

REPUBLIC OF KENYA



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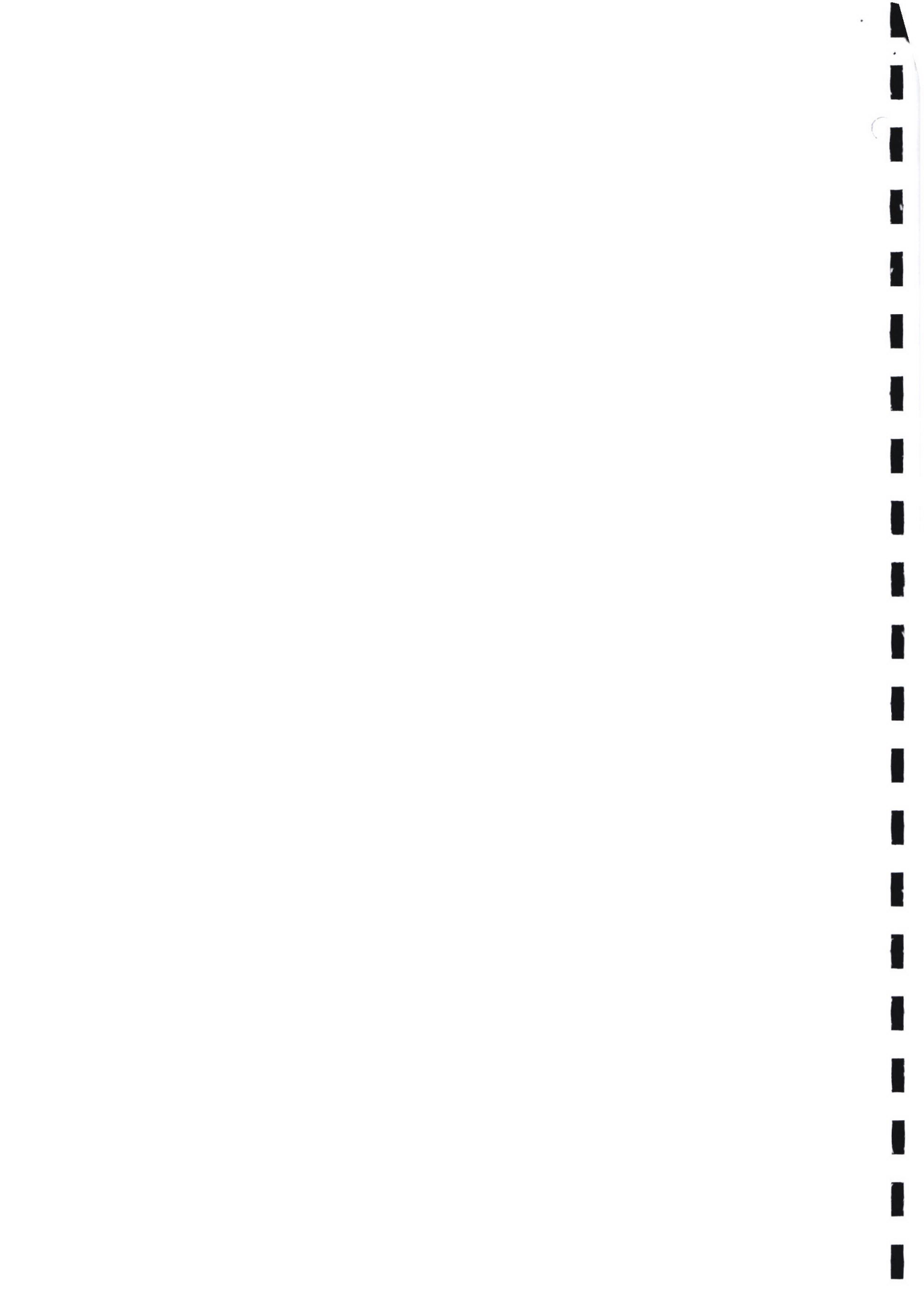
**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
KENYA INSTITUTE FOR PUBLIC POLICY  
RESEARCH AND ANALYSIS**

**FOR THE YEAR ENDED  
30 JUNE 2014**



# REPUBLIC OF KENYA

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NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYA INSTITUTE FOR PUBLIC POLICY RESEARCH AND ANALYSIS FOR THE YEAR ENDED 30 JUNE 2014

#### REPORT ON THE FINANCIAL STATEMENTS

The financial statements of the Kenya Institute for Public Policy Research and Analysis (KIPPRA) set out on pages 29 to 52, which comprise the statement of financial position as at 30 June 2014, 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 have been audited on my behalf by PKF Kenya, auditors appointed under Section 39 of the Public Audit Act 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

#### **Management's Responsibility for the Financial Statements**

The management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Institute as at 30 June 2014 and 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 Kenya Institute for Public Policy Research and Analysis Act, 2006.

### **Emphasis of matter**

I draw attention to accounting policy under note VIII with reference to financial liabilities (taxation) which states that no provision for taxation has not been recognized in the financial statements as the directors are of the opinion that the Institute is exempt from taxation. I also refer to note 26 to the financial statements which disclose the material uncertainty in this respect. My opinion is not qualified in respect of this matter.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

As required by the KPPRA Act, 2006 and Public Audit Act, I report, based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;
- ii. In my opinion proper books and other records of account of income, expenditure, assets and liabilities have been kept by the Institute;
- iii. The Institute's statement of financial position and statement of income and expenditure and other comprehensive income are in agreement with the books of account;

- iv. Due provisions have been made for repayment of all money borrowed by the Institute; and
- v. Adequate amounts have been set aside for depreciation and renewal of the assets of the Institute.



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

**Nairobi**

**9 April 2015**



**The KENYA INSTITUTE for PUBLIC  
POLICY RESEARCH and ANALYSIS**

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**KENYA INSTITUTE FOR PUBLIC POLICY RESEARCH &  
ANALYSIS - KIPPRA**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
30 JUNE 2014**

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

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## **I. KEY INSTITUTE INFORMATION AND MANAGEMENT**

### **(a) Background information**

The Kenya Institute for Public Policy Research and Analysis (KIPPRA) was formed through an Act of Parliament, the KIPPRA Act No. 15 of 2006. At Cabinet level, the institute is represented by the Cabinet Secretary for Devolution & Planning, who is responsible for the general policy and strategic direction.

### **(b) Principal activities**

The principal activity of the institute is to provide quality public policy advice to the Government of Kenya and other stakeholders by conducting objective research and analysis and through capacity building in order to contribute to the achievement of national development goals. Under the KIPPRA Act, the institute is mandated to:

- 1) Develop capacities in public policy research and analysis and assist the Government in the process of policy formulation and implementation;
- 2) Identify and undertake independent and objective programmes of research and analysis, including macroeconomic, inter-disciplinary and sectoral studies on topics affecting public policy in areas such as human resource development, social welfare, environment and natural resources, agriculture and rural development, trade and industry, public finance, money and finance, macroeconomic and microeconomic modelling;
- 3) Provide advisory and technical services on public policy issues to the Government and other agencies of the Government;
- 4) Communicate the findings and recommendations of the institute's research programmes to the agencies of the Government concerned with the implementation of public policy;
- 5) Serve as a point of communication and encourage the exchange of views between the Government, the private sector and other bodies or agencies of the Government on matters relating to public policy research and analysis;
- 6) Collect and analyze relevant data on public policy issues and disseminate the institute's research findings to persons it seems appropriate to publish such research findings;
- 7) Develop and maintain a reservoir of research resources on public policy and related issues and make these available to the Government, the private sector and learning institutions in Kenya;
- 8) Organize symposia, conferences, workshops and other meetings to promote the exchange of views on issues relating to public policy research and analysis; and
- 9) Undertake public policy research relevant to governance and its implications to development.

## I. KEY INSTITUTE INFORMATION AND MANAGEMENT (CONTINUED)

### (c) Key management

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

- Board of Directors (Board Committees);
- Executive Director; and
- Senior Management.

### (d) Fiduciary management

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2014 and who had direct fiduciary responsibility were:

Designation	Name
1. Executive Director	Dr John M. Omiti
2. Programmes Coordinator	Dr Dickson Khainga
3. Ag. Head, Macroeconomics Division	Mr Benson Kiriga
4. Ag. Head, Productive Sector Division	Ms Nancy Laibuni
5. Ag. Head, Social Sector Division	Dr Eldah Onsomu
6. Head, Private Sector Development Division	Prof. Joseph Kieyah
7. Ag. Head, Trade & Foreign Policy Division	Dr Augustus Muluvi
8. Ag. Head, Governance Division	Dr Jacob Chege
9. Ag. Finance and Investments Manager	Nicholas Ogolla (CPA)
10. Head, Knowledge Management & Communications Division	Mr Felix Murithi

### (e) Fiduciary oversight arrangements

The management of KIPPRA is vested in a Board of Directors. The Board operates through four committees (Finance, Audit, Programmes, and General Purposes) and also a Board Charter.

**Finance Committee:** This is an advisory body with no executive powers. Its broad function is to assist the Audit Committee and Board in ensuring that the institute meets the highest standards of financial management and accountability in the use of its financial resources. The Chairman of the Finance Committee shall be a person with financial background and experience. The committee is authorized to carry out its mandate in line with its terms of reference, which are to: Approve the institute's accounting policies and principles (and any changes thereof) that are required to be reported in the notes to the annual financial statements; Review and assess the appropriateness of accounting policies and principles, including conformance with relevant accounting and reporting standards; Review annual budgets, and make recommendations to the Board; Receive and consider quarterly financial, procurement and investment reports; Review annual financial statements and recommend them to

## I. KEY INSTITUTE INFORMATION AND MANAGEMENT (CONTINUED)

Board for approval; Review the use of financial resources, ensuring that value for money is achieved; Review the periodic financial reports and projections, paying particular attention to critical financial and budgetary control issues, financial strategy decisions requiring a major element of judgment, making recommendations to the Board as appropriate; Provide oversight over procurement in line with the procurement law; Advise the Board on resource mobilization; and Ensure that the finance function is appropriately resourced and meets, or exceeds, best professional practice.

**Audit Committee:** The duties and responsibilities of the Audit Committee are to assist, and where relevant, make recommendations to the Board on the discharge of Board's responsibilities as they relate to external financial reporting; external and internal audits; effective systems of internal control comprising financial and operational controls and compliance; and risk management.

**Programmes Committee:** The overall purpose of the Committee is to advise the Board on technical issues, that is, on how to continuously improve the research and capacity building outputs of the institute. The Programmes Committee: reviews annual work plans and quarterly implementation progress reports, and recommend them for Board approval; monitors implementation of the strategic plan, annual performance contracts, and timely publication of the Kenya Economic Report and other statutory reports; assesses periodically the quality and effectiveness of the institute technical outputs, and advise the Board on the achievement of global benchmarks; assists the General Purposes Committee in recruiting senior technical staff; and attends to other matters assigned by the Board, including matters that may be assigned to two or more Board Committees.

**General Purposes Committee:** The Committee, which is non-executive: advises the Board on organizational structure, administration, human resource policy and capacity enhancement; review salaries, benefit packages and service contracts; reviews performance management policies and procedures and make recommendations to the Board; recruits senior staff and recommend them for Board approval; presides over disciplinary hearings/interviews for senior staff; and makes recommendations on broad guidelines that promote operational efficiency.

The KIPPRA **Board Charter** sets out the roles, functions, obligations, rights, responsibilities and powers of the Board, and the policies and practices of the Board in respect of its duties, functions and responsibilities. It is guides and clarifies the roles of Chairman, Directors, Executive Director; their powers; and their involvement in the day-to-day running of the institute; and to be a point of reference. The Charter is also aimed at improving and enhancing the level of performance and effectiveness of the Board, including provision of strategic leadership and observance of high standards of corporate governance. It provides guidelines that help the Board to ensure that a strong leadership is in place at Board level.

### (f) Institute headquarters

Bishops Garden Towers  
2<sup>nd</sup> Floor, Bishops Road  
P.O. Box 56445-00200  
Nairobi.

**I. KEY INSTITUTE INFORMATION AND MANAGEMENT (CONTINUED)**

**(g) Institute contacts**

Telephone: (254) 2719933/4  
E-mail: [admin@kippra.or.ke](mailto:admin@kippra.or.ke)  
Website: [www.kippra.org](http://www.kippra.org)  
Twitter: @kipprakenya

**(h) Principal banker**

Commercial Bank of Africa  
Mama Ngina Street  
P.O. Box 30437-00100  
Nairobi.



**(i) Independent auditor**

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





**(j) Principal legal advisor**





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

## II. THE BOARD OF DIRECTORS

	<p><b>Prof. Mohamed S. Mukras</b></p> <p>Prof. Mohamed S. Mukras is currently based at Maseno University, Department of Economics, School of Business and Economics. Previously, he worked as a Professor at Moi University (2007-2010), University of Botswana (1993-2007) and Maseno University (1992-1993); Associate Professor at the University of Nairobi (1985-1992); Senior Lecturer (1981-1985) and Lecturer (1976-1981) at University of Nairobi. He has also been an external examiner of University of Zimbabwe, University of Zambia, University of Addis Ababa, University of Switzerland, University of Botswana and Makerere University. He has been an assessor of promotions and professorial positions at University of Ibadan, University of Nairobi, University of Zambia, University of Dar es Salaam, and Makerere University.</p> <p>Prof. Mukras has also served as Board Chair of MINET ICDC Insurance Brokers; Member, Capital Markets Authority (Kenya); Member, Government Insurance Advisory Board; and as Director of Planning in the Ministry of Planning and National Development.</p> <p>He holds a PhD from University of Toronto, MA from University of Toronto, Bachelor of Philosophy from University of Nairobi, and BA University of East Africa, Dar es Salaam.</p> <p>Prof. Mukras is the Board Chair of the Kenya Institute for Public Policy Research and Analysis.</p>
	<p><b>Dr John M. Omiti</b></p> <p>Dr John M. Omiti is the Executive Director of the Kenya Institute for Public Policy Research &amp; Analysis (KIPPRA). He is involved in providing technical guidance and capacity building on policy and strategy formulation to the Government of Kenya and other stakeholders, with the overall aim of contributing to the achievement of national development goals. Before then, he was a principal policy analyst at KIPPRA for six years. Prior to joining KIPPRA, he was a Senior Research Fellow at the Institute of Policy Analysis and Research (IPAR, Nairobi). At IPAR, Dr Omiti was responsible for design of Agricultural and Industrial Development Strategies for about six years, where he rose to an acting Executive Director. Before joining IPAR, he worked as a post-doctoral Research Fellow with the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT, a member of the World Bank's CGIAR) focusing on Natural Resource Management Strategies for small-holder agriculture. Before joining ICRISAT for three years, he had worked with the Kenya's Civil Service for about 11 years upon graduation from the University of Nairobi.</p> <p>Dr Omiti has published widely in refereed journals and books. His research interests are in public policy research focusing on agricultural transformation, food security, regional trade, economic geography, poverty alleviation and institutional development at macro and sectoral</p>

	<p>levels. He holds a PhD in agricultural and applied economics from the University of New England (Australia); a Masters degree in Agricultural Economics and a Bachelors degree in Agriculture from the University of Nairobi, Kenya. He has been involved in consultancy work for several organizations in a number of countries, including Djibouti, Ethiopia, Kenya, Rwanda, Somalia, Sudan and Uganda. He has collaborated with the Nile Basin Initiative (NBI, Entebbe) on food security studies and regional agricultural trade (with Nile Equatorial Lakes Subsidiary Action Programme). He has conducted consultancy assignments, in multidisciplinary teams, for such organizations as the International Livestock Research Institute (ILRI), Futures Agricultures Consortium (FAC, IDS-Sussex), NGOs (e.g., FARMAFRICA and Action-Aid) and development partners such as FAO, European Union and the World Bank.</p>
	<p><b>Ms Sabina Maghanga</b></p> <p>Ms Maghanga is the Director incharge of Macro Planning and International Cooperation, Ministry of Devolution and Planning. She has been in the public service for 33 years, coordinating national economic policy formulation and promoting regional and international economic cooperation towards realization of Vision 2030, among other activities.</p> <p>Ms Maghanga has a wealth of experience in economic policy formulation and analysis, programme and project management, negotiation, data collection and analysis, project proposal and report writing, monitoring and evaluation, team building, management and organizational skills, leadership and participatory skills.</p>
	<p><b>Mrs Josephine Kanyi</b></p> <p>Mrs Kanyi is a Chief Economist in the National Treasury. She has worked for the Government of Kenya for the last 23 years, rising from an Economist II in 1991 to a Chief Economist in 2010. Her career in the civil service spreads across the Ministry of Devolution and Planning, Ministry of Research and Technology, and National Treasury.</p> <p>Mrs Kanyi holds an MA and BA in Economics from the University of Nairobi. She is the Alternate Director to the Cabinet Secretary, the National Treasury, in the KIPPRA Board. She also represents the Cabinet Secretary, the National Treasury, at the Kenya Vehicle Manufacturers (KVM) Ltd Board and Kenya Hotel Properties Ltd (KHPL) Board.</p>

	<p><b>Amb. Nelson Ndirangu</b>                  (Key qualifications and work experience not provided)</p>
	<p><b>Dr Hassan G. Roba</b></p> <p>Dr Roba is the Programme Officer of African Rift Valley for the Christensen Fund. Previously, he worked for the Centre for Indigenous Knowledge at the National Museums of Kenya as a Senior Research Scientist. His main research interests are pastoral land use systems, indigenous knowledge and resource management, participatory research, and environmental governance.</p> <p>Dr Roba holds a PhD in Development Studies from the Norwegian University of Life Sciences and MSc in Dryland Biodiversity from Addis Ababa University in Ethiopia.</p>
	<p><b>Mr Stephen Kiptoem Mairori</b></p> <p>Kiptoem is the International Director of ICM as well as the Executive Director of the same organization in Kenya. He serves as the East Africa Regional Director for four USA organizations who are in partnership with ICM. He is also a Director of Fruited Plains in Kenya and USA, member of the Board of Governors of Kobos Secondary School, and Chair of the Governing Council of Africa Theological Seminary.</p>
	<p><b>Prof. Evans Aosa</b></p> <p>Prof. Aosa is a Professor of Strategic Management and Associate Dean, Graduate Business Studies, School of Business, University of Nairobi. He has extensive experience in training and consultancy in Strategic Management within Eastern Africa. He has been an academician at the School of Business, University of Nairobi since 1986. He worked as a part-time lecturer at the United States International University-Africa.</p> <p>Prof. Aosa has been involved (as a consultant) in the development of strategic plans or the evaluation of existing ones in various organizations. He has also served as a member of the Board of Directors at the Kenya Marine and Fisheries Research Institute.</p> <p>He holds a PhD from University of Strathclyde, Glasgow (UK), Master of Business Administration from University of Leuven, Belgium, and a Bachelor of Commerce from University of Nairobi.</p>

	<p><b>Ms Susan A. Mang'eni</b></p> <p>Ms Mang'eni is the Executive Director of the Kenya Youth Development Trust. She has over 7 years of experience in the sectors of youth and gender development in both private and public spheres, including Directorship at the Youth Enterprise Development Fund Board (2010 to 2013), where she chaired the Audit Committee of the Board. Ms Mang'eni is also an associate member of the Mandela Institute for Development Studies (MINDS). She holds a BA in Political Science and Public Administration from the University of Nairobi, and is currently pursuing a Masters degree in Entrepreneurship Development at the same university.</p>
	<p><b>Ms Lena Munuve</b></p> <p>Ms Munuve is the Retail Manager for the East Africa Cluster and now Vivo Energy Kenya. Previously, she worked for Exxon Mobil as the Convenience Retailing Manager and later as Cards Marketing and Operations Manager. Due to her excellent performance, she was promoted to serve as Cards Marketing Manager for Shell Oil Products Africa (SOPAF).</p> <p>She holds a Master of Arts in Business Administration and a Bachelor of Commerce degree from the University of Nairobi. She also has a Post-Graduate Diploma in Marketing from Chartered Institute of Marketing (CIM) UK and a Shell Senior Executive Leadership Programmes by the University of the Witwatersrand, South Africa. She is professionally accredited as MCIM, Dip.</p>
	<p><b>Ms Emma M. Mwongeli</b></p> <p>Ms Mwongeli is the Acting Director, Corporate and Institutional Banking Division, at National Bank, having joined the institution in 2013 as the Head of Institutional Banking and Cash Management. She has served in the banking industry for 22 years in various capacities at Kenya Commercial Bank, Co-operative Bank and most recently at Bank of Africa-Kenya.</p> <p>She holds an MA in Communication in Development Studies and a BSc. in Business Administration, Management option (Cum Laude) from United States International University. She is a full member of the Kenya Institute of Management.</p>
	<p><b>Prof. Michael Chege</b></p> <p>Prof. Chege is a Political Economist with special interest in governance and economic development in sub-Saharan Africa, and international development policies. He taught at the University of Nairobi between 1976 and 1988 after which he joined the Ford Foundation as a Programme Officer in charge of funding public policy and international affairs projects in Eastern and Southern Africa.</p>

	<p>Between 1996 and 2004, he served as the Director and Professor of the Centre for African Studies at the University of Florida, and was a UNDP Policy Advisor at the Ministry of Planning in Kenya between 2005 and 2014. He has served as a consultant to the World Bank, SIDA, USAID, UNDP, IDRC, Ford and Rockefeller Foundations. Prof. Chege has also served as a visiting professor at the Graduate Institute of International Affairs at the University of Geneva, and Harvard University, and has published widely on African development and governance issues.</p> <p>He holds a doctorate degree from the University of California at Berkeley, and Bachelors degree in Economics and Government from the University of Nairobi.</p>
	<p><b>Other Directors:</b></p> <ol style="list-style-type: none"><li>1. Prof. Alfred V. Otieno</li><li>2. Prof. Marangu marete</li></ol>

**III. MANAGEMENT TEAM**

	<p>Dr John M. Omiti                  PhD in Agricultural and Applied Economics                  Executive Director</p>
	<p>Dr Dickson Khainga                  PhD in Political Economy                  Programmes Coordinator</p>
	<p>Mr Benson Kiriga                  MA in Economics                  Ag. Head, Macroeconomics Division</p>
	<p>Ms Nancy Laibuni                  MSc in Horticultural Economics                  Ag. Head, Productive Sector Division</p>
	<p>Dr Eldah Onsomu                  PhD in Economics                  Ag. Head, Social Sector Division</p>
	<p>Prof. Joseph Kieyah                  JD in Law and PhD in Economics                  Head, Private Sector Development Division</p>

	<p>Dr Augustus Muluvi PhD in Development Economics Ag. Head, Trade and Foreign Policy</p>
	<p>Dr Jacob Chege PhD in Economics Ag. Head, Governance Division</p>
	<p>Mr Nicholas Ogolla Bachelor of Commerce (CPA-K, CPS-K, CSIA) Ag. Head, Finance and Investments Division</p>
	<p>Mr Felix Murithi MPhil in Publishing Studies Head, Knowledge Management and Communications Division</p>

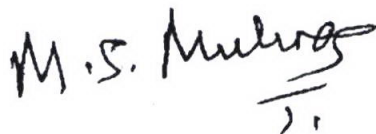
#### IV. CHAIRMAN'S STATEMENT

I am delighted that 2013/14 was another successful year for KIPPRA in research, public policy analysis and capacity building. The institute made significant achievements including research papers, client reports, dissemination of research findings and participation in policy taskforces and working groups aimed at supporting policy formulation. Notably, in 2013 KIPPRA, was ranked 15 out of the top 50 Think Tanks in Sub-Saharan Africa, and 135 out of the top 150 think tanks worldwide from a global sample of more than 6,700 Think Tanks. This is a positive step towards realization of KIPPRA's Mission and Vision.

The current Board of Directors was appointed during the last quarter of 2013/14 and brings together a team that has long experience in leadership, research, and management that will provide strategic thinking and strong governance oversight to support KIPPRA's prosperity to its goal of becoming an international centre of excellence. The Board will be focused in driving KIPPRA to new heights through key strategic objectives, including: providing quality and relevant public policy advice to the government and other stakeholders; conducting and disseminating evidence-based research; and building capacity towards meeting our country's national development goals, consistent with Vision 2030 goals and aspirations.

During the year, KIPPRA continued to receive strong support from the Government, and other development partners, key among them, the African Capacity Building Foundation (ACBF) and the Think Tank Initiative (TTI) of International Development Research Centre (IDRC). Over time, the Government of Kenya has increased financial support to the Institution due to the increasing role of the KIPPRA in supporting policy processes in Kenya. KIPPRA continued to maintain strong strategic partnerships with universities, private sector, international development agencies and other research institutions. Notably, through the Africa Growth Initiative at the Brookings Institution, the Kenya Economic Report 2013 was launched in Washington DC, thus providing international audience to participate in discussion on Kenya's recent development achievements.

I would like thank management and staff for their hard work and commitment to the Vision and Mission of the institute, as evidenced in the outputs and achievements reported in this Annual Report. I also take the opportunity to acknowledge the strong partnerships with our development partners, the Government of Kenya, and the wide network of think tanks and clients that made 2013/14 a success.



**Prof. M. S. Mukras**  
Chairman, KIPPRA Board of Directors  
2014

## **V. REPORT OF THE EXECUTIVE DIRECTOR**

In 2013/2014, KIPPRA continued to pursue the mission of providing quality public policy advice to the Government of Kenya and other stakeholders through research and capacity building. During this period, the Executive Director's office continued to execute its mandate focusing on strategic objectives to enhance institutional capacity, participate in research activities, enhance the institute's capability and visibility, and strengthen collaboration and partnerships with various organizations at national and international level. This report presents a summary of key undertakings at the institute in the year under review.

In March 2014, H.E. the President of the Republic of Kenya appointed Prof. Mohamed S. Mukras to Chair the KIPPRA Board and twelve Board members. The Chairman and Board members have long experience and distinguished careers that will guide the institute towards high levels of achievement.

The institute enjoyed a favourable cash position throughout the year as it received financial support from the Government of Kenya, Think Tank Initiative (TTI), the African Capacity Building Foundation (ACBF), funds from contracted projects, and other sources. The institute ensured prudent expenditures and worked closely with development partners to ensure smooth programme implementation.

KIPPRA's current staff capacity stands at 61 comprising 38 researchers and 23 non-researchers. In an effort to build the capacity and ability of its researchers to meet the institute's core mandate of public policy research and analysis, KIPPRA supports short courses and PhD training programmes to members of staff.

Strategic decisions and prudent management have continued to bear fruits for the institute. In 2014, the Global Go To Think Tanks' Survey ranked KIPPRA as the best Think Tank in Sub-Saharan Africa. Globally, KIPPRA's ranking improved from position 135 in 2013 to position 134 in 2014. The institute's Performance Contract by the Government of Kenya rated GOOD. These favourable rankings are an indication of the institute's continued contribution to public policy research and analysis.

Other notable achievements within the mandate of the institute included publishing 39 research papers, 12 journal articles, 3 policy briefs, 3 book chapters, and 53 media articles and blogs on topical issues. The institute extended 35 technical assistances to the government through task forces and developed 21 quality client reports. Moreover, KIPPRA conducted 52 roundtable discussions and 82 policy dissemination activities, and trained 1,110 officers from public and private sector.

For the first time, the Kenya Economic Report (KER), a KIPPRA flagship publication was not only presented as a Cabinet Brief but was also launched internationally at the Brookings Institution in Washington DC, a clear demonstration that the institute's technical advice is being received at the highest level of decision making in Kenya as well as drawing attention of major international policy players. These phenomenon milestones were as a result of dedication, team work and commitment from the Board, the management, development partners and staff at the institute. KIPPRA will make every effort to ensure that KER continues to offer quality advice to government and disseminate its findings to local and international audience.

## REPORT OF THE EXECUTIVE DIRECTOR (CONTINUED)

The institute will continue to strengthen its national and global ranking by improving the quality and relevance of its research outputs and strategic engagement with stakeholders aimed at enhancing its national, regional and international standing.

KIPPRA also undertook a number of projects, key among them:

1. The Agricultural Sector Development Support Programme (ASDSP) a five year programme initiated by the Government of Kenya with the support of the Government of Sweden. The programme aims to increase income, create employment and improve food production and productivity in the rural smallholder farms and off-farm sectors.
2. The status of social cohesion in Kenya research project. The research focused on six dimensions of social cohesion namely; identity, equity, peace, diversity, prosperity and trust.

The institute established links with local and international organizations and maintained a resourceful network of researchers, institutions and organizations at the local, regional and international level.

Locally, the institute enjoys cordial relations with various government ministries, departments and agencies; various constitutional commissions including the National Assembly and Senate. At the regional level, the institute has established networks with a number of organizations, including the African Economic Research Consortium (AERC) just to name a few.

At the international level, the institute has also established a good number of networks with organizations such as the World Bank, International Monetary Fund, United Nations Development Programme (UNDP), United Nations Development Fund for Women (UNIFEM), International Food Policy Research Institute (IFPRI), Brookings Institution, Global Development Network (GDN), Rockefeller Foundation, ECORYS Netherlands, UN Office in Vienna, World Health Organization (WHO), Food and Agriculture Organization (FAO), Amsterdam Institute for International Development, Swedish International Development Cooperation Agency (SIDA), Japan International Cooperation Agency (JICA), International Labour Organization (ILO), MEMR, International Development Research Centre (IDRC), United Nations Environment Programme (UNEP), and the International Institute of Legislative Affairs (IILA).

The institute has also developed partnerships with local universities, Washington University, Hawaii State University, Institute of Development Studies (IDS) at the University of Sussex, and the Inter-University Council of East Africa.

## REPORT OF THE EXECUTIVE DIRECTOR (CONTINUED)

Looking forward, KIPPRA endeavours to better its performance by improving quality and relevance of research outputs and strategic engagements. Finally, I would like to thank the Government of Kenya, the Board, management and staff for sustained efforts towards realizing the vision and mission of the institute. It is my sincere hope that our commitment, teamwork and creativity will be our driving virtues as we work towards making KIPPRA even better.



**Dr John M. Omiti**  
Executive Director, KIPPRA  
2014

## VI. CORPORATE GOVERNANCE STATEMENT

Effective governance is the most fundamental among imperatives for successful, effective and sustainable think tanks. When KIPPRA was being established to support policy formulation within the Government of Kenya, it was recognized that both operational autonomy and an effective governance framework were needed for the institute to effectively achieve its mandate. Thus, proper skills mix and representation in Board membership, development of and adherence to a Board Charter, performance contracts and evaluation systems, ISO 9001:2008 certification, and regular reporting, monitoring and evaluation of governance systems have enabled KIPPRA to improve its performance and productivity, enhance stakeholder confidence, attract partners, induce more stable sources of financing, and enable the institute realize its mandate. In the 15 years that KIPPRA has been in existence, investment in effective governance has paid off.

Corporate governance in all state corporations in Kenya is fundamentally grounded on the Constitution of Kenya 2010, and especially Chapter 6 on Leadership and Integrity. Section 73 (2) provides the guiding principles of leadership and integrity to include:

- (a) Selection (of the state officer) on the basis of personal integrity, competence and suitability, or election in free and fair elections;
- (b) Objectivity and impartiality in decision making, and in ensuring that decisions are not influenced by nepotism, favouritism, other improper motives or corrupt practices;
- (c) Selfless service based solely on the public interest;
- (d) Accountability to the public for decisions and actions; and
- (e) Discipline and commitment in service to the people.

Furthermore, the Public Officers and Ethics Act, Cap 183, provides the code of ethics for public officers. The Act defines a public officer as:

"any officer, employee or member, including an unpaid, part-time or temporary officer, employee or member, of any of the following: the Government or any department, service or undertaking of the Government; the National Assembly or the Parliamentary Service; a local authority; any corporation, council, board, committee or other body which has power to act under and for the purposes of any written law relating to local government, public health or undertakings of public utility or otherwise to administer funds belonging to or granted by the Government or money raised by rates, taxes or charges in pursuance of any such law; a co-operative society established under the Co-operative Societies Act; a public university; any other body prescribed by regulation for the purposes of this.

Good governance practices exist at KIPPRA to achieve the best possible level of organizational performance, and ensuring good corporate governance. In ensuring good corporate governance in its work, the Board carries out its responsibilities in accordance with the highest ethical standards. It is the focal point of corporate governance in the institute, and ultimately accountable and responsible for the performance and affairs of the institute.

## **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

The Board strives for consensus in decision-making, and conducts informed decision-making and exercises good judgment in the establishment of the institute's strategic direction, safeguarding the institute's resources, and monitoring corporate performance.

The size of the Board comprises 13 members as outlined elsewhere. Members of the Board are appointed by the Cabinet Secretary by virtue of their integrity, knowledge and experience in matters relating to public policy, a basic understanding of the management of public finances, personnel management and social science research procedures. The appointment is placed in the Kenya Gazette. On appointment, Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of their roles and responsibilities. A Director is at liberty to accept appointments to other boards, provided such appointments do not result in any conflict of interest with the institute.

Appointment of Board members is for three (3) years, renewable as deemed necessary by the Government. The Chairman is responsible to the Cabinet Secretary, Ministry of Devolution and Planning, and is responsible for chairing the institute's Board meetings. It is the chairman's duty to preserve order during these meetings and to see that the proceedings are regularly conducted. The Chairman is supposed to take care that the sense of each meeting is properly ascertained with regard to any question raised before it. He/she has the responsibility of guiding the Board in its decision-making process, development of policy and determination of strategic issues.

The Chairman of the Board is appointed by His Excellency the President, and is responsible for ensuring the integrity and effectiveness of the Board and its committees. The Chairman's role relates to Board leadership, review of the individual role and performance of Directors, chairing Board meetings, and ensuring Board effectiveness.

The members of the Board elect from amongst their number a Vice Chairman and Honorary Treasurer.

The Board operates through a Board Charter, which outlines the Board's roles and responsibilities as well as its functions and structures in a way that is expected to support the Board in carrying out its strategic oversight function. It details aspects of the Board's purpose, structure, composition, specific duties, evaluation, and succession planning. The Charter also outlines the governance processes used to fulfill these roles and responsibilities. It provides an opportunity for Board members to apply best practices in its leadership and oversight role over the institute in pursuit of excellence and effectiveness. The Charter is reviewed at least once every three years to ensure that it takes on board advances in knowledge on institutional leadership and governance and meets the objectives of the institute.

There are four oversight committees, namely: Finance, Audit, Programmes, and General Purposes committee. Committee members are appointed based on their skills and expertise in relation to the role/function of each committee. The Board Committees and the full Board are expected to hold at least four meetings each year, on quarterly basis. The Committees and the Board may hold additional meetings as circumstances may require.

## **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

Organizational goals and values of the institute are stated and articulated in the institute's Strategic Plan, Annual Work Plans, and the Service Charter. The institute runs on five-year strategic plans, and annual work plans. The Strategic plan is reviewed mid-way, while work plans are reviewed on a quarterly basis. Implementation of the strategic plan and work plans are routinely monitored and evaluated through a Monitoring and Evaluation Committee. A report is presented to the Management team comprising of Heads of Divisions, and ultimately to the Board's Programmes Committee, and thereafter the full Board. Implementation of the Strategic Plan, Work Plan, and Service Charter is monitored through the annual Performance Contract agreement signed between the Board and the government (parent ministry), between the Executive Director and the Board, and between the Executive Director and Heads of Divisions.

## **VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

KIPPRA commits to improve the well-being of Kenyans by contributing a portion of its resources to projects/initiatives that improve their lives. This will have a positive impact on the institute's reputation, given that it will be closely tied up to the public's emotional belief. Priority areas to be pursued include health, education, environment and sport. Some of the areas covered in the past include:

- Blood donations to the Kenya National Blood Transfusion Service
- Production of Braille versions of the Kenya Economic Report
- Computer donations to schools
- Giving inspiration lectures to students in the Schools of Economics in Kenya
- Educating youth on HIV/AIDS and drugs and substance abuse

**VIII. CORPORATE INFORMATION**

<b>BOARD OF DIRECTORS</b>	Prof Mohamed S. Mukras: Chairperson – Appointed 31 March 2014 Dr John M. Omiti: Executive Director/Secretary PS, Ministry of Devolution and Planning : Alternate: Ms Sabina Maghanga CS, The National Treasury: Alternate: Mrs Josephine Kanyi PS, Ministry of Foreign Affairs & International Trade: Alternate: Amb.Nelson Ndirangu Dr. Hassan Roba: Gazetted 9 May 2014, Appointed 9 July 2014 Prof. Stephen Kiptoem Mairori: Gazetted 9 May 2014, Appointed 9 July 2014 Prof. Evans Aosa: Gazetted May 9 May 2014, Appointed 9 July 2014 Susan Auma Mang'eni: Gazetted 9 May 2014, Appointed 9 July 2014 Lena Munuve: Gazetted 9 May 2014, Appointed 9 July 2014 Emma M. Mwongeli: Gazetted 9 May 2014, Appointed 9 July 2014 Prof. Vincent Otieno Osanya: Gazetted 9 May 2014, Appointed 9 July 2014 Prof. Marangu Marete: Gazetted 9 May 2014, Appointed 9 July 2014 Prof. Michael Chege: Gazetted 9 May 2014, Appointed 9 July 2014
<b>SENIOR MANAGEMENT TEAM</b>	Dr John M. Omiti: Executive Director Dr Dickson Khainga: Ag. Programs Cordinator Benson Kiriga: Ag. Head, Macro Division Ms Nancy Laibuni: Ag. Head, Productive Sector Division Ms Eldah Onsomu: Ag. Head, Social Sector Division Head, Infrastructure and Economic Services Division: Vacant Prof. Joe Kieyah: Head, Private Sector Development Division Dr Augustus Muluvi: Ag. Head, Trade & Foreign Policy Division Dr Jacob Chege: Ag. Head, Governance Division CPA Nicholas Ogolla: Ag. Finance & Investments Manager Mr Felix Murithi: Head, Knowledge Management & Communications Division
<b>REGISTERED OFFICE</b>	Bishops Garden Towers 2nd Floor, Bishops Road P.O. Box 56445, 00200 NAIROBI
<b>INDEPENDENT AUDITOR</b>	Auditor General Kenya National Audit Office (KENAO) Anniversary Towers P.O. Box 49384, 00100 NAIROBI
<b>PRINCIPAL BANKER</b>	Commercial Bank of Africa Limited Mama Ngina Street P.O. Box 30437, 00100 NAIROBI

## **BOARD COMMITTEES**

There was no Board during the period under review. However, the new board of directors assumed office effective September 2014 and the functions of the committees remain as described below:

The Board has four standing Committees, which are required to meet quarterly or as required. The Committees have been set up with clear terms of reference to facilitate efficient and effective decision-making of the Board in discharging its duties, powers and authorities.

The Programmes Committee is charged with the review of annual and quarterly work plans, and Performance Contracts.

The Finance Committee reviews annual budgets and procurement plans, quarterly and annual financial reports.

The Audit Committee works closely with the internal audit unit and plays a critical role in reviewing financial information and ensuring that the system of internal controls is effectively administered. It considers significant audit findings identified by the institute's internal and external auditors. The Committee maintains oversight on internal controls, and makes recommendations on financial information, risk management, policies and audit issues.

The General Purposes Committee advises the Board on organizational structure, administration, human resource policy and capacity enhancement/building, reviews the salaries, benefit packages and service contracts, recruitment of senior staff ensuring that these are competitively structured and linked to performance. The Committee also makes recommendations for broad guidelines that promote operational efficiency.

### **Programmes Committee**

Prof. Michael Chege—Chairperson  
Dr. Hassan Roba  
Ms. Lena Munuve  
Eng. Prof. Alfred V. Otieno  
Amb. Nelson Ndirangu

### **Audit Committee**

Ms. Susan A. Mang'eni – Chairperson  
Mr. Stephen K. Mairori  
Ms. Sabina Maghanga  
Ms. Emma M. Mwongeli  
Dr. Hassan Roba

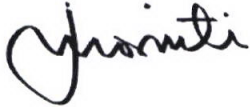
### **Finance Committee**

Prof. Evans Aosa – Chairperson  
Ms. Lena Munuve  
Amb. Nelson Ndirangu  
Ms. Josephine Kanyi  
Prof. Michael Chege

**BOARD COMMITTEES (CONTINUED)**

**General Purposes Committee**

Ms. Emma M. Mwangeli – Chairperson  
Prof. Marangu Marete  
Ms. Josephine Kanyi  
Eng. Prof. Alfred V. Otieno  
Ms. Susan A. Mang'eni



**EXECUTIVE DIRECTOR**

**NAIROBI**

**22 DECEMBER 2014**

## **X. REPORT OF THE DIRECTORS**

The directors submit their report and the audited financial statements for the year ended 30 June 2014, which disclose the state of affairs of the institute.

### **INCORPORATION**

The Kenya Institute for Public Policy Research and Analysis (KIPPRA) was formally established through Legal Notice No. 56 in the Kenya Gazette of 9 May 1997, and later through the KIPPRA Act No. 15 of 2006. KIPPRA is an autonomous public institute whose primary mission is to conduct public policy research and analysis leading to policy advice to the Government of Kenya (GoK) and the private sector. The institute operates under the Ministry of Devolution and Planning.

The object and purpose for which the institute was established is to develop human and institutional capacities which shall, by undertaking economic forecasting, policy analysis and research, contribute to the formulation of medium and long-term strategic perspective for the economic and social development of Kenya.

### **PRINCIPAL ACTIVITIES**

The principal functions of the institute are to:

- Develop capacities in public policy research and analysis and to assist the Government in the process of policy formulation and implementation;
- Identify and undertake independent and objective programmes of research and analysis, including macroeconomic, inter-disciplinary and sectoral studies on topics affecting public policy in areas such as human resource development, social welfare, environment and natural resources, agriculture and rural development, trade and industry, public finance, money and finance, macroeconomic and microeconomic modeling;
- Provide advisory and technical services on public policy issues to the Government and other agencies of the Government;
- Communicate the findings and recommendations of the institute's research programmes to the agencies of the Government concerned with implementation of public policy;
- Serve as a point of communication and encourage the exchange of views between the Government, the private sector and other bodies or agencies of the Government on matters relating to public policy research and analysis;
- Collect and analyse relevant data on public policy issues and to disseminate the institute's research findings to persons it deems appropriate to publish such research findings;
- Develop and maintain a reservoir of research resources on public policy and related issues and make these available to the Government, the private sector and learning institutions in Kenya; and

## REPORT OF THE DIRECTORS (CONTINUED)

- Undertake public policy research and analysis for the Government and for clients in the private and public sectors.

### RESULTS

	<b>2014</b>	<b>2013</b>
	<b>Shs'000'</b>	<b>Shs'000'</b>
<b>Income</b>		
Transfers from government—gifts and services-in-kind	293,979	246,086
Rendering of services	62,089	60,877
Finance income - external investments	23,115	21,201
Other income	1,941	3,704
<b>Total income</b>	<b>381,124</b>	<b>331,868</b>
Expenditure	<u>(324,506)</u>	<u>(283,963)</u>
<b>Operating surplus</b>	<b>56,618</b>	<b>47,905</b>
Gain on foreign exchange transactions	566	1,011
<b>Net surplus for the year</b>	<b><u>57,184</u></b>	<b><u>48,916</u></b>

### BOARD MEMBERS' BENEFITS

No Board member has received or become entitled to receive any benefit other than members' allowances and amounts received under employment contract for the Executive Director.

### DIRECTORS

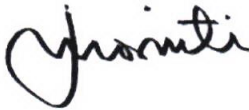
The directors who held office during the year and at the date of this report are shown on page 18.

**REPORT OF THE DIRECTORS (CONTINUED)**

**INDEPENDENT AUDITOR**

The Auditor General will continue as the auditor as per section 12 of the Public Audit Act. The Auditor General appointed PKF Kenya in 2013 for a period of 2 years to carry out the audit on their behalf as per section 39 of the Public Audit Act.

**BY ORDER OF THE BOARD**



**EXECUTIVE DIRECTOR  
NAIROBI**

**22 DECEMBER 2014**

## XI. STATEMENT OF DIRECTORS' RESPONSIBILITIES

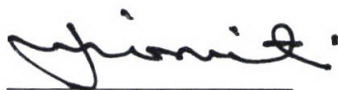
The Public Finance Management Act, 2012 and the State Corporations Act, require the Directors to prepare financial statements in respect of the institute, which give true and fair view of the state of affairs and the operating results of the institute for the year ended 30 June 2014. The Directors are also required to ensure that the institute keeps proper accounting records which disclose with reasonable accuracy the financial position of the institute. The Directors are also responsible for safeguarding the assets of the institute.

The Directors are responsible for the preparation and presentation of the institute's financial statements, which give a true and fair view of the state of affairs of the institute for and as at the end of the financial year ended on 30 June 2014. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the institute's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the Public Finance Management Act and the State Corporations Act. The Directors are of the opinion that the institute's financial statements give a true and fair view of the state of entity's transactions during the financial year ended 30 June 2014, and of the institute's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the institute's financial statements as well as the adequacy of the systems of internal financial control.

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

Approved by the board of directors on 22 Dec 2014 and signed on its behalf by:



DIRECTOR



DIRECTOR

## REPORT OF THE INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS OF KENYA INSTITUTE FOR PUBLIC POLICY RESEARCH AND ANALYSIS TO THE AUDITOR GENERAL

### Report on the Financial Statements

We have audited the accompanying financial statements of the Kenya Institute for Public Policy Research and Analysis set out on pages 29 to 52 which comprise the statement of financial position as at 30 June 2014 and the statement of income and expenditure and other comprehensive income, statement of changes in accumulated funds, 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.

### Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Public Sector Accounting Standards and the Kenya Institute for Public Policy Research and Analysis Act (KIPPRA Act), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Kenya Institute for Public Policy Research as at 30 June 2014 and of its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards and the requirements of the KIPPRA Act, 2006.

**REPORT OF THE INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS OF KENYA  
INSTITUTE FOR PUBLIC POLICY RESEARCH AND ANALYSIS TO THE AUDITOR GENERAL  
(CONTINUED)**

**Emphasis of matter**

Without qualifying our opinion, we draw attention to accounting policy (i) which states that no provision for taxation has been recognised in the financial statements as the directors are of the opinion that the institute is exempt from taxation. We also refer to note 26 to the financial statements which discloses the material uncertainty in this respect.

**Report on Other Legal Requirements**

As required by the KIPPRA Act, 2006 and Public Audit Act we report to you, based on our audit, that:

- (i) we have obtained all the information and explanations which to the best of our knowledge and belief we consider were necessary for the purposes of our audit;
- (ii) in our opinion proper books and other records of account of income, expenditure, assets and liabilities have been kept by the institute;
- (iii) the institute's statement of financial position and statement of income and expenditure and other comprehensive income are in agreement with the books of account;
- (iv) due provisions have been made for repayment of all money borrowed by the institute; and
- (v) adequate amounts have been set aside for depreciation and renewal of the assets of the institute.

  
Certified Public Accountants

NAIROBI

30 December 2014

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Chaudhry Mohamed Asif - P/No. 2059.

1197/14

### XIII. STATEMENT OF FINANCIAL PERFORMANCE

	Notes	2014 Shs'000'	2013 Shs'000'
<b>Revenue from non-exchange transactions</b>			
Transfers from government – gifts and services-in-kind	3	293,979	246,086
<b>Revenue from exchange transactions</b>			
Rendering of services	4	62,089	60,877
Finance income – external investments	5	23,115	21,201
Other income	6	1,941	3,704
		<u>87,145</u>	<u>85,782</u>
<b>Total revenue</b>		<u>381,124</u>	<u>331,868</u>
<b>Expenses</b>			
Employee costs	7	(186,686)	(181,713)
Depreciation and amortization expense	8	(8,967)	(5,745)
Repairs and maintenance	9	(3,244)	(964)
General expenses	10	(125,609)	(95,541)
<b>Total expenses</b>		<u>(324,506)</u>	<u>(283,963)</u>
<b>Other gains</b>			
Gain on foreign exchange transactions		566	1,011
<b>Net surplus for the year</b>		<u>57,184</u>	<u>48,916</u>
<b>Total comprehensive income for the year</b>		<u>57,184</u>	<u>48,916</u>

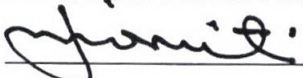
The notes on pages 34 to 52 form an integral part of these financial statements.

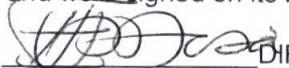
Report of the independent auditor - pages 27 and 28.

#### XIV. STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June	
		2014 Shs'000'	2013 Shs'000'
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	11	200,992	150,531
Receivables from exchange transactions	12	14,733	41,170
Investments in treasury bills	13	280,544	240,918
EFD-Kenya Account	14	29,348	8,763
		<u>525,617</u>	<u>441,382</u>
<b>Non-current assets</b>			
Property and equipment	15	19,775	10,710
Intangible assets	16	1	93
Retirement benefit obligations	17	19,190	19,947
		<u>38,966</u>	<u>30,750</u>
<b>Total assets</b>		<u>564,583</u>	<u>472,132</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	18	5,246	5,324
Deferred income	19	236,071	226,650
Payable to gratuity fund	20	14,189	10,921
EFD-Kenya Account	14	29,348	8,763
Other accrued liabilities	21	6,272	3,444
		<u>291,126</u>	<u>255,102</u>
<b>Non-current liabilities</b>			
Retirement benefit obligations	17	19,190	19,947
<b>Total liabilities</b>		<u>310,316</u>	<u>275,049</u>
<b>Net assets</b>		<u>254,267</u>	<u>197,083</u>
Accumulated funds		<u>254,267</u>	<u>197,083</u>
		<u>254,267</u>	<u>197,083</u>

The financial statements on pages 29 to 52 were approved and authorised for issue by the Board of Directors on 22 Dec 2014 and were signed on its behalf by:

 DIRECTOR

 DIRECTOR

The notes on pages 34 to 52 form an integral part of these financial statements.  
Report of the independent auditor - pages 27 and 28.

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**XV. STATEMENT OF CHANGES IN NET ASSETS**

	<b>Accumulated funds Shs'000'</b>	<b>Total Shs'000'</b>
<b>Year ended 30 June 2013</b>		
At start of year	148,167	148,167
Total comprehensive income for the year	<u>48,916</u>	<u>48,916</u>
At end of year	<u>197,083</u>	<u>197,083</u>
<b>Year ended 30 June 2014</b>		
At start of year	197,083	197,083
Total comprehensive income for the year	<u>57,184</u>	<u>57,184</u>
At end of year	<u>254,267</u>	<u>254,267</u>

The notes on pages 34 to 52 form an integral part of these financial statements.

Report of the independent auditor - pages 27 and 28.

## XVI. STATEMENT OF CASH FLOWS

	Notes	2014 Shs'000'	2013 Shs'000'
<b>Operating activities</b>			
<b>Receipts</b>			
Government grants		265,724	275,714
Development partners grants		37,676	61,388
Rendering of services		78,529	58,452
Finance income		23,115	21,201
Other income		1,941	3,704
		<u>406,985</u>	<u>420,459</u>
<b>Payments</b>			
Compensation of employees		180,590	187,800
Goods and services		101,152	109,911
Rent paid		18,852	14,155
		<u>300,594</u>	<u>311,866</u>
Net cash from operating activities		<u>106,391</u>	<u>106,403</u>
<b>Investing activities</b>			
Cash paid for purchase of property and equipment	15	(17,939)	(1,905)
Net movement in financial assets maturing after 91 days		(88,319)	(4,218)
Interest received		1,069	1,179
		<u>(105,189)</u>	<u>(4,944)</u>
Net cash (used in) investing activities		<u>(105,189)</u>	<u>(4,944)</u>
Increase in cash and cash equivalents		<u>1,202</u>	<u>101,459</u>
<b>Movement in cash and cash equivalents</b>			
At start of year		316,851	214,381
Increase		1,202	101,459
Effect of exchange rate changes		566	1,011
		<u>318,619</u>	<u>316,851</u>
At end of year	11	<u>318,619</u>	<u>316,851</u>

The notes on pages 34 to 52 form an integral part of these financial statements.

Report of the independent auditor - pages 27 and 28.

**XVII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

	<b>Original budget</b>	<b>Adjustment</b>	<b>Final budget</b>	<b>Actual on comparable basis</b>	<b>Performance difference</b>
<b>Revenue</b>	<b>2013-2014 Shs '000'</b>	<b>2013-2014 Shs '000'</b>	<b>2013-2014 Shs '000'</b>	<b>2013-2014 Shs '000'</b>	<b>2013-2014 Shs '000'</b>
Think Tank Initiative (TTI)	30,636	(960)	29,676	18,111	11,565
African Capacity Building Foundation (ACBF)	26,572	2,250	28,822	19,565	9,257
GoK Grant and Subsidies	500,000	(227,300)	272,700	265,724	6,976
Rendering Service	37,792	-	37,792	64,030	(26,238)
Spending from Retained Earnings	-	226,010	226,010	-	226,010
Finance Income	-	-	-	23,115	(23,115)
<b>Total Income</b>	<b>595,000</b>	<b>-</b>	<b>595,000</b>	<b>390,545</b>	<b>204,455</b>
<b>Expenses</b>					
<b>Operating Costs</b>					
Compensation of Employees	228,500	(200)	228,300	186,686	41,614
Goods & Services	88,835	200	89,035	82,207	6,828
Finance Costs	300	-	300	320	(20)
Rent Paid	18,500	-	18,500	18,852	(352)
Other Payments (Capital & Development)	258,865	-	258,865	17,936	240,929
<b>Total Expenditure</b>	<b>595,000</b>	<b>-</b>	<b>595,000</b>	<b>306,001</b>	<b>288,999</b>
<b>Surplus for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>84,544</b>	<b>(84,544)</b>

## **XVIII. NOTES ON THE FINANCIAL STATEMENTS**

### **SIGNIFICANT ACCOUNTING POLICIES**

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

The institute's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the institute and all values are rounded to the nearest thousand (Shs '000'). The accounting policies have been consistently applied to all the years presented.

The financial statements of the previous year were prepared in accordance with full International Financial Reporting Standards. Transition to International Public Sector Accounting Standards did not have any material effect on the comparative figures hence no prior year adjustment has been made.

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

#### **2. Summary of significant accounting policies**

##### **a) Significant judgments and sources of estimation uncertainty–IPSAS 1**

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

- Useful lives of property and equipment. The institute reviews the estimated useful lives of property and equipment at the end of each annual reporting period. Critical estimates are made by the authority members in determining depreciation rates for the property and equipment. The rates are set out in note (f).
- Provisions and contingent liabilities. The institute reviews its obligations at the end of each balance sheet date to determine whether provisions need to be made and if there are any contingent liabilities. In the process of applying the institute's accounting policies, management has made judgements in determining:
  - whether assets are impaired
  - the classification of financial assets and leases
  - Provisions and contingent liabilities.

## **XVIII. NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)**

### **b) Changes in accounting policies and estimates–IPSAS 3**

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

### **c) Revenue recognition**

#### **i) Revenue from non-exchange transactions–IPSAS 23**

##### **Transfers from other government entities**

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

Unrestricted grants are accounted for in the period when confirmation of the commitment to pay is received from the donors or the Government of Kenya (GoK).

Grants received for specific purposes are treated as deferred income and only credited to the income and expenditure statement when the activities for which they were provided for have been undertaken.

Grants received for specific asset purchases are treated as deferred income for asset acquisition and only credited to the income and expenditure statement when the activities for which they were provided for have been undertaken.

#### **ii) Revenue from exchange transactions–IPSAS 9**

##### **Rendering of services**

Project income represents income generated from commissioned projects carried out by the institute and is accounted for on an accrual basis. The income is net of withholding tax, where applicable.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

##### **Interest income**

Interest income is recognized on an accrual basis under the effective interest rate method.

## **XVIII. NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)**

### **d) Foreign currency transactions–IPSAS 4**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date.

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

### **e) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

For the purposes of these financial statements, cash and cash equivalents also include cash in hand deposits held at call with banks and financial assets of less than 3 months.

### **f) Property and equipment–IPSAS 17**

All property and equipment are stated at cost less accumulated depreciation and impairment losses.

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

Depreciation on other assets is calculated on the straight-line balance basis to write down the cost of each asset, or the re-valued amount, to its residual value over its estimated useful life using the following annual rates:

	Rate %
Computers	33.3
Motor vehicles	25.0
Furniture and fittings	12.5
Office equipment	12.5

## **XVIII. NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)**

### **f) Property and equipment–IPSAS 17 (continued)**

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

### **g) Intangible assets–IPSAS 31**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The costs are amortized on a straight line basis over the expected useful lives, not exceeding three years.

### **h) Financial instruments–IPSAS 29**

#### **i) Financial assets**

##### **Initial recognition and measurement**

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

##### **Loans and receivables**

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

##### **Held-to-maturity**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the institute has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

## **XVIII. NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)**

### **h) Financial instruments—IPSAS 29 (continued)**

#### **Impairment of financial assets**

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

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

### **ii) Financial liabilities**

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The institute determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of other payables, accruals and staff gratuity fund, plus directly attributable transaction costs.

### **i) Taxation**

The institute does not have tax exemption certificate. However, under section 27 of the Kenya Institute for Public Policy Research and Analysis Act (KIPPRA Act), subject to other applicable laws, the institute is exempt from taxes as the Minister for the time being responsible for Finance may by notice in the Gazette specify. Therefore, no provision for tax liability has been made in the financial statement.

The directors are of the opinion that the tax exemption should be applicable irrespective of the absence of a specific Gazette notice/approval from the Minister of Finance.

## **XVIII. NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)**

### **j) Employee benefits–IPSAS 25**

#### **Retirement benefit plans**

The institute operates a gratuity scheme for its qualifying staff. Under the plan, the employees are entitled to 12.5% of their monthly basic salary for every month of service. This scheme is classified as a defined benefit retirement scheme and is accounted for under the projected unit credit method with valuations being internally carried out by the institute annually. Re-measurements relating to actuarial gains and losses are recognised in the statement of comprehensive income and current service costs as well as net interest expense/income are recognised in profit or loss.

The institute and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The company's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate.

### **k) Budget information–IPSAS 24**

The annual budget is prepared on the accrual basis; that is, all planned costs and income are presented in a single statement to determine the needs of the institute. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis timing or institute 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.

### **l) Related parties–IPSAS 20**

The institute 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 institute, or vice versa. The Government of Kenya and members of key management are regarded as related parties and comprise the board of directors and the senior management team.

### **m) Provisions–IPSAS 19**

Provisions are recognized when the institute has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### **n) Contingent liabilities**

The Entity 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.

**XVIII. NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)**

**o) Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

**p) Subsequent events–IPSAS 14**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30 June 2014.

**XVIII. NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)**

3.	<b>Transfers from other governments—gifts and services-in-kind</b>	<b>2014 Shs'000'</b>	<b>2013 Shs'000'</b>
	<b>Grant income</b>		
	Support from the Government of Kenya (GoK)	256,303	184,698
	Support from development partners	<u>37,676</u>	<u>61,388</u>
	<b>Total grant income</b>	<u>293,979</u>	<u>246,086</u>
4.	<b>Rendering of services</b>		
	Project Income	<u>62,089</u>	<u>60,877</u>
	<b>Total project income</b>	<u>62,089</u>	<u>60,877</u>
5.	<b>Finance income— external investments</b>		
	Investment income (Treasury Bills Interest)	22,046	20,022
	Interest received on bank deposits	<u>1,069</u>	<u>1,179</u>
	<b>Total finance income - external investments</b>	<u>23,115</u>	<u>21,201</u>
6.	<b>Other operating income</b>		
	Sale of KIPPRA publications	80	228
	Sale of tender documents	17	446
	FAC rental overheads (Reimbursement of overheads and rental income)	-	2,053
	Workshop income (Atlantic Council)	-	602
	Media articles (NMG)	-	240
	Compensation for loss of laptop	159	97
	Disposal proceeds from sale of property and equipment	-	38
	Other income	<u>1,685</u>	<u>-</u>
	<b>Total other operating income</b>	<u>1,941</u>	<u>3,704</u>

**XVIII. NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)**

7.	<b>Employment costs</b>	<b>2014</b>	<b>2013</b>
		<b>Shs</b>	<b>Shs</b>
		<b>'000'</b>	<b>'000'</b>
	Employee related costs– salaries and wages	170,234	163,222
	Recruitment cost	351	4,616
	Medical cost	12,193	11,723
	Group Life Insurance	705	663
	Other staff costs		
		<u>3,203</u>	<u>1,489</u>
		<u>186,686</u>	<u>181,713</u>
8.	<b>Depreciation and amortisation expense</b>		
	Property and equipment	8,875	5,383
	Intangible assets	<u>92</u>	<u>362</u>
	<b>Total depreciation and amortisation expense</b>	<u>8,967</u>	<u>5,745</u>
9.	<b>Repairs and maintenance</b>	<b>2014</b>	<b>2013</b>
		<b>Shs'000'</b>	<b>Shs'000'</b>
	Property and equipment	2,048	436
	Other repairs and maintenance	<u>1,196</u>	<u>528</u>
	<b>Total repairs and maintenance</b>	<u>3,244</u>	<u>964</u>

	<b>2014</b>	<b>2013</b>
	<b>Shs</b>	<b>Shs</b>
	<b>'000</b>	<b>'000</b>
<b>10. General expenses</b>		
Provision for doubtful receivables	27,474	-
Motor vehicle expenses	2,600	1,263
Postage & courier	352	513
Telephone	1,091	1,247
Internet	1,924	1,874
Stationery	1,499	1,866
Library	382	1,123
Publications	5,907	5,609
Legal fees	355	2,039
Audit fees	1,255	905
Travel	3,696	2,210
Research costs	32,244	25,244
Other expenses	4,941	4,421
Training & workshops	22,084	27,249
Board expenses	360	4,893
Bank charges	320	246
Rent	18,852	14,155
Insurance	273	684
<b>Total general expenses</b>	<b><u>125,609</u></b>	<b><u>95,541</u></b>
<b>11. Cash and cash equivalents</b>		
Bank	200,948	150,515
Cash in hand	44	16
	<b><u>200,992</u></b>	<b><u>150,531</u></b>
For the purpose of the statement cash flow, the year end cash and cash equivalents comprise the following:		
Cash and bank balances	200,992	150,531
Financial assets maturing within 91 days (Note 13)	117,627	166,320
	<b><u>318,619</u></b>	<b><u>316,851</u></b>

Not included within cash and cash equivalents are funds designated for the gratuity scheme (note 17) and EFD liability (note 14).

**XVIII. NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)**

12.	<b>Receivables from exchange transactions</b>	<b>2014 Shs'000'</b>	<b>2013 Shs'000'</b>
	Accrued project income	32,442	28,041
	Less: provisions for impairment	<u>(27,474)</u>	<u>-</u>
	Net accrued project income	4,968	28,041
	KeNHA performance guarantee	4,775	-
	Rent deposit	3,017	2,222
	ACBF ACEES receivables	1,001	545
	Prepaid rent	458	437
	Car park deposits	332	332
	Security bid – Ministry of Culture & National Heritage	182	100
	Gratuity interest income (Gratuity A/c)	-	29
	Telkom Kenya: ISDN deposit	-	69
	CBA safety locker deposit	-	13
	Toyota EA motor vehicle deposit	-	8,297
	HELB performance guarantee	-	304
	CCK performance deposit	-	306
	Bank guarantee: National Cohesion Project	-	475
		<u>14,733</u>	<u>41,170</u>
13.	<b>Investments in treasury bills</b>		
	<b>Held to maturity</b>		
	Opening balance	240,918	212,449
	Additional investments made during the year, net of liquidations	<u>39,626</u>	<u>28,469</u>
	Closing balance	<u>280,544</u>	<u>240,918</u>
	Held-to-maturity investments can be analysed as follows:		
	Maturing within 91 days (Note 11)	117,627	166,320
	Maturing after 91 days	<u>162,917</u>	<u>74,598</u>
		<u>280,544</u>	<u>240,918</u>

## XVIII. NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

### 14. Environment for Development (EFD)–Kenya Account

The institute entered into an agreement with the Environment Economics Unit (EEU) at Gothenburg University represented by the Environment for Development-Kenya (EFD Kenya) in 2007 for a 3 -year research collaboration. Funds received from Gothenburg University are normally to support specific annual budgeted activities. Surplus funds at the end of each year are normally carried forward to the following year and remain a liability to EEU. The institute normally charges the Unit a nominal rent and proportionate level of overheads. The outstanding EFD balance as at 30 June 2014 was Shs 29.3 million (2013: Shs 8.7 million). The institute is holding the same amount in a separate bank account for repayment of this liability which is presented separately from cash and cash equivalents.

### 15. Property and equipment

#### Year ended 30 June 2014

	Motor vehicles	Furniture and fittings	Office equipment	Computer equipment	Total
	Shs'000'	Shs'000'	Shs'000'	Shs'000'	Shs'000'
<b>Cost</b>					
At start of year	11,250	8,011	9,357	5,436	34,054
Additions	13,411	1,248	720	2,560	17,939
At end of year	24,661	9,259	10,077	7,996	51,993
<b>Depreciation</b>					
At start of year	8,535	5,419	5,405	3,985	23,344
Charge for the year	4,976	857	1,214	1,827	8,874
At end of year	13,511	6,276	6,619	5,812	32,218
<b>Net book value</b>	<b>11,150</b>	<b>2,983</b>	<b>3,458</b>	<b>2,184</b>	<b>19,775</b>
<b>Year ended 30 June 2013</b>					
<b>Cost</b>					
At start of year	11,250	7,887	8,925	4,087	32,149
Additions	-	124	432	1,349	1,905
At end of year	11,250	8,011	9,357	5,436	34,054
<b>Depreciation</b>					
At start of year	6,310	4,657	4,281	2,712	17,960
Charge for the year	2,225	762	1,124	1,273	5,384
At end of year	8,535	5,419	5,405	3,985	23,344
<b>Net book value</b>	<b>2,715</b>	<b>2,592</b>	<b>3,952</b>	<b>1,451</b>	<b>10,710</b>

**XVIII. NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)**

16. Intangible assets - Software costs	2014	2013
	Shs'000'	Shs'000'
<b>Cost</b>		
At the start and end of the year	7,466	7,466
<b>Amortisation</b>		
At start of year	7,373	7,011
Charge for the year	92	362
At end of year	7,465	7,373
<b>Net book value</b>	<b>1</b>	<b>93</b>

**17. Retirement benefit obligations**

The institute operates a gratuity scheme for qualifying employees which qualifies as a defined benefit scheme. Under the plan, the employees are entitled to 12.5% of their monthly basic salary for every month of service. The monthly gratuity is paid to a separate gratuity bank account maintained internally by the institute from where gratuity is paid out from whenever a staff contract comes to an end or whenever an employee leaves employment. Interest earned from the fund is transferred to the institute and treated as interest income for the period. The staff gratuity fund (see non-current asset section of the balance sheet) represents the total funds held with respect of gratuity. This amount is represented by the gratuity bank account balance amounting to Shs 5,001,350 (2013: Shs 8,866,041) and borrowing by the institute from gratuity fund (see current liability section of the balance sheet) amounting to Shs 14,188,972 (2013: Shs 10,920,722) which has been used for other purposes.

As the funds designated for settlement of the obligation are not independently held by a separate scheme, such funds have been presented on a gross basis in the assets of the institute.

**XVIII. NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)**

	<b>2014</b> <b>Shs'000'</b>	<b>2013</b> <b>Shs'000'</b>
Present value of internally funded obligations	<u>19,190</u>	<u>19,947</u>

The movement in the defined benefit obligation over the year was as follows:

	<b>2014</b> <b>Shs'000'</b>	<b>2013</b> <b>Shs'000'</b>
At start of year	19,947	18,207
Utilised during the year	(14,427)	(11,156)
Charge to profit or loss	<u>13,670</u>	<u>12,896</u>
At end of year	<u>19,190</u>	<u>19,947</u>

In the opinion of the directors, the carrying amount of gratuity approximate to its fair value.

The amounts recognised in the profit or loss for the year were as follows

	<b>2014</b> <b>Shs'000'</b>	<b>2013</b> <b>Shs'000'</b>
Current service cost (included in salaries and wages)	<u>13,670</u>	<u>12,896</u>

The primary assumptions applied in evaluating the value of the obligation under the projected unit credit method are as follows:

	<b>2014</b>	<b>2013</b>
Discount rate	10%	10%
Future salary increases	9%	9%
Average number of contracted years	<u>3yrs</u>	<u>3yrs</u>

**XVIII. NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)**

18. <b>Other payables</b>	<b>Shs'000'</b>	<b>Shs'000'</b>
Projects payable	105	444
GoK payable	2,296	3,664
TTI payable	914	983
ACBF payable	<u>1,931</u>	<u>233</u>
	<u>5,246</u>	<u>5,324</u>
19. <b>Deferred income</b>		
Support from the Government of Kenya (GoK)	<u>236,071</u>	<u>226,650</u>
20. <b>Payable to gratuity fund</b>		
Payable to gratuity fund represents funds borrowed from the staff gratuity fund and invested in treasury bills. Increase in staff gratuity fund is due to increase in the total salaries of staff.		
21. <b>Other accrued liabilities (provision for outstanding leave days)</b>		
	<b>2014</b>	<b>2013</b>
	<b>Shs'000'</b>	<b>Shs'000'</b>
At start of year	3,444	4,531
Charge/(credit) to profit or loss	<u>2,828</u>	<u>(1,087)</u>
At end of year	<u>6,272</u>	<u>3,444</u>

**XVIII. NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)**

**22. Commitments**

**Contractual commitments for the acquisition of property and equipment**

At the reporting date these commitments were as follows:

	<b>2014</b> <b>Shs'000'</b>	<b>2013</b> <b>Shs'000'</b>
Property and equipment - Motor vehicle	<u>-</u>	<u>8,298,858</u>

In addition to the above, the institute has entered into a contractual commitment to develop a headquarter project on a piece of land near University of Nairobi, College of Agriculture and Veterinary Sciences. The piece of land is 1.64ha (4.077 acres). Beacons had already been laid on 19 November 2012 and upon subdivision of the land being approved by the Survey of Kenya, they will proceed to the Commissioner of Lands for processing of the title documents.

**Operating lease commitments - as a lessee**

The future minimum lease payments payable under non-cancellable operating leases are as follows:

	<b>2014</b> <b>Shs'000'</b>	<b>2013</b> <b>Shs'000'</b>
Not later than 1 year	5,062	5,062
Later than 1 year and not later than 5 years	<u>14,889</u>	<u>14,889</u>
	<u>19,951</u>	<u>19,951</u>

## **XVIII. NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)**

### **23. Risk management objectives and policies**

#### **Financial risk management**

The institute's activities expose it to a variety of financial risks: market risk (including foreign exchange risk), credit risk and liquidity risk.

The institute's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the institute's financial performance.

Risk management is carried out by the management under policies approved by the board of directors.

Management identifies and evaluates financial risks in close co-operation with various departmental heads. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, credit risk and investment of excess liquidity.

#### **(a) Market risk**

##### *Foreign exchange risk*

The institute is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar. The risk arises from future transactions, assets and liabilities in the statement of financial position date. The institute manages foreign exchange risk by converting its foreign currency collection into local currency on an on-going basis to cater for its operational requirements. As a result, the institute does not hold large amounts of foreign currency deposits.

At 30 June 2014, if the Kenya Shilling had weakened 10 per cent against the US dollar, with all other variables held constant, operating surplus for the year would have been Shs 4,103,227 (2013: Shs 1,335,836) lower. Conversely, if the Kenya Shilling had strengthened 10 per cent against the US dollar with all other variables held constant, operating surplus would have been Shs 4,103,227 (2013: Shs 1,335,836) higher.

#### **(b) Credit risk**

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors.

None of the financial assets that are fully performing has been renegotiated in the last year.

Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

## XVIII. NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

### 23. Risk management objectives and policies (continued)

#### (c) Liquidity risk

Cash flow forecasting is performed by the finance committee of the institute by monitoring the institute's liquidity requirements to ensure it has sufficient cash to meet operational needs. All liquidity policies and procedures are subject to review by the management and approval by the Board of Directors. The ultimate responsibility for liquidity risk management rests with the Board, who have built an appropriate liquidity risk management framework for the management of the institute's short, medium and long-term funding and liquidity management requirements.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the institute's management maintains flexibility in funding by maintaining availability under committed credit lines.

No undiscounted liquidity risk analysis has been presented as there are no financial liabilities that mature more than 12 months.

24. Related party transactions and balances	2014 Shs'000'	2013 Shs'000'
The following transactions were carried out with related parties.		
i) Donations from Government of Kenya	<u>256,303</u>	<u>184,698</u>
ii) Key management personnel compensation		
Short term employee benefits	29,815	25,599
Post-employment benefits	<u>4,970</u>	<u>3,593</u>
	<u>34,785</u>	<u>29,192</u>

### 25. Events after the reporting period

No material events or circumstances have arisen between the accounting date and the date of this report.

## **XVIII. NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)**

### **26. Contingent liabilities**

As referred to in accounting policy (i), no provision for taxation has been recognised in these financial statements as the management considers the institute to be exempt. However, such exemption has not been formally gazetted as required under the KIPPRA Act.

In addition, no output VAT is charged by the institute on services rendered that would normally be subject to VAT at the standard rate. Management are of the opinion that the exempt status of the institute covers VAT as well.

The above factors represent material uncertainties. While no reliable estimate can be made of the financial effect of the uncertainty until further clarification is obtained, in the opinion of management, the institute has operated under the relevant laws and regulations and therefore does not have any material unrecognised tax liabilities. Management are in the process of formalising the exempt status of the institute.

### **27. Incorporation**

The Kenya Institute for Public Policy Research and Analysis is a non-profit making organization and was formally established through Legal Notice No. 56 in the Kenya Gazette of 9 May 1997. The KIPPRA Act No. 15 of 2006 was enacted in December 2006 and became operational effective on 1st February 2007, making the institute a semi-autonomous State Corporation under the Ministry of Devolution and Planning.

### **28. Presentation currency**

The financial statements are presented in Kenya Shillings (Shs) to the nearest a thousand Shillings.