of Furniture	1,893,579	(850,000)	1,043,579	1,042,455	1,124	-
79	Purchase of Medical equipment	247,500		247,500	236,000	11,500	5
80	Purchase of Sports Equipment	412,500	200,000	612,500	578,950	33,550	5

DESCRIPTION	Original Budget	Adjustments	Final Budget	Actual on comparable basis	Performance Difference		Explanation of material variances
	2018/2019 Kshs.	2018/2019 Kshs.	2018/2019 Kshs.	2018/2019 Kshs.	Kshs.	%	
EXPENDITURE							
Purchase of lab equipment	3,000,000		3,000,000	1,993,935	1,006,065	34	l
ICT infrastructure -soft ware	3,300,000	(2,700,000)	600,000	572,850	27,150	5	
	17,253,579	3,150,000	20,403,579	19,091,803	1,311,776		
Development							
Loan & Interest repayment	-						
Work in progress	300,142,853	-	300,142,853	267,437,987	32,704,866	11	
	300,142,853	-	300,142,853	267,437,987	32,704,866		
Pending bills from previous period		22,067,830	22,067,830		22,067,830		
Total	1,284,604,294	55,020,330	1,339,624,624	1,286,563,433	53,061,191		
Surplus	-	-	-	12,997,663			m

a) Changes between the original and final budget

There is a change between original and final budget which was occasioned by reduction of University's recurrent budget by Kshs 13,018,091 during the second quarter. However, during fourth quarter, the University was allocated supplementary budget of Kshs 68,038,421 which will be received in July 2019.

b) Tuition Fees and related Charges

There was favorable variance of Kshs. 38M for tuition fees and related charges during the reporting period 2018/19. This is as a result of improved collection method; however, part of the billed amounts is yet to be collected.

c) Catering Services

During the reporting period, incomes from catering services had unfavorable variance of Kshs. 2.9M. This was occasioned by the subsidized rate of food offered to the students against the high cost of food items.

d) Research and Consultancies Income

Members of staff wrote several proposals for research and consultancies which attracted minimal funding from various sponsors during the period. The University did not receive the anticipated funding in the fourth quarter. In addition, research monies amounting to Kshs. 8,809,107 were unexpended by the end of the period thus it was treated as a liability in the statement of financial position.

e) Farm income

The favourable income of Kshs. 1.7M was as a result of increase in the payment rate for tea bonus of the previous year. In addition, favourable weather conditions during the period led to increase in production of tea.

f) Other income

Other incomes during the period had unfavourable variance of Kshs 1.7M. This was occasioned by not holding conferences that generate funds during the period.

g) Capital funds

The University's budget for capital development was Kshs. 300M. However, we received Kshs. 267M by the end of FY from the government resulting to unfavourable variance of Kshs 32M.

h) Legal expenses

The University was represented by external lawyers while handling legal suits during the period, thus resulting to unfavorable variance.

i) Pension scheme

The University started process of establishing its pension scheme during the FY. The process was of actuarial valuation is complete. However, the relevant reports had not been submitted at the end of the FY, Therefore, expenses will be recognized once the task is complete and invoices presented for payment.

j) Curriculum review, Senate and Deans expenses

The vote for curriculum review has a favorable variance because the University has focused on programmes that need accreditation by CUE before reviewing the already accredited programs. This resulted to few Senate and Deans meetings than had been projected during the FY.

k) Maintenance of playgrounds

During the period, there were few instances where the playgrounds required repairs and maintenance activities resulting to a favorable variance.

l) Purchase of Laboratory equipment

The University had made commitments of the purchase of assets but by the end of financial period the process was not complete. This will be realized when the procurement process is complete.

m) Budget Surplus

The overall budget surplus reported in the statement of comparison of budget vs actuals is a result of supplementary allocation in the month of June 2019. The amounts will be used to pay the pending bills at the end of the year.

XVI. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 30TH JUNE 2019

1. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) and do comply with the said standards. The University adopted IPSAS in the year 2014 following the gazettement of Public Sector Accounting Standard Board (PSASB), which was established under the Public Finance Management (PFM) Act No. 18 of 24th July 2012. PSASB, issued financial reporting standards and guidelines to be adopted by all state organs and public entities, of which the University complies. The financial statements are prepared on accrual basis and presented in Kenya shillings, which is the functional and reporting currency of the University and all values are rounded to the nearest whole number. The accounting policies have been consistently applied to all the years presented.

In addition, the financial statements have been prepared on a historical cost basis except for property, plant and equipment measured at re-valued amounts, financial instruments at fair value and impaired assets at their estimated recoverable amounts. The cash flow statement is prepared using the indirect method.

2. ADOPTION OF NEW AND REVISED STANDARDS

a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

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.

NB/ This standard will not be applicable to the University's operations

b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	Applicable: 1st January 2022: The standard establishes principles for financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This standard will the University to apply a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and indicate the objective for which the asset is held.

NB/ This standard will be applicable to the University's operations in 2022

Standard	Effective date and impact:
IPSAS 42: Social Benefits	Applicable: 1st January 2022 The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. Where social benefits are cash transfers paid to specific individual to mitigate the effect of social risk.

NB/ This standard will not be applicable to the University's operations

c) Early adoption of standards

The University did not early – adopt any new or amended standards in the year 2018

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i) Revenue from non-exchange transactions

Government grants

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

Donations

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

Deferred income

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

ii) Revenue from exchange transactions – IPSAS 9

Rendering of services

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

b) Budget information – IPSAS 24

The original budget for FY 2018-2019 was approved by the University Council in July 2018. Subsequent revisions or additional appropriations were made to the approved budget in accordance with approvals from Council. The additional appropriations are added to the

original budget by the University upon receiving approval of National Treasury in order to conclude the final budget. Accordingly, the entity recorded additional appropriations of Kshs 55M on the 2018-2019 budget.

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

c) Property, Plant and Equipment - IPSAS 17

Property, plant and equipment are stated at cost and subsequently shown at market value based on valuations by external independent valuer less subsequent depreciation and impairment losses. Increases in the carrying amounts arising on revaluation are credited to a revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve, all other decreases are charged to the statement of comprehensive income. University land is freehold property and not subjected to amortization. Depreciation on other property is charged so as to write off the value of the assets during their estimated useful life, using straight line method. Assets are subjected to a full year's depreciation except those acquired within the last three months of the year. The annual rates are:

Buildings	2.5%
Furniture, Plant and Equipment	12.5%
Library Books	12.5%
Motor Vehicles	25%
Computers and peripheral devices	30%

In the event of disposal of revalued assets, any revaluation surplus will be transferred directly to retained earnings.

c) Leases

Leases are categorized into finance leases and operating leases. The University has operating leases in respect to rented premises. Under operating leases the lessor effectively retains the risks and rewards of ownership. Obligations incurred under operating leases are charged against income in equal installments over the period of the lease.

d) Intangible assets – IPSAS 31

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

e) Work in progress

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

f) Inventories –IPSAS 12

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

g) Biological assets

Biological assets are measured on initial recognition at balance sheet date at its fair value less estimated point of sale costs as per IPSAS (27). A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in surplus or deficit for the period in which it arises. Biological assets for the University comprises of tea bushes and cows refer to note 21 for details.

h) Receivables

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

i) Cash and cash equivalents

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

j) Retirement benefits obligations (IPSAS 25)

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

The University also contributes to the statutory National Social Security Fund (N.S.S.F.). This is a defined contribution scheme registered under N.S.S.F. Act. The University's obligations under this scheme are limited to specific contributions legislated from time to time and currently limited to a maximum of Kshs 200.00 per employee per month, while the employer contributes Kshs 200.00 per month. The University's obligation to staff retirement benefit schemes are charged to income statement in the year to which they relate.

k) Changes in accounting policies and estimates – IPSAS 3

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

l) Related Party Disclosures – IPSAS 20

The University regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the University, or vice versa. The National Government, Members of Council and Members of Management are regarded as related parties in preparation of these financial statements.

Related party transactions during the year as tabulated below:

Related party transactions		Kshs
Members of Council	Note 12 - Board expenses	9,944,073
Members of Management	Note 9 - incorporated in the employment expenses	75,475,358
National Government	Note 3 - Recurrent grants	705,924,891
	Note 25 – Capital grants	267,437,987
TOTAL		1,058,782,309

m) Comparative figures

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

n) Provisions – IPSAS 19

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the managements best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to the present value where the effect is material. Where the University expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

3.2 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the University’s accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical

experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Impairment losses

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

Property and equipment

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

Useful lives and residual values

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

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

Contingent liabilities

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

Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2019.

3.3 FINANCIAL RISK MANAGEMENT

The University's activities expose the institution to a variety of financial risks including credit and liquidity risks, effects of changes in foreign currency and changes in market prices. The University's overall risk management programme focuses on unpredictability of changes in the

business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The University does not hedge any risks and has in place practices to ensure that credit is extended to students and customers with an established credit history.

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

(i) Credit risk

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

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

RECEIVABLES	Performing	Non-Performing	Total
At 30th June 2019	Kshs	Kshs	Kshs
KTDA Bonus Payment	1,368,286	-	1,368,286
Student Balances	88,901,927	-	88,901,927
Moi University	2,254,226	-	2,254,226
Total	92,524,439	-	92,524,439

(ii) Liquidity risk management

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

PAYABLES	Performing	Non-Performing	Total	Remarks
At 30th June 2019	Kshs	Kshs	Kshs	
Trade Creditors	35,242,514	-	35,242,514	Within one month
Part time Lecturers	123,400,414	-	123,400,414	Within one year
Contractors' Balance	30,002,408	-	30,002,408	Within one & half month
Contractors' Retention Fees	31,069,341	-	31,069,341	Within Contract period
Total	219,714,678	-	219,714,678	

The University has disclosed Kshs 123.4M being amounts owed to part-time lecturers who have claimed for payment. However, the University has an additional Kshs 52M owing to unclaimed PSSP part-time payments.

(iii) Market risk

Council has put in place an internal audit function to assist in assessing the risks faced by the University on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls. Market risks in respect to interest rates and foreign exchange rates will affect the University's income or value held by the financial instruments. There has been no change to the University's exposure to market risks or the manner in which it manages and measures the risk.

Foreign exchange risk

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

Interest rate risk

The University is exposed to interest rate risk arising from bank deposits. This exposes the institution to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on deposits. To manage the interest rate risk, the University management usually negotiates for favourable interest rates with the bank.

Sensitivity analysis

The University conducts its interest rate exposure by conducting a sensitivity analysis. Using the end year figure on fixed deposit in respect to bank guarantee for fuel of Kshs. 1,120,000.00, in case the current floating interest rates increase/ decrease by 1, interest income reported in the statement of comprehensive income will increase or decrease by Kshs 11,200. The net effect will either increase the deficit to Kshs. 8,052,229 or decrease to Kshs. 8,029,829.

	2018/2019	2017/2018
Note 4: Government Grants	Kshs.	Kshs.
July	-	134,826,900
July	54,242,047	58,395,173
August	54,242,047	58,395,173
September	54,242,046	58,395,173
October	54,242,047	58,395,173
November	50,987,524	87,225,246
December	50,987,524	64,161,187
January	53,157,206	64,161,187
February	53,157,206	64,161,188
March	49,902,682	64,161,188
April	54,242,047	64,161,188
May	54,242,047	64,161,188
June	54,242,047	64,161,188
June - Supplementary funds	68,038,421	-
	705,924,891	904,761,152
Note 5(a): Deferred Income- Granted Assets		2017/2018
	Kshs	Kshs
Deferred Income B/Forward	130,188,805	135,924,672
Additional Granted Assets	16,065,039	
Amortization of Granted Assets	(8,195,237)	(5,735,867)
Deferred Income C/Forward	138,058,606	130,188,805
Note 5(b): Deferred liability-Granted Assets	Kshs	Kshs
Current Deferred income	8,195,237	5,735,867
Long-term deferred income	129,863,369	124,452,938
	138,058,606	130,188,805

The deferred income of Kshs 138,058,606 has been divided into two; Current deferred income of Kshs 8,195,237 which relates to the current year's amortization on granted assets and long term deferred income of Kshs 129,863,369 is in respect to capitalization of granted assets

	2018/2019	2017/2018
Note 6: Donations	Kshs	Kshs
Needy & Vulnerable Student Fund	697,800	646,500
	697,800	646,500
Note 7: Tuition and Related Charges	Kshs	Kshs
Tuition & Accommodation GSSP	238,204,085	194,486,760
Tuition & Accommodation PSSP	61,958,071	60,465,023
Student Application Fees	192,000	214,000
	300,354,156	255,165,783

	2018/2019	2017/2018
Note 8: I.G.A and Other Incomes	Kshs	Kshs
Kitchen Food Sales	12,417,780	12,571,583
Tea Farm	2,862,316	1,366,524
Farm & Milk Sales	301,771	521,523
Laundry	715	10,045
Photocopier	407	20,698
Conference Facilities	378,000	848,380
Sale of Tender document	-	10,000
Hire of Facilities	792,911	281,257
Fines	329,757	94,429
Interest from deposits	63,135	-
Insurance & Deposit refund	865,650	608,751
Research funds	6,876,942	6,412,660
Consultancy & Survey works	150,000	-
Sale of Obsolete items	106,877	-
	25,146,261	22,745,850
EXPENDITURE		
Note 9: Administration expenses	Kshs	Kshs
Stationery	3,297,064	5,160,812
Motor vehicle repairs	3,850,015	2,942,886
Generator fuel	3,909,184	2,187,119
Motor vehicle Fuel	6,243,875	4,700,644
Office expenses	1,055,519	1,140,602
Postage	160,480	183,463
Printing and Publishing	1,906,300	1,624,157
Computer and accessories maintenance expenses	455,853	579,520
ISO	687,250	1,404,056
Shows and Exhibitions	612,668	745,192
Performance contracting	349,928	1,196,059
Legal expenses	706,350	100,775
Strategic Plan	-	859,236
Subscription to Professional Bodies	704,110	1,447,117
Professional Services	1,365,022	551,913
Newspapers and Journals	1,072,155	1,173,230
Cleaning materials	1,828,448	2,491,681
Telephone	2,734,500	2,579,470
Insurance	6,554,738	5,393,377
Open & Cultural Celebrations	156,735	209,796
Public celebrations and funerals	337,887	576,892
Training expenses	977,064	4,080,236
Security	9,066,300	7,840,880

	2018/2019	2017/2018
Note 9: Administration expenses- cont'd	Kshs	Kshs
Water & Sewer	7,137,162	8,524,762
Electricity	10,638,321	8,707,047
Rent & Rates	24,760,575	24,408,722
Staff Uniforms	191,844	133,344
Medical Expenses	15,695,715	19,227,871
Advertising	2,655,129	3,393,564
Internet Charges	19,238,969	19,577,595
Farm Expenses	821,415	1,223,632
Catering Expenses	14,060,436	12,912,013
Audit Fees Expense	1,392,000	696,000
Loss of Tea bushes	413,712	1,065,480
Loss on Disposal of assets-(cows)	91,840	-
Loss on revaluation- Intangible asset	-	698,272
Traveling & Accommodation	4,314,152	6,884,807
External Travel & Accommodation	1,745,418	1,545,473
Provisions for bad and doubtful debts	47,924	1,730,115
Resource Mobilization	578,634	-
Pension administration	86,414	-
	151,901,104	159,897,809
Note 10: Employment expenses	Kshs	Kshs
Payroll expenses	603,849,891	729,257,614
Pension Employer costs	48,624,795	63,344,520
Gratuity	29,833,439	-
Staff leave days provisions	6,270,939	3,544,613
Contract Staff expenses	19,890,727	17,579,549
	708,469,791	813,726,296
<p>Employment expense relates to short-term employee benefits recognized during the period in which the employee renders the related service. The provisions for employee for annual leave represent the amount which the University has obligation to pay as a result of employees' services provided for at the reporting date. The provision has been calculated at undiscounted amounts based on the current salary rates.</p>		
Note 11: Academic Expenses	Kshs	Kshs
Students Activities	1,912,003	4,092,730
Curriculum Development/Review	129,674	1,000,898
External Examiners	3,867,765	3,525,299
Graduation	5,812,340	5,707,601
Industrial Attachments/ Teaching Practice	10,334,717	9,500,562
Games & Sports	1,777,534	1,298,063
Subscription to E-library	1,083,489	1,378,824
Senate & Deans expenses	201,810	537,950
University Committees	3,147,002	3,390,341
Teaching materials	691,439	1,795,012

	2018/2019	2017/2018
Note 11: Academic expenses- cont'd	Kshs	Kshs
Field trips	10,350,141	9,734,601
Research Program	9,271,522	2,970,458
PSSP Disbursement	71,915,586	84,335,535
Examination material	1,189,990	2,193,541
Seminars & Conferences	868,796	2,267,723
Annual International Conference	1,000,000	1,966,183
Placement Board charges	2,185,350	1,725,000
Accreditation for Programmes	960,000	1,479,234
CUE accreditation fees	1,252,000	4,682,600
Nursing Skills Lab expenses	727,600	696,161
Tea Institute Expenses	466,354	585,550
Counseling services	89,898	418,243
Community Outreach	227,685	435,325
	129,462,693	145,717,434
Note 12: Repairs & maintenance costs	Kshs	Kshs
General Refurbishment	4,359,105	4,801,155
Maintenance of buildings	1,845,145	1,652,490
Maintenance of Catering / Hostel equipment	72,400	96,245
Maintenance of plant & Equipment	279,494	159,328
Maintenance of playground	12,165	2,533,549
Water Supply Expenses	1,091,037	6,900
	7,659,346	9,249,667
Note 13: Boards Expenses	Kshs	Kshs
Sitting Allowance	4,483,000	6,840,000
Travelling & Subsistence	2,039,063	2,137,958
Accommodation	2,784,600	4,309,270
Other expenses	637,410	929,071
	9,944,073	14,216,298
Other expenses refers to costs incurred in respect to stationery and meals served in lieu of lunch allowance during board meetings		
Note 14: Finance Expenses	Kshs	Kshs
Bank Charges	619,270	622,035
	619,270	622,035
Note 15: Depreciation and amortization expense	Kshs	Kshs
Depreciation Buildings	11,048,000	8,197,882
Depreciation Computer & Accessories	4,194,641	7,123,485
Depreciation Library books	6,906,908	4,477,186
Depreciation Motor Vehicle	7,714,683	3,873,641

Depreciation Equipment & Furniture	9,354,346	10,823,991
Amortization of intangible assets-Computer Software	1,084,519	1,623,314
	40,303,097	36,119,499

	2018/2019	2017/2018
Note 16: Cash & Bank Balances	Kshs.	Kshs.
Co-operative Bank Of Kenya- Cash at bank	33,447,753	20,175,661
Kenya Commercial Bank - 1138274968	1,145,346	1,146,537
KCB - Cash at hand	-	8,969
Kenya Commercial Bank-1106185382	87,094,471	27,189,160
Equity Bank- Cash at Bank	36,276,400	12,061,245
Fixed Deposit (Bank Guarantee- Fuel)	1,120,000	1,120,000
Total Cash & Bank Balances	159,083,970	61,701,572

Cash and cash equivalent comprises of cash at bank, cash at hand and fixed deposits in respect to a bank guarantee for fuel being provided by National Oil. The fixed deposit has a maturity period of one year and it earns interest at 5.25%.

	Kshs.	Kshs.
Note 17: Prepayments		
Deposits :Fuel (Kenol Kobil)	1,026,750	1,026,750
Deposits : Rent (Nairobi liaison Office)	2,992,367	2,994,842
Prepayment : Insurance	1,071,688	314,539
Subscription KNDI	-	700,000
Staff Prepayments	764,626	-
Total Prepayments	5,855,431	5,036,130

The University has three lease arrangements for providing teaching facilities i.e. Telkom Building at Karatina town - hosting School of Business; Ragati Tea Factory premises at Itiati hosting School of Education and Social Sciences and a Liaison office for postgraduate students at View Park Towers. The lease payments terms require the University to pay a one off three months' deposit at the beginning of the lease and a standard amount of rent quarterly in advance.

Additional information on the leases are as indicated below:

Contract	Lease Period	Escalation Clause	Renewable Clause	Future lease Aggregate Amount
Telkom Kenya Ltd	1/10/2018-30/09/2024	5% Per Annum	Renewable	45,990,080.64
Ragati Tea Factory	1/10/2017-30/09/2023	5% Biannual	Renewable	15,209,050.00
NSSF-View Park Towers	1/10/2014-30/09/2020	20% Biannual	Renewable	12,441,072.50
<i>Total minimum Future aggregate payment</i>				73,640,203.12

The quarterly leases payments were accounted as expenses under rent and rates in the administration expenses while the deposits are accounted as current assets.

Staff prepayments relate to funds paid in advance to members of staff due to salaries and gratuities

	2018/2019	2017/2018
Note 18: Receivables from exchange transactions	Kshs.	Kshs.
KTDA Bonus Payment For year 2018/19 & Tea Farm sales for the month of June 2019	1,368,286	759,761
Student Balances-Restated	88,901,927	86,505,726
Moi University	2,254,226	2,254,226
Imprest Debtors	472,811	1,615,591
	92,997,250	91,135,303
Provisions for bad and doubtful debts	1,778,039	1,730,115
	91,219,211	89,405,189
Note 18 (b) Receivables from exchange transactions	Kshs.	Kshs.
Student Balances-Restated	88,901,927	86,505,726
Provisions for bad and doubtful debts	(1,778,039)	(1,730,115)
Net Student Balances	87,123,888	84,775,611
Note 19: Receivables from non-exchange transactions	Kshs.	Kshs.
MoE - Capitation June	68,038,421	-
	68,038,421	-
Note 20: Inventories	Kshs.	Kshs.
Central Stores	3,605,319	3,716,517
Medical supplies	1,814,762	802,246
Laboratory reagents	4,878,243	4,411,103
Catering –food stuffs	398,667	413,255
	10,723,990	9,343,121
Note 21: Biological Assets	Kshs.	Kshs.
Tea Bushes	3,888,144	4,301,856
Cows	544,740	475,300
	4,432,884	4,777,156

The University has bearer biological assets in respect to cows and tea bushes. The tea bushes plantation is for agricultural produce on 9 acres of land and their value is determined by the number of bushes. In addition, the University has 3 cows for milk production, 4 heifers and 3 bull calves.

KARATINA UNIVERSITY							
FIXED ASSET SCHEDULE AS AT 30TH JUNE 2019							
Note (22a)	LAND	BUILDINGS	COMPUTER & ACCESSORIES	LIBRARY BOOKS	MOTOR VEHICLES	EQUIP & FURNITURE	TOTAL
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
COST							
BAL AS AT 30.6.17	39,796,000	270,969,197	71,722,158	25,860,601	50,247,792	88,691,677	547,287,426
ADDITIONS	-	-	4,067,554	4,069,740	5,225,316	8,326,971	21,689,581
VALUATION	319,204,000	207,578,450	2,789,175	1,000	24,470,538	27,117,662	581,160,824
GRANTED ASSETS	-	-	-	17,198,358	-	-	17,198,358
BAL AS AT 30.6.18	359,000,000	478,547,647	78,578,887	47,129,699	79,943,646	124,136,310	1,167,336,189
ADDITIONS	-	-	2,498,293	7,826,670	-	7,615,039	17,940,002
GRANTED ASSETS	-	-	-	16,065,039	-	-	16,065,039
BAL AS AT 30.06.19	359,000,000	478,547,647	81,077,180	71,021,408	79,943,646	131,751,349	1,201,341,230
DEPRECIATION							
ACCUMULATED DEPRECIATION 30.6.17	-	31,191,764	60,274,786	11,594,144	47,139,942	45,279,331	195,479,967
AMORTISATION FOR THE YEAR	-	3,788,912	-	1,648,207	-	298,748	5,735,867
DEPRECIATION FOR THE YEAR	-	3,111,605	6,914,297	2,822,373	2,344,232	9,750,169	24,942,675
AMORTIZATION OF REVALUED AMOUNTS	-	1,297,365	209,188	31	1,529,409	847,427	3,883,420
ACCUM DEPRE 30.6.18	-	8,197,882	7,123,485	4,470,610	3,873,641	10,896,344	34,561,962
ACCUMULATED DEPRECIATION 30.6.18	-	39,389,646	67,398,271	16,064,754	51,013,583	56,175,675	230,041,929
AMORTISATION FOR THE YEAR	-	3,788,912	-	4,107,577	-	298,748	8,195,237
DEPRECIATION FOR THE YEAR	-	2,069,627	3,431,087	2,799,206	1,597,049	5,665,889	15,562,859
AMORTIZATION OF REVALUED AMOUNTS	-	5,189,461	763,553	125	6,117,634	3,389,708	15,460,482
ACCUM DEPRE 30.06.19	-	11,048,000	4,194,641	6,906,908	7,714,683	9,354,346	39,218,578
ACCUMULATED DEPRECIATION 30.06.19	-	50,437,646	71,592,911	22,971,662	58,728,266	65,530,021	269,260,507
Net Book Value 30.6.19	359,000,000	428,110,001	9,484,268	48,049,746	21,215,379	66,221,328	932,080,724
Net Book Value 30.6.18	359,000,000	439,158,001	11,180,616	31,064,945	28,930,063	67,960,635	937,294,260

The figure for depreciation charge for the year reflected in note 15 includes amortization of intangible assets of Kshs. 1,084,521 which is reflected in note 23.

KARATINA UNIVERSITY							
SUMMARY OF GRANTED ASSETS AS AT 30.6.19							
Item (22b)	LAND	BUILDINGS	COMPUTER & ACCESSORIES	LIBRARY BOOKS	MOTOR VEHICLE	EQUIP & FURNITURE	TOTAL
GRANTED ASSETS AT COST	10,796,000	151,556,510	-	4,196,039	16,417,705	4,251,053	187,217,307
ADDITIONS				17,198,358		-	17,198,358
BALANCE AS AT 30.6.2018	10,796,000	151,556,510	-	21,394,397	16,417,705	4,251,053	204,415,665
ADDITIONS				16,065,039		-	16,065,039
BALANCE AS AT 30.6.2019	10,796,000	151,556,510	-	37,459,436	16,417,705	4,251,053	220,480,704
DEPRECIATION							
CUM AMORTIZATION 2017	-	45,272,705	-	3,147,029	16,417,705	3,653,554	68,490,993
AMORTIZATION FOR THE YEAR		3,788,912		1,648,207		298,748	5,735,867
CUM AMORTIZATION 30.6.2018	-	49,061,616.3	-	4,795,236.1	16,417,705.0	3,952,302.1	74,226,859.5
AMORTIZATION FOR THE YEAR		3,788,912		4,107,577		298,748	8,195,237
CUM AMORTIZATION 30.6.2019	-	52,850,528	-	8,902,813	16,417,705	4,251,052	82,422,097
NAV AS AT 30.6.2019	10,796,000	98,705,982	-	28,556,623	-	1.0	138,058,606
NAV AS AT 30.6.2018	10,796,000	102,494,894	-	16,599,161	-	298,750	130,188,805

Note 23 :Intangible Assets- Computer Soft ware

Cost	Kshs.
Balance as at 30.6.2017	16,816,040
Valuation	-698,272
Additions	1,332,574
Balance as at 30.6.2018	17,450,342
Valuation	
Additions	572,850
Disposals	
Balance as at 30.06.2019	18,023,164
Accumulated amortization as at 30.6.2017	12,744,368
Amortization for the period	1,623,314
Accumulated amortization 31.06.18	14,367,682
Amortization for the period	1,084,519
Accumulated amortization 31.06.19	15,452,201
Net Book Value 30.06.2019	2,570,964
Net Book Value 30.6.2018	3,082,633

Intangible assets refer to computer software purchased by the University to facilitate running of its operations

	2018/2019	2017/2018
Note 24: Capital Work-In-Progress	Kshs.	Kshs.
Resource Center	617,823,563	599,838,181
Student Hostel 750 bed capacity	362,260,338	343,382,510
Construction of Perimeter wall	28,897,585	15,522,976
Library Phase I	125,481,518	5,000,000
	1,134,463,003	963,743,667

Capital work in progress relates to amounts incurred and paid in construction of each of the projects mentioned above. The same will be capitalized under PPE upon completion.

Note 25: Trade & Other Payables	Kshs.	Kshs.
Trade Creditors-Restated	34,242,514	8,302,387
Part time Lecturers	123,400,414	100,532,269
Unexpended NRF research funds	8,809,107	12,829,751
Contractors' Balance	30,002,408	124,915
Contractors' Retention Fees	31,069,341	31,165,560
Student prepayments	46,006,144	54,462,395
Unutilized HELB	240,000	-
	274,769,929	207,417,277
Note 26: Provision	Kshs.	Kshs.
Staff leave days provisions	9,815,552	3,544,613
Provision for Audit Fees	696,000	696,000
Provision for Gratuity	5,655,969	-
	16,167,521	4,240,613

Provisions are reviewed at each reporting date and are adjusted to reflect the current best estimate or reversed if it no longer probable that an outflow of resources embodying economic benefit will be required to settle the obligation. Employees entitlement to annual leave is recognized when it accrues.

Note 27: Accumulated Capital Fund	Kshs.	Kshs.
Balance B/F	1,177,786,095	1,148,824,637
Capital Grants for the year	267,437,987	28,961,458
Balance as at 30.06.19	1,445,224,082	1,177,786,095

Accumulated Capital Fund comprise of Capital grants released by the Government for the financial years 2011/12- 2017/18 and granted Assets relating to current asset and liabilities with an exception of Biological assets which is non-current asset from the period the institutions existed under Moi University.

Capital Grants for FY 2011/2012	157,120,452
Granted Assets from Moi University*	86,322,861
Capital Grants for FY 2012/2013	239,703,675
Prior year Adjustment- tea bushes	2,053,896
Capital Grants for FY 2013/2014	201,583,999
Capital Grants for FY 2014/2015	218,226,667
Capital Grants for FY 2015/2016	143,337,425
Capital Grants for FY 2016/2017	100,475,662
Capital Grants for FY 2017/2018	28,961,458
Balance as at 30.6.18	1,177,786,095

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

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

Additional disclosures

The University will be taking up a loan of Kshs 194M that was used to acquire granted assets from Moi University once it gets consent from National Treasury. In addition, the loan had accrued interest of Kshs 22M as at 31st December, 2018 which the University will be required to take up.

	2018/2019	2017/2018
Note 28: Revenue reserve	Kshs.	Kshs.
Surplus/Deficit B/F	(23,129,208)	42,680,242
Surplus/Deficit for the period	(8,041,029)	9,506,114
Transfer of amortized revalued PPE	15,460,481	3,883,420
Adjustment for Library books –Depreciation	-	-65,777
Valuation of Biological Assets	161,280	67,900
Prior year adjustment of student balances	(12,019,988)	(2,790,537)
Prior year adjustment on telephone allowance	-	-602,742
Prior year adjustment of creditors	-	219,215
Adjustment for Part timers	-	(69,376,676)
Adjustment for Work in Progress	-	(803,043)
Adjustment for Prepayments	-	(7,423,763)
Contractors' Balance	-	1,576,439
	(27,568,464)	(23,129,208)
Note 29: Revaluation reserve	Kshs.	Kshs.
Balance B/F	577,277,404	-
Revaluation During the year	-	581,160,824
Transfer of amortized revalued PPE	(15,460,481)	(3,883,420)
Balance as at 30/06/19	561,816,923	577,277,404

Revaluation reserve represents the increase in the value of property, plant and equipment arising from revaluation of the University assets. The valuation was carried out in May 2018 by Amazon Valuer Ltd.

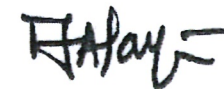
3. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Ref No.	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
	N/A	N/A	N/A	N/A	N/A



Prof. Mucai Muchiri, PhD
Vice Chancellor



Prof. John Kobia Ataya, PhD
Chairman of Council

Appendix 1: PROJECTS IMPLEMENTED BY THE UNIVERSITY

Project Title	Donor	Period/ Duration	Donor Committment	Separate Donor reporting required as per donor agreement	Consolidated in these financial statements
Resource Center	GoK	5 years	Yes	No	Yes
Student Hostel 750 bed capacity	GoK	5 years	Yes	No	Yes
Perimeter Fence	GoK	1 year	Yes	No	Yes
Library Phase I	GoK	3 years	Yes	No	Yes

STATUS OF PROJECTS COMPLETION						
Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual for the year	Sources
Resource Center	624,429,200	624,429,200	100%	148,262,855	148,262,855	GOK
Student Hostel 750 bed capacity	365,725,775	339,322,404	93%	-	-	GOK
Perimeter Fence	33,280,794	26,298,532	79%	-	-	GOK
Library Phase I	491,331,404	131,452,476	27%	151,879,998	119,175,132	GOK
	1,514,767,173	1,121,502,612		300,142,853	267,437,987	

NB/ The expended amounts to date represents the amounts received for each project and not progress of work certified.

Appendix 2: INTER-ENTITY TRANSFERS

a) Transfers from Ministry of Education

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income	Amount deferred under deferred income	Amount recognized in capital fund.	Total grant income during the year 2018/2019	2017-2018
	Kshs	Kshs	Kshs	Kshs	Kshs
Ministry of Education	705,924,892	-	267,437,987	973,362,879	933,722,610
Total	705,924,892	-	267,437,987	973,362,879	933,722,610

APPENDIX III

KARATINA UNIVERSITY			
Break down of Transfers from State Department of University Education and Research			
a Recurrent Grants			
Bank Statement Date	Amount (Kshs)	FY	
2/8/2018	54,242,047.00	2018/2019	
30/8/2018	54,242,047.00	2018/2019	
1/10/2018	54,242,046.00	2018/2019	
7/11/2018	54,242,047.00	2018/2019	
3/12/2018	50,987,524.00	2018/2019	
27/12/2018	50,987,524.00	2018/2019	
1/2/2019	53,157,206.00	2018/2019	
7/3/2019	53,157,206.00	2018/2019	
28/3/2019	49,902,682.00	2018/2019	
2/5/2019	54,242,047.00	2018/2019	
6/6/2019	54,242,047.00	2018/2019	
28/6/2019	54,242,047.00	2018/2019	
9/7/2019	68,038,420.60	2018/2019	
Total	705,924,890.60		
b Development Grants			
29/10/2018	92,672,473.00	2018/2019	
27/11/2018	26,079,842.00	2018/2019	
13/2/2019	26,898,201.00	2018/2019	
20/3/2019	26,898,201.00	2018/2019	
28/5/2019	94,889,270.00	2018/2019	
Total	267,437,987.00		

The above amounts have been communicated to and reconciled with the parent Ministry

CPA Grace Kakiya
Ag. Finance Officer
Karatina University

Mr. Robert Asman
Head of Accounting Unit
Ministry of Education

Sign *Grace Kakiya*

Sign *Robert Asman*