REPUBLIC OF KENYA

KENYA NATIONAL AUDIT OFFICE

Paper Laid
By Hon. A. Tuder, MP

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF HIGHER EDUCATION LOANS BOARD

FOR THE YEAR ENDED 30 JUNE 2014

REPUBLIC OF KENYA

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KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR GENERAL ON HIGHER EDUCATION LOANS BOARD FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Higher Education Loans Board set out on pages 1 to 26, which comprise the statement of financial position as at 30 June 2014, statement of financial performance, statement of changes in accumulated fund, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards and for such internal control as the 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 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. 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 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 Board's internal control. An audit also includes evaluating the appropriateness of 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 qualified audit opinion.

Basis for Qualified Opinion

1. Land

As previously reported, the property, plant & equipment balance of Kshs.189,134,194 as at 30 June 2014, includes a parcel of land LR No. 209/13515 measuring 0.6 Hectares situated at Upper Hill area, Nairobi, recorded at a cost of Kshs.44,588,742. Although the ownership documents indicate that the Land belongs to the Board, a discrepancy exists between the deed plan at the Ministry of Lands, Housing and Urban Development and the actual position on the ground. Further, under separate circumstances, the Kenya Railways Corporation claims that the plot was illegally excised from the Corporation's Land, by the Commissioner of Lands. Although the management has explained that the matter has since been taken up by the parent Ministry for resolution, no positive response appears to have been received as at 30 June 2014.

Consequently, it has not been possible to confirm the accuracy of the property, plant and equipment balance of Kshs.189,134,194 or ownership of Land LR No.209/13515 recorded at Kshs.44,588,742 as at 30 June 2013/2014.

2. Loans to Students

As disclosed in note 4 to the financial statements, matured loans to students, loan interest and user charges as at 30 June 2014 totalled to Kshs.26,181,951,633 out of which an amount of Kshs.3,191,376,592 was recovered during the year, leaving an outstanding balance of Kshs.22,990,575,041. Further, a sum of Kshs.62,141,538 representing refunds has been added back to raise the outstanding balance to Kshs.23,052,716,579. When the provision for bad and doubtful debts of Kshs.1,152,635,829 is taken into account, the outstanding matured loans stood at Kshs.21,900,080,750 as at 30 June 2014. Although the Board has indicated that it has put measures in place to recover the outstanding loan and that there has been an increment in the amount of loan recovered during the year compared to the previous year, the amount recovered still appear inadequate when compared to the total matured portfolio.

In the circumstances, it has not been possible to ascertain the accuracy and recoverability of the matured loans amounting to Kshs.21,900,080,750 as at 30 June 2014.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Board as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards and comply with Higher Education Loans Board Act, Cap. 213 of the Laws of Kenya.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

28 April 2015

HIGHER EDUCATION LOANS BOARD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR

ENDED JUNE 30TH 2014

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

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I. KEY BOARD INFORMATION AND MANAGEMENT

(a) Background information

The Higher Education Loans Board (HELB) was established in July 1995 by an Act of parliament 'Higher Education Loans Board Act' Cap 213A. It is headed by the Chief Executive Officer and Board Secretary who is responsible for general policy and strategic direction of the Board.

(b) Principal Activities

Section six of the HELB Act states the functions of the Board as follows:-

- Formulate sound policies for regulating the management of the Fund;
- Solicit for funds and other assistance to promote the functions of the Board;
- Set the criteria and conditions governing the granting of loans including the rate of interest and recovery of loans;
- Receive any gift, donation, grants or endowments made to the Board, and to make legitimate disbursements there from;
- Establish and maintain links with other persons, bodies or organizations within or outside Kenya, as the Board may consider appropriate for the furtherance of its purposes;
- Enter into contract with financial institutions for the purpose of loan disbursement and recovery;
- Grant loans out of the Fund either with or without security, as the Board may deem fit, to any eligible person to enable or assist any student, to meet the cost of higher education;
- Determine the maximum number of eligible persons or students to be granted loans in any one particular year;
- Invest any surplus funds not currently required for the purpose of the Board in any investment authorized by law for investment of trust funds with power from time to time to vary or realize those investments;
- Receive and consider all loan applications from eligible persons or students wishing to be considered for the award of higher education loans, and to approve, withhold or reject such requests in accordance with the provisions of the Act;
- Borrow such monies from such sources and in such amounts as may be approved by the Minister with the concurrence of the Treasury and to secure such loans in such manner as

they deem fit;

- Take insurance cover for risk loans such as death, incapacity or inability to pay, as the Board deems fit;
- Establish and award bursaries and scholarships which it may consider necessary for promotion of the objectives and functions of the Board;
- Perform any other functions relating to the granting of students' loans in accordance with the provisions of the Act.

(c) Key Management

- Chief Executive Officer & Board Secretary
- Head of Finance Division
- Head of Operations Division
- Head of Research, Planning & Strategy Division
- Manager, Human Resource & Administration Department
- Manager, Finance Department
- Manager, Loan Repayment & Recovery Department
- Manager, Lending Department
- Manager, Information Technology Department
- Manager, Legal Services Department
- Manager, Internal Audit Services Department
- Manager, Fund Management

(d) Fiduciary Management

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

1. **Chief Executive Officer & Board Secretary**	Mr. Charles M. Ringera
2. **Head of Finance**	Mr. Shem A. Gichimu
3. **Head of Operations**	Mr. Victor K. Lomaria
4. **Head of Research, Planning & Strategy**	Mrs. Mary Wachira-Muchee
5. **Manager, Human Resource & Administration**	Mrs. Madrine Mburu

6. Manager, Finance	Mr. Joseph M. Ndiku
7. Manager, Loan Repayment & Recovery	Mr. Geoffrey O. Monari
8. Manager, Lending	Mrs. Esther N. Michieka
9. Manager, Information Technology	Mr. Daniel Kemei
10. Manager, Legal Services	Mrs. Bernadette N. Masinde
11. Manager, Internal Audit	Mr. Phares K. Chege
12. Manager, Fund Management	Mr. James Gachari

(e) Fiduciary Oversight Arrangements

The key fiduciary oversight committees of the board for the financial year 2013/2014 and their respective functions are outlined as below:

i) Loans Disbursement and Recovery Committee

- To formulate policies for sound management of loan disbursement and loan recovery processes;
- To formulate policies for sound management of the scholarship facility.
- To formulate and recommend for approval the criteria to be used in loan allocation/award;
- To formulate policies and conditions to guide the process of loan waivers.
- To submit to the Board quarterly reports on the activities of the Committee with regard to disbursement and recovery performance;
- To review the Credit management and scholarship policy on a regular basis;
- To hold meetings on a quarterly basis or as may need demands;
- Provide oversight of the risk management framework for controlling credit risks arising from ongoing lending activities in both the undergraduate and postgraduate loan;
- Monitor the loan portfolio quality and, in particular arrears performance
- Perform any other function assigned by the Board.

ii) Finance Staff & General Purpose Committee.

- To review and recommend approval of policies and conditions for sound management of the financial processes and operations;
- To review and report to the Board on the annual audited accounts;

- To review and recommend approval of policies and conditions for sound management of HELB's property and financial investments;
- To formulate policies and conditions for sound management of the HELB Human Resources;
- To formulate policies and conditions for sound management of the HELB Funds;
- To formulate policies and conditions for sound management of the HELB ICT systems;
- To submit to the Board of Directors quarterly reports on the activities of the Committee;

iii) Audit Risk & Compliance Committee.

- Assist the Chief Executive Officer (CEO) in enhancing internal controls in order to improve efficiency, transparency and accountability in the management of HELB's resources;
- Examine internal and external audit reports and recommendations after management response to ensure action is taken;
- Follow up to ensure positive action is taken to resolve unsettled and unimplemented Public Accounts and Public Investment Committees' (PAC/PIC) recommendations. In this regard, there shall be in place adequate mechanisms of enabling the audit committee facilitate adequate disposal of all PAC/ PIC recommendations;
- Provide oversight on HELB risk management processes;
- Enhance communication between Management, Internal and External Audit and fostering an effective internal audit function;
- Any other duties set out in the Audit committee charter.

(f) Board Headquarters

19th Floor,
Anniversary Towers,
University Way,
P. O. Box 69489-00400,
Nairobi-Kenya.

(g) Board Contacts

Telephone: (020) 2278000

Cellphone: 0711052000

Email: ceo@helb.co.ke

Website: www.helb.co.ke

twitter.com/HELBpage

facebook.com/HELBpage

Linkedin.com/higher-education-loans-board

(h) HELB Bankers

1. Kenya Commercial Bank Limited,
   University Way,
   Nairobi.

2. Equity Bank Limited,
   Equity Centre
   Upperhill.

3. Citibank Limited,
   Upperhill,
   Nairobi.

4. Standard Chartered Bank Kenya Limited,
   Koinange Street,
   Nairobi.

5. Co-operative Bank of Kenya Limited,
   University Way Branch
   Nairobi

6. Barclays Bank of Kenya Limited,
   Business Centre,
   Barclays Plaza,
   Nairobi

7. Housing Finance Limited,
   Koinange Street,
   Nairobi

8. Family Bank Limited
   Fourways,
   Nairobi

9. Chase Bank Limited
   Delta Branch,
   Westlands
   Nairobi.

(i) Independent Auditors

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

(j) Principle Legal Adviser

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

II. THE BOARD OF DIRECTORS

The Board is governed by a team of eleven members headed by the Chairman. The Secretary to the Board is also the Chief Executive Officer. The current members are:

MR. D. NDEGWA WACHIRA – CHAIRMAN, BOARD OF DIRECTORS HELB

David Ndegwa Wachira (63) is the Board Chairman of the Higher Education Loans Board. He holds a B.Sc from University of Nairobi, an M.Sc. (Economics and Business Management) and Postgraduate Diploma in Agricultural Economics both from the University of New England, Australia, and a graduate in Finance and Banking from Cornell University, Ithaca, USA where he studied as a Hubert H Humphrey Scholar. His competence lies in Corporate Strategic Planning and Management, Commercial Banking, Financial Modelling, risk & compliance, Economic Analysis and Governance, among other areas of specialization. Mr. Wachira is also a member of the Institute of Directors (Kenya Chapter) and a Fellow of Kenya Institute of Management. He has attended several courses and seminars in Finance, Human Resource Management, Corporate Governance, Audit and Risk Management, Performance Based Management, Business Rehabilitation, Alternative Dispute Resolutions, and several others as a resource person. Until recently, Mr. Wachira was the Chief Executive Officer at Consolidated Bank of Kenya and has also worked in other leading banks such as Cooperative Bank of Kenya, Barclays Bank of Kenya, among others both in Kenya and other African countries. During his time in the banking sector he served as the vice-chairman of Kenya Bankers Association for more than five years. He is the immediate past Chairman and Member of Dedan Kimathi University Council where he served for more than seven years. He is also a Board Member of a leading regional insurance company and a private hospital in Kenya in which he chairs Finance and Strategies committees of the two Boards.

MR. CHARLES M. RINGERA – CHIEF EXECUTIVE OFFICER & BOARD SECRETARY

Charles M. Ringera was born in 1969. He is a seasoned banker with over 20 years' practical banking experience that cuts across all facets of central and commercial banking. He formerly worked as a regulator with the Central Bank of Kenya in various capacities, as a bank examiner, Kisumu Branch, Finance, Audit and National Debt. He moved to Co-operative Bank in 2004 initially as Senior Credit Risk Analyst before being deployed to Enterprise-wide Risk Management as a senior manager to lay

foundation for Risk management for the bank as per the Central Bank's Risk Management Guidelines and Basel II Accord. In 2006, he moved to KCB Group where he headed the Group Operational Risk and Compliance supporting – Kenya, Tanzania, Southern Sudan, Uganda, Rwanda and Burundi.

Charles holds Bachelors of Science in Applied Accounting and an MBA in strategic management. He is a professional accountant holding a CPA (K) and a Fellow of Association of Certified Chartered Accountants, FCCA. He also holds an Advanced Diploma in Risk Management in Banking/Finance by KPMG Sweden

DR. RICHARD B. KIPSANG – PRINCIPAL SECRETARY MINISTRY OF EDUCATION

Dr Kipsang was born in 1967. He is the Principal Secretary Ministry of Education, Science and Technology. He holds a PhD from the Catholic University of Eastern Africa, where his dissertation was entitled, "*Assessment of Policy, Practice and Implication of Financing Higher Education through the Students' Loan Scheme in Kenya*". He has a Masters degree in Economics, and a Bachelor of Education (Hons) both from University of Nairobi. He is a former Chief Executive Officer of Coffee Trust Fund. Previously he worked at the Higher Education Loans Board as the Head of Operations in charge of Lending and Recovery departments. He is a trained Certified Fraud Examiner and an Associate member of Association of Certified Fraud Examiners (MCFE-UK).

DR. KAMAU THUGGE- PRINCIPAL SECRETARY, THE NATIONAL TREASURY

Dr. Kamau Thugge is a distinguished economist with a PhD in Economics from Johns Hopkins University. He is the first Principal Secretary, National Treasury. Prior to his appointment as Principal Secretary, he worked as a Senior Economic Advisor in the Ministry of Finance from the year 2010. He has also worked at the International Monetary Fund (IMF) in various capacities for over 21 years. He was the Head of the Fiscal and Monetary Affairs Department, Treasury between 2004 and 2005, and the Economic Secretary and Head of Economic Affairs Department, Treasury between 2005 and 2008. He has represented the Permanent Secretary, Finance on the Boards of the Central Bank of Kenya, the Monetary Policy Committee of the Central Bank of Kenya, the Kenya Revenue Authority and the Capital Markets Authorities

PROF. MABEL IMBUGA – REPRESENTATIVE VICE CHANCELLORS COMMITTEE FOR PUBLIC UNIVERSITIES

Prof. Mabel Imbuga was born in 1951. She is the Vice Chancellor of Jomo Kenyatta University of Agriculture and Technology, one of the public universities in Kenya. She is a Professor of Biochemistry, with over 33 years of teaching and scholarly experience. She has extensive knowledge and demonstrative experience in the higher education system, having grown from a Research Assistant, Assistant Lecturer, Lecturer, Research Scientist, Chairman of Department, Dean, Director as well as a Deputy Vice Chancellor in charge of Academic affairs. Prof. Imbuga is a key resource in strategic management and leadership, with an MBA in strategic management from Eastern and Southern African Management Institute (ESAMI). She has participated in various forums and key Government seminars as a motivational speaker for upcoming leaders and scientists. To her credit, Prof. Imbuga has over 10 funded projects and 27 publications. Prof Imbuga has attracted over 10 international funding for various projects cutting across various disciplines. She is a member of several professional associations across the world, the president of the Africa Women in Science and Engineering ; former Director of International Network of Women Engineers and Scientists; Member, Global Consortium of Higher Education and Research for Agriculture(GCHERA) and member, International Conference of Women Engineers and Scientists (ICWES).

DR. TIMOTHY WACHIRA - REPRESENTATIVE OF VICE - CHANCELLORS AND PRINCIPALS OF THE PRIVATE UNIVERSITIES

Dr. Wachira was born in 1957.He is the Vice chancellor of Daystar University. He has a doctoral degree in Public Health from University of Nairobi. He also served as the Vice Chancellor St Paul's University in 2004 to 2010. He has served as a General Secretary FOCUS, Senior Medical Research Scientist, AMREF, Lecturer University Nairobi and a Senior Research Scientist KARI. He serves as a Board Member in several boards in Kenya that include the Higher Education Loans Board, Biblica Kenya, Wycliffe Africa, Bible Society of Kenya and FOCUS.

MRS. JACQUELINE A. MUGO - REPRESENTATIVE, FEDERATION OF KENYA EMPLOYERS

Mrs. Mugo was born in 1956. She is the Chief Executive Officer, Federation of Kenya employers. She holds a Bachelor of Laws (University of Nairobi) and a Higher Diploma in HRM, Institute of Personnel Management. Her key expertise lies in employee relations and human resources management. She has worked in different capacities including being the resident magistrate, judicial department, Regional Human Resources Operations Manager Unilever Kenya Limited, head of human resources, Kenya Airways limited. She serves as a Board member of Member of Governing Body, ILO, Council Member, Pan-African Employers' Confederation (PEC), Trustee, National Social Security Fund (NSSF) Board of Trustees, Higher Education Loans Board, Labor Advisory Board, National Industrial Training Council and Productivity Centre of Kenya.

MR. HABIL O. OLAKA - REPRESENTATIVE, KENYA BANKERS ASSOCIATION

Habil Olaka was born in 1964. He is the Chief Executive Officer of the Kenya Bankers Association since October 2010. Previously, he was the Director of Operations of the East Africa Development Bank (EADB) and also member of the senior management team in charge of the credit operations and business development of the bank. Before joining the bank he had been with Banque Indesosuez now Bank of Africa for four years as the Internal Auditor, having started his career at the Price Water House Coopers Nairobi in the audit and business advisory division. He sits on a number of boards representing the KBA that include Kenya School of Monetary Studies, HELB among others. He holds a first class honors BSc Degree in Electrical Engineering from UoN and an MBA in Finance from the Manchester Business School in the UK. He is a member of ICPAK and CFA and an alumnus of Strathmore School of Accountancy.

MS.VICTORIA CHEPSEBA - MEMBER

Victoria Chepseba was born in 1976. She is a distinguished Lawyer in both private and public practices. She holds a Bachelor's degree in Law from Moi University and Post Graduate Diploma in Law of the Kenya School of Law. She has over ten years' experience. She is currently the Head of Position/Resident Advocate at the Christian Legal Education Aid and Research. She has previously worked in conjunction with Federation of Women Lawyers (FIDA) and International Organization for Migration (IOM).

MR. MWENDA THIRIBI - MEMBER

Mwenda Thiribi was born in 1950. He is an achieved financial expert with over 30 years-experience. He holds a Bachelor of Commerce from the University of Nairobi; he is a Certified Professional Accountant (CPA –K). He has attended several professional trainings both local and International that include Planning and Contracting project imports for industrial purposes at the Helsinki School of Economies in Finland, evaluation of industrial and Agro-Industrial projects by the World Bank- FEDI and monitoring of Industrial Projects –ICICI. His key expertise lies in Accountancy, Auditing, Financial and Management. He has worked as Director K-REP bank Limited, Member of BOG ST Angela's Secondary School, Director Dairy Board of Kenya and Director Higher Education Loans Board.

PROF DAVID K SOME - REPRESENTATIVE COMMISSION FOR UNIVERSITY EDUCATION

David is the Chief Executive Officer of the Commission for University Education. He holds a PhD from University of Newcastle –upon Tyne, U.K., M.Sc from Cranfield University and B.Sc. (Hons) University of Newcastle-upon Tyne, UK. A former Vice chancellor of Moi University, Prof Some is a member of a number of boards including the Higher Education Loans Board, and Family Bank Limited among others. He has also served as a member and founder chairman Board of Kenya Medical Training Colleges as well as ApproTEC, (Makers of Water pump) (Moneymaker) and oil presses. He is also the Collaborating Editor of the Journal of Agricultural Mechanization in Asia, Africa and Latin America.

III. MANAGEMENT TEAM

MR. CHARLES M. RINGERA – CHIEF EXECUTIVE OFFICER & BOARD SECRETARY

Charles M. Ringera was born in 1969. Charles is a seasoned banker of over 20 years' banking experience that cuts central and commercial banking. Charles formerly worked as a regulator with the Central Bank of Kenya (CBK) in various capacities; - Banking, Bank examiner, Internal Audit and Finance. While at CBK he had an opportunity to work with the Country's Deposit Insurance Scheme - the Deposit Protection Fund Board and did statutory management to five ailing financial institutions restructuring a few of them while liquidating others. Charles moved to Co-operative Bank in 2004 initially as Senior Credit Risk Analyst before being deployed to Enterprise-wide Risk Management as a senior manager to lay foundation for Risk management for the bank as per the Central Bank's Risk Management Guidelines and Basel II Accord.

In 2006 Charles moved to KCB Banking Group where Headed Group Operational Risk & Compliance supporting – Kenya, Tanzania, Southern Sudan, Uganda, Rwanda & Burundi. Charles was central in formulation of the Group's ERM Framework that supported Operational, Credit, Market and Compliance Risk management process across the Group. Charles oversaw the implementation of the Bank's Risk framework across the group through identification, assessment, monitoring & reporting, risk control and mitigation plans enabling the Bank treble profitability with an admirable EPS and enter new markets in all the six East African countries.

Charles holds Bachelor's of Science in Applied Accounting and an MBA in strategic management. He is a professional accountant holding a CPA (K) and a Fellow of Association of Certified Chartered Accountants, FCCA. He also holds an Advanced Diploma in Risk Management in Banking/Finance by KPMG Sweden.

MR. SHEM ANDREW GICHIMU –HEAD OF FINANCE

Shem is the Head of Finance. He has over 24 years' experience in the field of finance. He previously worked for the Credit Reference Bureau Africa Limited as the Group Finance Manager. He holds a B.Com [Accounting] from University of Nairobi and an MBA [Strategic Management] from the same University. In addition, he is a Certified Public Accountant of Kenya [CPA-K].

MR. VICTOR KIPKEMBOI LOMARIA -HEAD OF OPERATIONS

Victor is the Head of Operation in charge of Lending and Recovery departments. He is the immediate Internal Audit Manager. He joined the Board from the Postal Corporation of Kenya where he was the Manager in charge of the Audit and Investigations function. Prior to being elevated to this responsibility at the Postal Corporation of Kenya, he had served in both the Audit and Finance Departments rising to the positions of Acting Manager, Revenue & Credit Control, Audit and Treasury respectively before assuming the responsibilities of the new Department. Previously, he was also a Senior Internal Auditor with the then Kenya Posts & Telecommunication Corporation.

Mr. Lomaria holds a B.Com degree from the University of Nairobi and an MBA from the same university. He is a Certified Public Accountant (CPA-K). He has attended various professional courses in accountancy and auditing.

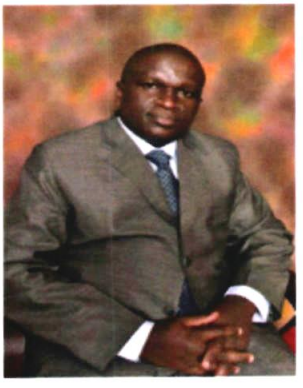
MRS. MARY WACHIRA-MUCHEE - HEAD OF RESEARCH, PLANNING & STRATEGY

Mary is the Head of Research Strategy and Planning. She has over 18 years of experience in the field of Finance. She joined HELB at inception in 1996 as an accountant in charge of Operations. Before joining HELB, she worked in National Housing Corporation from 1990-1996 in various positions up to Senior Accountant (Cost & Management section). She holds a Bachelor of Commerce degree (Accounting option) from the University of Nairobi and an MBA (Finance) from the same University. In addition she is a Certified Public Accountant of Kenya (CPA-K), a Certified Investment and Security Analyst as well as a member of Institute of Investment Professionals of East Africa (formerly Certified Financial Analyst of East Africa).

MRS. MADRINE MBURU -MANAGER, HUMAN RESOURCE & ADMINISTRATION

Madrine is the Human Resource Manager. She has over 16 years' experience in Human Resources. She joined the Board from the University of Nairobi where she was the Assistant Manager Human Resources and has risen through the ranks to her current position. She holds an MBA (Human Resource) from Kenyatta University and Bachelor of Arts from University of Nairobi. She has attended several key trainings and seminars that are key to her current position. Madrine also steers the HIV/AIDS committee of the Board. She is an active member of the Institute of Human Resources Management.

MR. JOSEPH NDIKU MUTHAMA - MANAGER, FINANCE



Mr. Joseph M. Ndiku is the Finance Manager. He has over 10 years' experience in the field of Finance and Accountancy. He joined the Board from Chuka University where he was the Deputy Finance Officer and in charge of the Finance Department. He had previously worked with Egerton University and Mastermind Tobacco (K) Ltd. He is a Certified Public Accountant of Kenya [CPAK] and a member of I.C.P.A.K.. Mr. Ndiku is also a Certified Information Systems Auditor (C.I.S.A). He holds a Master's Degree in Business Administration (MBA) and a Bachelors degree in Business and Management (Accounting Option) both of Egerton University and a Diploma in information technology (of JKUAT). He is a Certified Public Secretary of Kenya (C.P.S.K).

MR. GEOFFREY MONARI - MANAGER, LOAN REPAYMENT & RECOVERY

Geoffrey has served the Board in various capacities as an Assistant Loans Officer, Loans Officer and Senior Loans Officer from 1997 when he joined the Board. He holds a B. Com degree and MBA from J.K.U.A.T. He is a member of the Institute of Economic Affairs with over 17 years working experience in various positions at HELB. Geoffrey has managed the loan repayment and recovery function since October 2009. He has attended

several courses on Credit/Debt Management both locally and internationally, prosecution/investigation at the CID Training School among other trainings key to the delivery of his current position. Besides, he is an ISO 9001-2008 Internal Auditor and a Trustee of HELB Staff Retirement Scheme.

MRS. ESTHER NYABONYI MICHIEKA - MANAGER, LENDING

Esther is the Lending Manager. She has over 20 years' experience in the field of education. She joined the Board from Kenya Institute of Education, where she served as Senior Curriculum Developer and monitoring and evaluating the same at national level. She conducted research and evaluation on curriculum in African regional level. At the Board, she has risen through the ranks from being Loans Inspector, Senior Loans Inspector, Senior Loans Recovery Inspector 11, and Recovery Manager.

Mrs. Esther Michieka has attended professional courses in various fields. She is a professional counselor. She holds an M.A degree from the University of Nairobi, a Bachelor of Education degree and a Postgraduate Diploma in Education from the same University.

MR DANIEL KEMEI - MANAGER, INFORMATION TECHNOLOGY

Daniel is the ICT Manager. He has over 12 years' experience in ICT Management and Projects, and joins the Board from KenGen where he worked as the Chief ICT Officer. Previously, he also worked for Oserian Group of Companies and Symphony (IAT). He holds a Bed (Sc) degree from Kenyatta University and Master's Degree in Project Planning and Management from University of Nairobi. He is currently pursuing a PhD degree in Project Management Information Systems (PMIS) at the University of Nairobi. He is a Prince 2 Certified Practitioner with several IT Professional Certifications.

MRS. BERNADETTE N. MASINDE - MANAGER, LEGAL SERVICES

Bernadette is the Legal Services Manager. She holds an LLB (Hons) from the University of Nairobi, a Diploma in Law from the Kenya School of Law and is currently pursuing LLM (Commercial Law option). She is a Certified Public Secretary (K). She is a member of the Law Society of Kenya and the Law Society of East Africa. She has post qualification experience of over 20 years. Prior to joining HELB, she worked with FIDA and ICJ before joining private law practice. She joined HELB as a Legal officer and progressed to the current post of Legal Services Manager. She has spearheaded and manages the legal function of the Board.

MR. PHARES CHEGE- MANAGER, INTERNAL AUDIT

Phares is the Board's Internal Audit Manager. He joined the Board from Klynveld Peat Marwick Goerdeler (KPMG) Kenya where he was Senior Advisor, Risk Consulting specializing in Information Systems Audit. He also worked as an Internal Auditor with Kenya National Highways Authority and Financial and Systems Auditor with Kenya National Audit Office. He joins the board with a wealth of experience in Auditing. He holds MBA Accounting [UoN], BA Economics [UoN], CPA (K) and CISA. Phares is an active member of ICPAK, ISACA and IIA.

MR. JAMES MAINA GACHARI - MANAGER, FUND MANAGEMENT

James is the Board's Fund Manager. He joined the Board from CPF (formally Local Authorities Pension Trust (LAPTRUST)) where he was Investment Manager specializing Investment Accounting and Management. He also worked as Accountant – Pensions & Life with Madison Insurance Company Limited and Investment Officer with Madison Asset Management Services Limited. He joins the board with a wealth of experience in Fund Management. He holds MBA Finance [USIU - Africa], BA Economics [UoN] and CPA (K). James is an active member of ICPAK and is currently pursuing post graduate degree in Entrepreneurship at Jomo Kenyatta University of Agriculture and Technology [JKUAT].

IV. CHAIRMAN'S STATEMENT

On behalf of the Board of Directors for Higher Education Loans Board, I have the pleasure to present the annual report and financial statements of Higher Education Loans Board, for the year ended 30th June 2014. For HELB, 2014 was yet another year of outstanding financial performance. This remarkable improved performance is testament to the great potential that the Board has and emphatically underscores continued growth in our lending and recovery portfolios.

Lending

The Board disbursed **Kshs. 7,017,027,489** during the year **2013/2014** compared to **Kshs. 5,746,349,690** in **2012/2013**. Indeed this was a significant growth of 22%. However, the number of students seeking financial support from HELB continued to rise as a result of the rapidly growing number of Kenyans seeking university education. Currently there are over **400,000** students in public and private universities in the country many of whom look to HELB for financial support.

Recovery of Loans

The Board recovered a total of **Kshs. 3,191,376,592** in the year under review compared to **Kshs. 3,267,275,334** recovered in **2012/2013**. The Board has taken the recovery of loans to a higher level taking cognizance that the sustainability of the Revolving Fund depends on the effectiveness with which the Board recovers loaned out funds. To this end we have put an ambitious recovery target of **Kshs 3.4 Billion** during the year 2014-2015.

The Board has developed strategies to strengthen the recovery function in a number of ways. They include:

- Enhanced collaboration with the Kenya Revenue Authority (KRA) as provided by the amendments to the ***KRA Act*** made by the ***2005/2006 Finance Act*** which gave HELB the mandate to liaise with KRA with the view to accessing its data base to trace university graduates not repaying their loans. The Board is also looking at strengthening liaison with other institutions such as **NHIF, TSC, NSSF** and Government ministries to help in loan recovery;
- Intensified loan recovery campaigns through both the print and the electronic media;

- Initiating partnership with credit reference bureaus;
- Engaging debt collectors;
- Strengthening awareness among employers regarding their obligations on loan recovery as spelt out in the HELB ACT;
- Enhancing ICT application in the administration of the loan recovery function;
- Facilitate easier loan recovery remittance mechanisms including electronic transmittance, direct debits, credit card facility and direct deposits to various banks within the country to improve on loan collection;
- Strengthening the Legal Department to help prosecute employers and defaulters who do not comply with the requirements of the HELB Act.

Corporate Governance and Social Responsibility

HELB continues to demonstrate leadership in financing of higher education in this country by putting in place structures that enhance effective management and service delivery. We have put in place a strong link between the Board of Directors and Management through committees of the Board of Directors to ensure focus on delivery of core responsibilities. Hence the Board continues to discharge its duties diligently through the various committees and the Board of directors. These committees include the Loans Disbursement and Recovery Committee; the Finance, Staff and General Purpose Committee; and the Procurement, Audit and Human Resources. To give Board oversight on internal control environment, a subcommittee of the Board looks at Audit Risk and Compliance.

All committees are chaired by a member of the Board and their memberships include the Chief Executive Officer. This structure ensures the Board pays attention to critical areas of its core functions and provides guidance in order to meet our clients' expectations as well as our objectives outlined in our strategic plan.

Future Outlook

The Board is on a sustainable growth path as lending and recovery functions are on an impressive course with recoveries beginning to turn in good results. Since the Board executed all its activities as spelt out in its annual plan, we are confident that this state of service delivery is the right track to the successful implementation of the Board's mandate in order to make meaningful contribution to national objectives.

With the launch of the Strategic Plan 2013-2018, the Board shall focus on maximizing on loan recovery through innovations in different modes of repayments of loans that are more convenient to our customers. The Board is investing heavily in Information Technology & Communication and human capital.

Appreciation

I would like to thank our partners as well as the stakeholders for the support they accorded to the Board in achieving these remarkable results. Let me also thank our clients in particular for their continued feedback that has helped us improve service delivery. I also acknowledge the support of the general public and the media both electronic and print, for always standing with us and promoting our brand in their own unique and special way.

Finally, I thank my fellow Board members for giving me support in providing guidance and leadership to the Board. The Management and staff have worked tirelessly and I commend them generously on behalf of the Board.

D. NDEGWA WACHIRA

CHAIRMAN, BOARD OF DIRECTORS

V. REPORT OF THE CHIEF EXECUTIVE OFFICER

It gives me great pleasure in presenting the Annual Financial Statements of the Higher Education Loans Board for the year ended 30th June 2014. Indeed the annual report and financial statement as at 30th June 2014 are an indication of yet another successful year 2013/2014. The growth achieved during the year is commendable given the prevailing macroeconomic environment.

Real GDP Growth

The economy was resilient, with output growth at 4.7% in 2013 compared to 4.6% in 2012. In the first quarter of 2014 the economy slowed down to 4.1% growth from 5.2% in a comparable quarter of 2013. The deceleration is reflected in growth of output from agriculture and forestry, which reduced to 2.7% from 6.8%. The slowed growth was attributed to erratic rains. During the year under review the economy suffered a couple of shocks mainly drought and security concerns compounding our loan recovery growth. Official unemployment averaged about 40% which directly resonates with our overall portfolio at risk of 38%.

Board Strategy

Owing to changes prevalent in the operating environment, early in 2013 the Board found it necessary to conduct a mid-term review of the Strategic Plan 2009 - 2014. The review process indicated that only 30% of the Strategic plan had been achieved against an expected achievement of 50%. Due to the changed environment, the Board made a decision to overhaul 2009-2014 strategic plan to align it with Vision 2030, Kenya Constitution 2010, Universities Act 2012, TVET Act 2013 and the recommendation in Sessional Paper No. 14 of 2012 on Education and Training. This resulted to a new 2013 – 2018 strategic plan based on four thematic pillars focused on Financial Sustainability, Customer Service delivery, Internal Business processes re-engineering and Institutional Capacity and Corporate governance.

The Board refocused and aligned its new vision to - ***A Loan available for every Kenyan enrolled in Higher Education*** hence contributing to the human resource development in Kenya and Africa as whole. The Board values were reshaped around customer centricity, teamwork, professionalism, courtesy, accountability, transparency and fairness.

Operations of the Board

The Board has kicked off a series of transformation initiatives during the year under review, putting the strategy as the nexus of these transformation initiatives. During the year under review, based on the presidential task force on parastatal reforms which recommended HELB to be converted into a Development Financial Institution (DFI) to develop the country's human capital; the Board undertook foundation work to change the Information Technology infrastructure that is more robust and secure, reform legal review process to convert into a DFI, Human capital capacity building and decentralization of HELB services through Huduma centres. Student's growth pressure seeking higher education funding necessitated the Board to focus a new line of funding seeking alternative funds outside Government Capitation and loan recoveries. To this end foundation work commenced on pursuing devolved funds, multilateral development support, individual and corporate funds to support HELB in achieving this ambitious agenda. The Board believes this is the only way to make the Board financially sustainable in the long-run.

The Board identified financial literacy as a major impediment to students in honouring their loan repayment as and when they mature. To this end, the Board rolled out a comprehensive financial literacy programme to create awareness of available products and repayment obligations upon graduation. The Board partnered with likeminded institutions: Institute of Certified Public Accountant of Kenya (ICPAK) and Association of Kenya Credit providers to conduct several financial literacy clinics across the country.

Financial Performance

During the year under review the Board earned a surplus of **Kshs. 851,287,501** compared to a surplus of **Kshs. 949,550,457** for the year ended 30th June 2013. This is a decrease of **9.8%** over the previous year due to marginal decrease in accrued interest on student loans as a result of increased loan repayments.

The Board continued with its mission of financing higher education by providing affordable loans. A total of **Kshs. 7,017,027,489** was awarded as loans, bursaries and scholarship during the year compared to **Kshs. 5,746,349,690** in 2012/2013. This is an increase of 22% over the previous year but includes some loans for the academic year 2014/2015 awarded during 2013/2014.The Board

was also able to recover **Kshs. 3,191,376,592** in the year under review compared to **Kshs. 3,267,275,334** recovered in 2012/2013.

Out of a budgeted expenditure of Kshs. 8.17B, the Board implemented austerity measures with comprehensive cost management programmes recording an actual expenditure of Kshs. 7.7 Billion resulting into a savings of Kshs 461Million. This in turn reduced overall budgeted deficit of Kshs. 1.75Billion to Kshs. 939 Million. The Board entered into education funding partnerships which brought in Kshs. 94 Million. Enhanced recovery measures led to decreased provision on bad and doubtful debts.

All Balance Sheet indicators showed strong growth. Total assets grew by 11.6% or Kshs. 3.85 Billion to a new high of Kshs. 37.166Billion between the two year's 2012/13 and 2013/14. Notable growth was recorded in Unmatured students loan that grew to a whooping Kshs. 2.66 Billion or an average of 22.4% demonstrating growth in student numbers joining higher institutions of learning.

Looking ahead

Due to surging demand of loans as a result of student number getting admitted into higher institutions of learning coupled with improvement in students' transition rate from secondary to higher institutions of learning, the Board is formulating a couple of strategies to achieve sustainable growth. In an endeavour to achieve that sustainable growth, the Board has taken full cognisance of the Macro-economic pressure which directly affects the performance of the Board. These are composed of;

- Graduate Unemployment that continues to hamper the recovery prospects and compromises the creation of a sustainable and dependable revolving fund;
- Graduate Under employment hence lengthens the repayment period or not prioritizing HELB loan repayment;
- Government reorganization into the devolved system continues to undermine loan recoveries due to personnel movements;
- Government funding support will continue to be a challenge given the competition with other Government priority programmes;

- Attitude of Loanees on the need to repay back the loans once they have completed their studies and settled;
- Migration of ex-university/loanees students to the diaspora has compounded tracing loanees for appropriate billing and also convenience on repayments;
- Impact of HIV/AIDS pandemic to the student population and loanees, makes loan recovery difficult.

In full cognisance of the above, the Board will within the next planning period be devising more innovative ways of loan recovery. Top on the agenda of the Board among others will be:-

- Seeking linkages with strategic partners like Kenya Power, Kenya Revenue Authority (KRA), NSSF, NHIF, Registrar of persons, professional bodies to enhance loanee tracing;
- Legal amendments to HELB Act to make it mandatory for Institutions to share data with HELB, seek HELB clearance certificate in seeking for a job or procurement of Goods and services pursuant to Chapter Six of the Constitution;
- Engaging private debt collection companies to reinforce the Boards collection unit;
- Strengthening our legal unit to offer more support to debt recovery. Prosecution of defaulters will be heightened during this period;
- Expanding financial literacy campaign across the breadth and width of the customer base to create a strong repayment culture as we partner with the Association of Kenya Credit Providers (AKCP) to reduce credit risk in the financial system while making credit cheaper through information sharing platform;
- Investing heavily on technology to improve customer experience and seamless customer contact as we create a customer centric organization. A new core IT processing platform will be implemented that will enhance more automated engagement with the customer through social media, self-service kiosk and online connectivity to our branches through Huduma centres. This will increase our customer touch points a key success factor in customer service and also creating loan repayment convenience;
- Implementing a comprehensive *"HELB Brand Ambassadors"* programme to help on reaching out to the Diaspora and create renewed focus around loan repayment and also resource mobilization. More repayment channels specifically focusing on creating convenience on Diaspora remittances on will be commissioned during this period. The Board will revolutionise the e-commerce repayments channels to reap maximum benefits;

- Finally we want to be on top of the mind for any Kenyan seeking to finance his/her higher education. We will endeavour to create products that resonates with what the customer wants. To this end new products that are Sharia compliant are underway.

To drive these transformative agenda, the Board will invest more on Human Capital to achieve a high performing culture. Comprehensive performance management framework is under implementation that will clearly reward high performing individuals.

On behalf of the Higher Education Loans Board, I thank the Government, Board and other stakeholders for their support in achieving these exemplary results. I also in a very special way thank staff members who have remained steadfast on the course to deliver an excellent performance in the financial year under review.

CHARLES M. RINGERA
CHIEF EXECUTIVE OFFICER/BOARD SECRETARY

VI. CORPORATE GOVERNANCE STATEMENT

1. Ownership

The Higher Education Loans Board (HELB) was established in July 1995 by an Act of parliament 'Higher Education Loans Board Act' Cap 213A. It is headed by the Chief Executive Officer and Board Secretary who is responsible for implementation of the Board policy decisions and the day to day operation of the organization.

2. Current Constitution and Appointment of Board of Directors

Board of Directors are appointed by the Cabinet Secretary for Education except the Chairman who is appointed by the President. The membership of the board of directors is as follows:

a) Chairman who is appointed by the President.

b) Principal Secretary, Ministry of Education Science and Technology;

c) Principal Secretary, The National Treasury;

d) A Vice Chancellor of one public university to represent all the other public universities;

e) A Vice Chancellor of one private university to represent all the other private universities;

f) The Chief Executive Officer, who is the Secretary to the Board;

g) The Chairman, Kenya Bankers Association;

h) The Chief Executive Officer, Federation of Kenya Employers;

i) The Chief Executive Officer, Commission for University Education.

j) Two Independent Members from the Public

3. Responsibility of Board of Directors

The Board of Directors is ultimately responsible for providing policy guideline specifically on;

a. The Mission and Vision of the Board;

b. Promoting the aims and objectives of the Board;

c. Setting strategic directions for the Board;

d. Performance management of the CEO;

e. Oversight of management;

f. Setting and monitoring broad budget and planning framework, ensuring that the Board's finances are sound and taking major financial decisions;

g. Setting and critically monitoring Board policy and risk management;

h. Fund raising and resource mobilization.

4. Remuneration of Board of Directors

The Board of Directors other than the Chief Executive Officer do not receive a salary .They are however paid a sitting allowance for every meeting attended at the rate of Kshs. 20,000 per meeting. The Chairman of the Board receives monthly honoraria as stipulated in the 'Blue Book'.

5. Board of Directors meetings

The meetings of the Board of directors are held at least once every quarter in a calendar year. In order to facilitate the smooth running of its affairs the Board of Directors has established committees.

6. Board of Directors Committees

In order to facilitate the smooth running of its affairs the Board of Directors has established committees with a membership and terms of reference it deems fit. The following committees were in place during the year 2014.

a. Finance Staff and General Purposes committee;

b. Loans disbursement and recovery committee;

c. Audit, Risk Management and Compliance committee

7. The Management Team

Members of the management team are appointed by the Board of Directors. The membership consists of the CEO and other members as per the Board's establishment. In the year 2014 the management team was as disclosed on page (xv).

8. Risk Management

The Board of Directors is responsible for risk management and has an approved policy and procedure document for risk management. The Board conducts risk assessment on regular basis which informs the internal audit plan. The identification and management of risk is a continuous process linked to the achievement of the Board's objectives. Risk based audits are carried out by the internal audit departments and reports on internal control and risk forwarded to the Board of directors through the Audit, Risk Management and Compliance Committee.

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Corporate Social Responsibility

HELB has strategically implemented CSR which has enhanced the Board's image thereby creating great public goodwill from Kenyans. CSR is about capacity building for sustainable livelihoods. It respects cultural differences and finds the business opportunities in building the skills of employees, the community and the Government. In a nutshell, CSR is about business "giving back to society".

The Board has various committees in place to enhance giving back to society namely; environmental; gender and disability mainstreaming and youth access to government resources.

Scholarship and Bursaries

HELB core function is to support the achievement of education for children from marginalized/minority communities that include the Njemps, El molo, Ogiek, Rendille and Samburus among others that will be identified as the policy is being implemented. These efforts will contribute towards the Millennium Development Goal of increasing access to education at the primary, secondary and University level to all by 2015. In order to enhance our internal human resource capacity HELB may, based on merit, sponsor deserving but needy students interested in pursuing science based degree courses from these minority communities.

In the year under review HELB entered into partnership with intra health international to offer loans to students undertaking medical courses in both public and private Medical Training Institutes. HELB also partnered with Visa Oshwal community to give bursaries to needy students. Among the beneficiaries were students from the marginalized communities stipulated above.

Sports and Education

HELB continues to play its roll in promotion of sport by supporting sports students from needy background to attain higher education. This ensures that our sports persons will have the necessary skills to manage the resources that they will acquire from their sporting activities.

In the year under review HELB entered into partnerships with Nation Media Group to facilitate sponsoring of four scholarships to

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NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON KENYA SCHOOL OF MONETARY STUDIES FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Kenya School of Monetary Studies set out on pages 10 to 26, which comprise the statement of financial position as at 30 June 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Ernest and Young, 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.

Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The Directors are 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 the financial statements based on the audit and report in accordance with the provisions of Section 15(2) and (3) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. 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 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 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 School's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, 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 Kenya School of Monetary Studies as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Emphasis of matter

Without qualifying my opinion, I draw attention to Note 15 to the financial statements which indicates that the school incurred an operating deficit of Kshs.5,226,000 during the year ended 30 June 2014 (2013: deficit of Kshs.53,078,000). This condition indicates a material uncertainty that may cast significant doubt about the school's ability to continue as a going concern. The financial statements have been prepared on a going concern basis as the Central Bank of Kenya, the parent entity, has given an undertaking to provide continued financial support.

REPORT ON OTHER LEGAL REQUIREMENTS

As required by the Kenyan Companies Act I report based on the 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 the audit;

(ii) in my opinion, proper books of account have been kept by the school, so far as appears from the examination of those books; and

(iii) the school's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

17 March 2015

Kenyan sportsmen and women at Kenyatta university and University of Nairobi.

Students Health (HIV/AIDS) and Drugs

Faced by pressure of being in college (Campus), students are exposed to sexual behavior and indulgence in drugs as a mechanism of "stress reliever". This unprotected sexual habit places them at risk of HIV/Aids scourge. HIV/Aids being a national disaster remain key impediment to future human resource capacity generation towards realization of Vison 2030. On the same breadth, HELB has committed huge resources in developing these skills and their risky sexual behavior leaves loan granted vulnerable.

To mitigate the HELB has partnered with learning institutions deans of student, student leaders and policy makers for a comprehensive annual seminars geared towards addressing sexual behavior, drugs and alcohol and nutrition as part of financial literacy programme.

Caring for the Environment

HELB has partnered with Kenya Forestry Services to plant 1,500 tree seedlings at Ngong forest during the year under review. The aim of the activity is to be part of the organization combating climate change whose effect cuts across. The Board will deepen this relationship in the coming years to replace the ones that have dried while focusing to plant a further 1,500 trees in the coming year till the target of 5,000 is achieved.

VII. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2014 which show the state of the Board's affairs.

Principal activities

The principal activities of the Board are and continue to be financing higher education by providing affordable loans and bursaries and scholarships to Kenyans in institution of higher learning recognised by Commission for University Education (CUE) and Directorate of Technical Education, Ministry of Science and Technology. The Board also recovers matured loans from past loanees.

Results

The surplus for the year of **Kshs. 851,287,501** (**2013: Kshs. 949,550,457**) has been added to accumulated surplus.

Directors

The members of the Board of Directors who served during the year are shown on pages (ix).

Auditors

The Auditor General is responsible for the statutory audit of the Board in accordance with the Section 81 of the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

Kenya National Audit Office was nominated by the Auditor General to carry out the audit of the Board for the year ended June 30, 2014.

By Order of the Board

CHARLES M. RINGERA
CHIEF EXECUTIVE OFFICER
HIGHER EDUCATION LOANS BOARD
NAIROBI

DATE: 17TH MARCH 2015

IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 68 of the Public Finance Management Act, 2012 and section HELB Act, require the Directors to prepare financial statements in respect of that Board, which give a true and fair view of the state of affairs of the Board's at the end of the financial year and the operating results of the Board for that year. The Directors are also required to ensure that the Board keeps proper accounting records which disclose with reasonable accuracy the financial position of the Board. The Directors are also responsible for safeguarding the assets of the Board.

The Directors are responsible for the preparation and presentation of the Board's financial statements, which give a true and fair view of the state of affairs of the Board for and as at the end of the financial year ended on June 30, 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 Board; (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 Board; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Board's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Board's financial statements give a true and fair view of the state of Board's transactions during the financial year ended June 30, 2014, and of the Board's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Board, which have been relied upon in the preparation of the Board'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 Board will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Board's financial statements were approved by the Board on 30TH OCTOBER 2014 and signed on its behalf by:

D. NDEGWA WACHIRA	**CHARLES M. RINGERA**
CHAIRMAN	**CEO/ BOARD SECRETARY**

X. REPORT OF THE INDEPENDENT AUDITORS ON THE ACCOUNTS OF HIGHER EDUCATION LOANS BOARD

We have audited the accompanying financial statements of Higher Education Loans Board for the year ended June 30, 2014, which comprise: (i) a statement of financial performance; (ii) a statement of financial position; (iii) a statement of changes in net assets; (iv) a statement of cash flows; (v) a statement of comparison of budget and actual amounts and (v) a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those 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 auditors' 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 Board'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 Board'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 accompanying financial statements present fairly, in all material respects, the financial position of the Board as at June 30, 2014, and its financial performance as well as cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

_____ _____

Auditor General Date

XI. STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2014

PARTICULARS	NOTES	30th June, 2014			30th June, 2013			
		OPERATIONS KSHS	STUDENTS' FINANCING KSHS	TOTAL KSHS	OPERATIONS KSHS	STUDENTS' FINANCING KSHS	TOTAL KSHS	CHANGE %
Income from Non-Exchange Transaction	*23*	183,055,500	192,000,000	375,055,500	189,204,355	290,255,593	479,459,948	-21.78%
Income from Exchange Transaction	*24*	1,317,373,384		1,317,373,384	1,217,844,590		1,217,844,590	8.17%
TOTAL INCOME		**1,500,428,884**	**192,000,000**	**1,692,428,884**	**1,407,048,945**	**290,255,593**	**1,697,304,538**	**-0.29%**
LESS: EXPENSES								
Bursaries to Students	*23*		192,000,000	192,000,000		158,036,000	158,036,000	-16.01%
Postgraduate Scholarships	*25*	20,600,000		20,600,000	18,000,000		18,000,000	14.44%
Staff Costs	*14*	310,232,739		310,232,739	274,495,333		274,495,333	13.02%
Operating Expenses	*15*	152,943,052		152,943,052	146,262,434		146,262,434	4.57%
Board Expenses	*16*	10,390,689		10,390,689	16,508,776		16,508,776	-37.06%
Bank Charges & Commission	*17*	13,665,243		13,665,243	11,357,065		11,357,065	20.32%
Provision for Bad & Doubtful Debts	*18*	78,564,310		78,564,310	99,051,233		99,051,233	-20.68%
Audit Fees	*19*	1,160,000		1,160,000	1,320,000		1,320,000	-12.12%
Depreciation provision for the year	*2*	61,330,349		61,330,349	12,730,754		12,730,754	381.75%
Ford Foundation – Marsabit Project	*13*	255,000		255,000	9,992,485		9,992,485	-97.45%
		649,141,382	**192,000,000**	**841,141,382**	**589,718,081**	**158,036,000**	**747,754,080**	**4.56%**
		851,287,501	**0**	**851,287,501**	**817,330,864**	**132,219,593**	**949,550,457**	**-4.11%**

The notes set out on pages 8 to 26 form an integral part of the financial statements

XII. STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	NOTES	AS AT 30TH JUNE 2014 KSHS.	AS AT 30TH JUNE 2013 KSHS.
ASSETS			
Cash and bank balances	9a	109,603,559	236,097,784
Short term investments	8	275,302,302	654,472,887
Accounts receivable & prepayments	7	14,590,572	14,576,589
Inventories	6	3,210,979	2,612,130
Staff loans	5	108,202,380	34,304,630
Matured student loans	4	21,937,382,660	20,412,450,666
Unmatured student loans	3	14,529,530,742	11,869,817,115
Property, plant & equipment *(NET)*	2	189,134,194	83,465,151
TOTAL ASSETS		**37,166,957,389**	**33,307,796,951**
CURRENT LIABILITIES			
Loans, Bursaries & Scholarship payable	10	820,927,505	884,170,490
Accounts payable & Accruals	11	96,654,920	70,946,655
Bank overdraft	9b	0	14,118,776
TOTAL CURRENT LIABILITIES		**917,582,425**	**969,235,922**
ACCUMULATED FUNDS & RESERVES			
G.O.K. grants & Funding Partnerships	12	27,480,006,658	24,420,480,224
Reserves	Page 3	8,769,368,306	7,918,080,805
		36,249,374,964	**32,338,561,029**
TOTAL FUNDS & LIABILITIES		**37,166,957,389**	**33,307,796,951**

The notes on page 8 to 26 are an integral part of these financial statements

The financial statements set out on pages 1 to 4 were signed on behalf of the board of directors by:

NDEGWA WACHIRA
CHAIRMAN

CHARLES M. RINGERA
CEO/ BOARD SECRETARY

XIII. STATEMENT OF CHANGES IN NET ASSETS

For the year ended 30 June 2014

Year ended 30 June 2013	RESERVES	G.O.K GRANTS & FUNDING PARTNERSHIPS	TOTAL
	KSHS.	KSHS.	KSHS.
Opening balance as previously stated	6,968,530,348	22,154,709,960	29,123,240,308
Surplus for the year	949,550,457	2,265,770,264	3,215,320,721
Balance at the end of the year	**7,918,080,805**	**24,420,480,224**	**32,338,561,029**

Year ended 30 June 2014	RESERVES	G.O.K GRANTS & FUNDING PARTNERSHIPS	TOTAL
	KSHS.	KSHS.	KSHS.
Opening balance as previously stated	7,918,080,805	24,420,480,224	32,338,561,029
Reserves / G.O.K grants & Funding Partnerships for the year	851,287,501	3,059,526,434	3,910,813,935
Balance at the end of the year	**8,769,368,306**	**27,480,006,658**	**36,249,374,964**

During the year **2013/2014** the net increase in Equity was **Kshs. 3,910,813,935**. This was as a result of a realized surplus of **Kshs. 851,287,501** and funds from government grants and strategic partners of **Kshs. 3,059,526,434 (Note 12)** for the year ended 30th June 2014.

XV. STATEMENT OF CASH FLOWS

For the year ended 30 June 2014

	Note	AS AT 30TH JUNE 2014 KSHS.	AS AT 30TI JUNE 2013 KSHS.
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the Year		**851,287,501**	**949,550,4**
Adjustments for:			
Depreciation	2	61,330,349	12,487,3
Change in Provisions for Bad Debts	17	78,564,310	99,051,2
Prior year adjustments		0	(13,50
Operating Surplus before Working Capital Changes		**991,182,161**	**1,061,075,5**
Decrease / (Increase) in Loans Advanced	3 & 5	(2,733,611,378	(1,396,620,00
(Increase) in Accounts Receivable	4	(1,603,539,105)	(1,995,603,26
Decrease/(Increase) in Other Accounts Receivable	7	28,816	9,594,72
(Increase)/Decrease in Inventories	6	(598,850)	(5,93
Increase / (Decrease) in Accounts Payable	10 & 11	(37,534,720)	68,255,70
NET CASH ABSORBED BY OPERATING ACTIVITIES		**(3,384,073,076)**	**(2,253,303,24**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant & Equipment	2	(166,999,393)	(16,763,57
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(166,999,393)**	**(16,763,57**
CASH FLOWS FROM FINANCING ACTIVITIES			
Capitation received from G.O.K & Funding Partnerships	12	3,059,526,434	2,265,770,26
NET CASH FLOWS FROM FINANCING ACTIVITIES		**3,059,526,434**	**2,265,770,26**
Net Increase / (Decrease) in Cash		(491,546,035)	(4,296,561
Cash and Cash Equivalents at the Beginning of the Period		876,451,895	880,748,45
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	9c	**384,905,860**	**876,451,89**

The notes on pages 8 to 26 are an integral part of these financial statements

XIV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

ACCOUNT DESCRIPTION	ACTUAL 2013/2014	BUDGET 2013/2014	PERFORMANCE DIFFERENCE	DIFF. IN %
A. SOURCES OF FINANCE	**Kshs.**	**Kshs.**	**Kshs.**	
Capitation Received from GOK	3,340,000,000	2,740,055,500	599,944,500	22%
Loan Recovery	3,191,376,592	3,500,000,000	-308,623,408	-9%
Interest Income - Investments	101,978,458	60,000,000	41,978,458	70%
Miscellaneous Income	35,791,034	14,195,000	21,596,034	152%
Funds and Partnership	94,526,434	94,526,434	0	0%
TOTAL FINANCES(A)	**6,763,672,518**	**6,408,776,934**	**354,895,584**	**6%**
B. STAFF EXPENSES				
Staff Emoluments	252,322,892	343,790,077	91,467,185	73%
Gratuity and Pension	26,823,445	33,829,017	7,005,572	79%
Staff Welfare Expenses	3,591,819	4,180,000	588,181	86%
Medical Expenses	14,203,644	18,700,000	4,496,356	76%
Performance Contract Dynamics	74,430	1,390,000	1,315,570	5%
Casual Wages	13,216,508	6,584,400	-6,632,108	201%
SUB - TOTAL (B)	**310,232,738**	**408,473,494**	**98,240,756**	**76%**
C. OPERATING EXPENSES				
Telecommunication Expenses	7,154,248	18,670,000	11,515,752	38%
Travelling Expenses	4,896,936	16,146,000	11,249,064	30%
Fuel Consumption	1,754,312	2,400,000	645,688	73%
Office Rent, Warehouse & Parking Charges	31,557,804	34,332,510	2,774,706	92%
Insurance Expenses	2,617,975	4,408,250	1,790,275	59%
Staff Training	17,569,799	20,000,000	2,430,201	88%
Seminars and Conferences	5,322,554	18,480,000	13,157,446	29%
Repair and Maintenance	2,909,720	3,022,500	112,780	96%
Computer Hardware & Software Maintenance	4,053,997	14,144,480	10,090,483	29%
Office Cleaning and Maintenance	501,629	1,000,085	498,456	50%
Office Security Expenses	3,286,000	3,529,984	243,984	93%
Office Tea	1,773,981	2,034,500	260,519	87%

Office Flowers	434,960	450,000	15,040	97%
Official Entertainment	976,079	2,215,000	1,238,921	44%
Subsistence Expenses	6,700,033	10,988,000	4,287,967	61%
Contracted Professional Services	11,205,916	42,200,000	30,994,084	27%
Staff Uniforms	52,721	390,000	337,279	14%
Subscriptions to Professional Bodies	2,248,915	1,448,000	-800,915	155%
Newspapers, Journals, Periodicals & Library Books	747,330	727,000	-20,330	103%
Advertising, Publicity & Printing	38,390,830	53,865,000	15,474,170	71%
Office Stationery & Accessories	6,016,131	8,886,881	2,870,750	68%
Board Members Expenses	10,390,689	15,394,000	5,003,311	67%
Devolution Costs	2,771,181	17,590,000	14,818,819	16%
Bank Charges & commission - loans recovery/operations	13,665,243	11,199,600	-2,465,643	122%
Audit Fees	1,160,000	1,500,000	340,000	77%
Legal Fees	613,362	5,000,000	4,386,638	12%
Research & Fundraising	0	3,000,000	3,000,000	0%
Library Books	0	234,000	234,000	0%
SUB - TOTAL (C)	**178,772,345**	**313,255,790**	134,483,445	57%
D. STUDENT LOAN SCHEME				
Bursaries to Students JAB	92,000,000	92,000,000	0	100%
Bursaries to Students TIVET	100,000,000	100,000,000	0	100%
Loans to Students	6,804,427,489	6,942,209,943	137,782,454	98%
Postgraduate Scholarships	20,600,000	21,400,000	800,000	96%
SUB - TOTAL (D)	**7,017,027,489**	**7,155,609,943**	**138,582,454**	**98%**
TOTAL RECURRENT EXPENDITURE (B+C+D)	**7,506,032,572**	**7,877,339,627**	**371,306,655**	**95%**
E. CAPITAL EXPENDITURE				
Motor Vehicles	10,190,832	10,000,000	-190,832	102%
Office Equipment	4,153,788	7,961,000	3,807,212	52%
Office Furniture	2,473,472	7,845,000	5,371,528	32%
Fixtures & Fittings	15,867,985	27,485,000	11,617,015	58%
Computers	32,372,340	32,610,000	237,660	99%

Computer Software	101,940,975	132,010,000	30,069,025	77%
SUB-TOTAL (E)	**166,999,392**	**217,911,000**	**50,911,608**	**77%**
F. STAFF LOANS				
Staff Car Loans	7,261,000	10,000,000	2,739,000	73%
Staff House Loans	23,025,359	60,000,000	36,974,641	38%
SUB - TOTAL(F)	**30,286,359**	**70,000,000**	**39,713,641**	**43%**
TOTAL EXPENDITURE (B+C+D+E+F)	**7,703,318,323**	**8,165,250,627**	**461,931,904**	94%
DEFICIT	**-939,645,805**	**-1,756,473,693**	**816,827,488**	**53%**

EXPLANANTION OF BUDGET VARIANCE

BUDGET ITEM	ACTUAL	BUDGET	VARIANCE	ACHIEVED/ USAGE	EXPLANATION OF VARIANCE
	Kshs.	Kshs.	Kshs.	%	
Sources of Finance	6,763,672,518	6,408,776,934	354,895,584	106%	-Additional GOK capitation -Funds from partnerships& donors
Staff Expenses	310,232,738	408,473,494	98,240,756	76%	Freeze on employment hence no new staff
Operating Expenses	178,772,345	313,255,790	134,483,445	57%	Reduced activities due to freeze on staff recruitment and on procurement by the government
Capital Expenditure	166,999,392	217,911,000	50,911,608	77%	Delay in implementation of ERP project
Staff loans	30,286,359	70,000,000	39,713,641	43%	Freeze on employment of new staff

XV. NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance and basis of preparation

The Board'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 **(Kshs.),** which is the functional and reporting currency of the Board. They are rounded of to the nearest shilling. The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

b) The Public Sector Accounting Board (PSAB) Declaration

The Public Finance Management (PFM) Act 2012 section 192 provided the setting up of the Public Sector Accounting standards Board (PSASB). The cabinet secretary National treasury, gazetted members of the board through Gazette notice no.1199 of 28th February 2014,following the board's approval on the adoption of the International Financial Reporting Standards (IFRS) for state organs operating as commercial Business entities and the International Public Sector Accounting Standards (IPSAS) for non-commercial entities , the entity has adopted the pronouncements made by the IPSAS board in preparation of its current year financial statements.

c) Revenue recognition

i. **Revenue from non-exchange transactions**

Transfers from other government entities

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

ii. Revenue from exchange transactions

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

d) Budget information

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 Board. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Board 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.

e) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is on straight line basis. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Board recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value. The annual rates for this purpose are: -

NOTES TO THE FINANCIAL STATEMENTS (continued)

Category	Depreciation rate
Buildings	- 2.50%
Motor Vehicles	- 25.00%
Furniture	- 12.50%
Fixtures & Fittings	- 12.50%
Computers	- 33.33%
Office Equipment	-12.50%

f) Intangible assets

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. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.The useful life of the intangible assets is assessed as finite.

g) Financial instruments

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 Board 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 Board 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.

Impairment of financial assets

The Board assesses at each reporting date whether there is objective evidence that a financial asset or a Board of financial assets is impaired. A financial asset or a Board 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 Board of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a Board 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)

NOTES TO THE FINANCIAL STATEMENTS (continued)

h) Financial liabilities

Initial recognition and measurement

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 Board determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

i) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition. Costs incurred in bringing each product to its present location and conditions are on raw materials and are accounted for using the weighted average cost method. After initial recognition, inventory is measured at the lower of cost and net replacement cost. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Board.

j) Provisions

Provisions are recognized when the Board 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. Where the Board expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement. General provision for bad debts is at 5% of outstanding receivables while specific provision is 100% of outstanding receivable as at end of financial period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

k) Contingent liabilities

The Board 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.

l) Contingent assets

The Board does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Board in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

m) Changes in accounting policies and estimates

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

n) Employee benefits - Retirement benefit plans

The Board provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which an Board pays fixed contributions into a separate Board (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable. The Board contributes 20% of basic pay for each employee while the employee individually contributes 10%

NOTES TO THE FINANCIAL STATEMENTS (continued)

of basic pay. Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

o) Related parties

The Board regards a related party as a person or a Board with the ability to exert control individually or jointly, or to exercise significant influence over the Board, or vice versa. The Ministry of Education, Ministry of Finance, Universities, Funding partnerships and Members of key management are regarded as related parties and comprise Chief Executive Officer and senior managers. They are:

1. Chief Executive Officer & Board Secretary	Mr. Charles M. Ringera
2. Head of Finance	Mr. Shem A. Gichimu
3. Head of Operations	Mr. Victor K. Lomaria
4. Head of Research, Planning & Strategy	Mrs. Mary Wachira-Muchee
5. Manager, Human Resource & Administration	Mrs. Madrine Mburu
6. Manager, Finance	Mr. Joseph M. Ndiku
7. Manager, Loan Repayment & Recovery	Mr. Geoffrey O. Monari
8. Manager, Lending	Mrs. Esther N. Michieka
9. Manager, Information Technology	Mr. Daniel Kemei
10. Manager, Legal Services	Mrs. Bernadette N. Masinde
11. Manager, Internal Audit	Mr. Phares K. Chege
12. Manager, Fund Management	Mr. James Gachari

p) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Bank account balances include amounts held at various commercial banks at the end of the financial year.

q) Significant judgments and sources of estimation uncertainty

The preparation of the Board'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.

r) Estimates and assumptions

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

s) Useful lives and residual values

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

t) Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 17.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Property, Plant and Equipment

As at 30 June 2013

DETAILS	LAND	BUILDING	MOTOR VEHICLES	EQUIPMENT	FURNITURE	FIXTURES & FITTINGS	COMPUTER EQUIPMENT & SOFTWARE	TOTAL
	KSHS	KSHS.	KSHS.	KSHS.	KSHS.	KSHS.	KSHS.	KSHS.
COST/VALUATION AT 1 JULY 2012	**44,588,742**	**3,318,686**	**21,382,516**	**25,859,583**	**15,137,960**	**41,703,195**	**91,659,909**	**243,650,590**
ADDITIONS	-	0	0	294,195	3,481,967	1,611,663	12,832,383	18,220,208
LESS: DISPOSALS/W.OFF			**0**	**(34,800)**			**(1,257,791)**	**(1,292,591)**
AT 30 JUNE 2013	**44,588,742**	**3,318,686**	**21,382,516**	**26,118,978**	**18,619,927**	**43,314,857**	**103,234,502**	**260,578,207**
DEPRECIATION	-							0 0
AT 1 JULY 2012	**0**	**635,929**	**13,139,897**	**18,094,590**	**10,518,151**	**35,749,527**	**86,244,209**	**164,382,303**
CHARGE FOR THE YEAR	0	82,967	1,315,320	1,897,120	1,153,592	2,653,635	6,894,611	13,997,245
LESS: DISPOSALS	**0**	**0**	**0**	**(8,700)**	**0**	**0**	**(1,257,791)**	**(1,266,491)**
AT 30 JUNE 2013	**0**	**718,896**	**14,455,217**	**19,983,010**	**11,671,743**	**38,403,162**	**91,881,029**	**177,113,057**
NET BOOK VALUE								0
AT 30 JUNE 2013	**44,588,742**	**2,599,790**	**6,927,299**	**6,135,968**	**6,948,184**	**4,911,695**	**11,353,473**	**83,465,150**
AT 30 JUNE 2012	**44,588,742**	**2,765,724**	**8,187,927**	**8,641,719**	**4,615,398**	**8,579,958**	**6,649,981**	**84,029,449**

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 30 June 2014

DETAILS	LAND	BUILDING	MOTOR VEHICLES	EQUIPMENT	FURNITURE	FIXTURES & FITTINGS	COMPUTER EQUIPMENT & SOFTWARE	TOTAL
	KSHS	KSHS.	KSHS.	KSHS.	KSHS.	KSHS.	KSHS.	KSHS.
COST/VALUATION AT 1 JULY 2013	**44,588,742**	**3,318,686**	**21,382,517**	**26,118,978**	**18,619,927**	**43,314,858**	**103,070,461**	**260,414,169**
ADDITIONS	-	0	10,190,832	4,153,788	2,473,472	15,867,985	134,313,315	**166,999,392**
LESS: DISPOSALS/W.OFF	-	-	-	-	-	-	-	**0**
AT 30 JUNE 2014	**44,588,742**	**3,318,686**	**31,573,349**	**30,272,766**	**21,093,399**	**59,182,843**	**237,383,776**	**427,413,561**
								0
DEPRECIATION	-							**0**
								0
AT 1 JULY 2013	**0**	**718,896**	**14,455,217**	**19,983,010**	**11,671,743**	**38,403,162**	**91,716,989**	**176,949,016**
CHARGE FOR THE YEAR	0	82,967	3,231,753	2,386,194	1,462,776	4,122,392	50,044,267	**61,330,349**
LESS: ON DISPOSALS	-	-	-	-	-	-	-	**0**
AT 30 JUNE 2014	**0**	**801,863**	**17,686,969**	**22,369,204**	**13,134,519**	**42,525,554**	**141,761,256**	**238,279,366**
								0
NET BOOK VALUE								**0**
AT 30 JUNE 2014	**44,588,742**	**2,516,823**	**13,886,379**	**7,903,562**	**7,958,880**	**16,657,289**	**95,622,520**	**189,134,196**
AT 30 JUNE 2013	**44,588,742**	**2,599,790**	**6,927,300**	**6,135,968**	**6,948,184**	**4,911,696**	**11,353,472**	**83,465,152**

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 LOANS TO STUDENTS NOT YET MATURED

	30th June 2014 Kshs	30th June 201 Kshs
Balance brought forward-Unmatured loans GOK	11,869,817,115	10,494,383,61
Add: Loans disbursed during the year	6,013,333,984	5,570,313,69
	17,883,151,099	16,064,697,30
Less: Loans matured during the year	(3,588,180,357)	(4,194,880,188
	14,294,970,742	**11,869,817,11**
Unmatured Student loans - TVET Fund	122,335,000	
Unmatured Student loans - Afya Elimu Fund	112,225,000	
	14,529,530,742	**11,869,817,11**

4 MATURED LOANS TO STUDENTS

	30th June 2014 Kshs	30th June 201 Kshs
Balance brought forward	21,486,479,385	19,490,783,23
Add: Loans matured during the year	3,588,180,357	4,194,880,18
	25,074,659,742	23,685,663,42
Add: Accrued interest on mature loans	997,535,891	921,312,76
User charges	109,756,000	108,722,00
	26,181,951,633	24,715,698,19
Less: Loan recovery during the year	(3,191,376,592)	(3,267,275,334
	22,990,575,041	21,448,422,85
Add: Loan refunds	62,141,538	37,963,64
	23,052,716,579	21,486,479,38
Less: Provision for bad & doubtful debts	(1,152,635,829)	(1,074,028,720
	21,900,080,750	**20,412,450,66**
Matured Student loans - Training Revolving Fund	37,301,910	
	21,937,382,660	**20,412,450,66**

5 STAFF LOANS

	30th June 2014 Kshs	30th June 2013 Kshs
Staff Car Loan	12,819,521	12,434,63
Staff House Loan	95,382,860	21,870,00
	108,202,380	**34,304,63**

The Board operates a staff house loan scheme administered by Housing Finance Ltd and KCB Savings & Loans Mortgage Ltd.

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 INVENTORIES

	30th June 2014 Kshs	30th June 201 Kshs
Consumable Stores	3,210,979	2,612,13
	3,210,979	**2,612,13**

7 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30th June 2014 Kshs	30th June 201 Kshs
PREPAYMENTS & DEPOSITS		
Hospital Deposit	725,000	875,00
Utilities Deposit	1,530,884	489,60
Rent Deposit	166,800	166,80
Sub – Total	**2,422,684**	**1,531,40**
OTHER ACCOUNTS RECEIVABLE		
Staff Imprest	784,218	93,66
Staff Salary Advances	0	61,30
Medical Over expenditure	5,838,556	5,994,37
Accrued Interest on Investment	1,987,051	3,227,74
Interest underpaid from Investment	44,329	44,32
Other Accounts Receivable	4,325,989	4,478,81
	15,402,826	**15,431,64**
Less: Provision for Bad & Doubtful Debt	(812,254)	(855,052
	14,590,572	**14,576,58**

8 SHORT TERM INVESTMENTS

	30th June 2014 Kshs	30th June 2013 Kshs
Kenya Commercial Bank	0	300,000,00
Cooperative Bank	0	100,000,00
National Bank of Kenya	0	100,849,31
Equity Bank	0	15,000,00
Family Bank	100,812,158	0
Chase Bank	100,000,000	0
KCB Savings and Loans	39,884,032	27,126,93
Housing Finance	34,606,112	51,171,35
	275,302,302	**654,472,88**

NOTES TO THE FINANCIAL STATEMENTS (continued)

9(a) CASH AND BANK BALANCES

	30th June 2014 Kshs	30th June 201 Kshs
Kenya Commercial Bank	23,254,613	169,965,34
Citibank	15,003,317	27,043,14
Cooperative Bank	20,280,897	21,449,88
Barclays Bank	8,385,928	6,700,39
Equity Bank	16,293,655	1,117,24
Standard Chartered	9,373,244	5,848,36
National Bank of Kenya	2,207,635	3,883,39
Family Bank	9,087,136	
Chase Bank	5,383,124	
KCB Savings & Loans	244,009	
Cash in Hand	90,000	90,00
	109,603,559	**236,097,78**

9(b) OVERDRAWN ACCOUNTS

	30th June 2014 Kshs	30th June 201 Kshs
KCB University Way Branch	-	3,929,33
Citibank	-	10,189,44
	-	**14,118,77**

10 LOANS, BURSARIES & SCHOLARSHIPS PAYABLE

	30th June 2014 Kshs	30th June 201 Kshs
Loans Payable	678,868,505	812,429,24
Postgraduate Scholarships	20,600,000	48,550,00
Bursaries Payable to Students	121,459,000	23,191,24
	820,927,505	**884,170,49**

Loans payable includes unpaid loans awarded for the year 2014/2015

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 ACCOUNTS PAYABLE AND ACCRUALS

	30th June 2014 Kshs	30th June 201 Kshs
Staff Expenses	8,538,502	6,233,70
Staff Loans Deposits	343,200	129,66
Operating Expenses	356,886	90,05
Trade Creditors & Accruals	85,777,602	63,033,23
Land Rent & Rates	0	140,00
Withholding Tax	318,729	
Audit Fees	1,320,000	1,320,00
	96,654,920	**70,946,65**

Trade creditors and accruals figure of Kshs. 85,777,602 (2013: Kshs. 63,033,234) includes amount owec to various suppliers as at 30th June 2014

12 GOVERNMENT GRANTS & PARTNERSHIPS (STUDENT LOANS)

	30th June 2014 Kshs	30th June 201 Kshs
Balance B/forward (Government of Kenya Funds)	24,420,480,224	22,154,709,96
Add: Capitation Received for the year for Students Loans	2,965,000,000	2,265,770,26
	27,385,480,224	**24,420,480,22**
Less: Training Revolving Fund allocation	(95,000,000)	-
Afya Elimu Fund allocation	(50,000,000)	-
TVET Fund	(250,000,000)	-
	26,990,480,224	**24,420,480,22**

PARTNERSHIP FUNDS	30th June 2014 Kshs	30th June 201 Kshs
Training Revolving Fund	125,500,000	-
Afya Elimu Fund	111,870,000	-
Tinderet Constituency Education Loan Fund	2,000,000	-
HELB Education Loan Fund	156,434	-
TVET Fund	250,000,000	-
	489,526,434	-
Total Government Grants & Partnership Funding	**27,480,006,658**	**24,420,480,224**

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 FORD FOUNDATION- MARSABIT PROJECT

	30th June 2014 Kshs	30th June 201 Kshs
Training expenses reimbursement	255,000	
	255,000	

14 STAFF COSTS

	30th June 2014 Kshs	30th June 201 Kshs
Staff Emoluments	252,322,892	230,310,79
Gratuity and Pension	26,823,445	23,076,08
Staff Welfare Expenses	3,591,819	2,358,27
Medical Expenses	14,203,644	13,222,40
Performance Contract Dynamics	74,430	441,35
Casual Wages	13,216,508	5,086,41
	310,232,739	**274,495,33**

15 OPERATING EXPENSES

	30th June 2014 Kshs	30th June 201 Kshs
Telecommunication Expenses	7,154,248	8,478,99
Travelling Expenses	4,896,936	5,163,23
Fuel Consumption	1,754,312	1,427,01
Office Rent, Warehouse & Parking Charges	31,557,804	29,787,46
Insurance Expenses	2,617,975	3,181,50
Staff Training	17,569,799	12,438,61
Seminars and Conferences	5,322,554	10,372,15
Repair and Maintenance	2,909,720	1,680,43
Computer Hardware & Software Maintenance	4,053,997	4,884,61
Office Cleaning and Maintenance	501,629	442,25
Office Security Expenses	3,286,000	3,034,40
Office Tea	1,773,981	1,921,81
Office Flowers	434,960	386,80
Official Entertainment	976,079	1,235,56
Subsistence Expenses	6,700,033	4,855,39
Contracted Professional Services	11,205,916	10,049,918
Staff Uniforms	52,721	269,170
Subscriptions to Professional Bodies	2,248,915	380,266

NOTES TO THE FINANCIAL STATEMENTS (continued)

Newspapers, Journals, Periodicals & Library Books	747,330	635,050
Advertising, Publicity & Printing	38,390,830	40,728,843
Office Stationery & Accessories	6,016,131	4,908,921
Devolution Costs	2,771,181	0
	152,943,052	**146,262,434**

16 BOARD MEMBER EXPENSES

	30th June 2013 Kshs	30th June 2013 Kshs
IPads	1,278,900	-
Board meeting expenses	172,131	199,236
Insurance	645,402	-
Training & study tours	399,960	6,490,528
Travelling expenses	415,896	1,778,496
Bonus	2,500,000	2,500,000
Chairman's honoraria	1,046,400	920,516
Sitting allowances	3,932,000	4,620,000
	10,390,689	**16,508,776**

17 BANK CHARGES AND COMMISSIONS

	30th June 2014 Kshs	30th June 2013 Kshs
Bank Charges & commission- loans recovery & operations	6,889,548	6,317,987
Bank Charges & commission- loans disbursements	6,775,695	5,039,078
	13,665,243	**11,357,065**

18 PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	30th June 2014 Kshs	30th June 2013 Kshs
Balance B/forward	1,074,883,771	975,832,539
Add: Provisions for the year	78,564,310	99,051,233
	1,153,448,081	**1,074,883,771**

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 AUDIT FEES

	30th June 2014 Kshs	30th June 2013 Kshs
Audit Fees	1,160,000	1,320,000
	1,160,000	**1,320,000**

The audit fee for the period ended 30th June 2013 includes VAT ksh.160,000 for the previous period which had not been accrued.

20 INTERNATIONAL RELATIONS

The Board is a member of the Association of African Higher Education Financing Agencies (AAHEFA).

21 LEGAL STATUS

The Board is a State Corporation domiciled and established in Kenya under the Higher Education Loans Board Act Cap 213A of 1995 and administered under the State Corporations Act of 1986.

22 NUMBER OF STAFF

The Board had 118 (One hundred and Eighteen) members of staff as at 30th June 2014.

ETHNIC DISTRIBUTION AT HELB AS AT 30.06.2014

Tribe	Board Members	%	Senior Management	%	Other Staff	%
Borana					2	1.89%
Embu			1	8.33%	2	1.89%
Kalenjin	3	30%	2	16.67%	21	19.81%
Kamba			1	8.33%	8	7.55%
Kikuyu	3	30%	4	33.33%	17	16.04%
Kisii			2	16.67%	7	6.60%
Kuria					9	8.49%
Luhya	2	20%	1	8.33%	10	9.43%
Luo	1	10%			18	16.98%
Maasai					2	1.89%
Meru	1	10%	1	8.33%	5	4.72%
Samburu					2	1.89%
Taita					2	1.89%
Giriama					1	0.94%
Total	**10**	**100%**	**12**	**100%**	**106**	**100%**

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 INCOME FROM NON-EXCHANGE TRANSACTIONS

The Board receives capitation from the government for its operations and to issue bursaries to needy students. This is given as below :

	30th June 2014 Kshs	30th June 2013 Kshs
GOK-Operations	183,055,500	189,204,355
GOK- Bursaries (Gov't sponsored)	92,000,000	82,387,048
GOK- Bursaries (TIVET)	100,000,000	207,868,545
	375,055,500	**479,459,948**

24 INCOME FROM EXCHANGE TRANSACTIONS

The Board generates income to supplement capitation received from GOK to run its operations. The breakdown is given as below :

	30th June 2014 Kshs	30th June 2013 Kshs
Accrued interest on Loans to Students	997,535,891	921,312,765
Staff Loans	1,647,430	1,420,887
Investments	101,978,459	104,994,803
Income from User Charges	109,756,000	108,722,000
Income from Administrative Fees (Loans)	72,312,000	57,235,500
Miscellaneous Income	34,143,604	24,158,634
	1,317,373,384	**1,217,844,590**

XVI. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
1	Ownership of land LR No.209/13515	Matter taken up by parent Ministry	Chief Executive Officer	Not resolved	Not defined
2	Recoverability of mature loans amounting to Kshs. 20,412,450,665.00	Measures put in place to recover outstanding loans.	Chief Executive Officer	Not resolved	Not defined

D. NDEGWA WACHIRA
CHAIRMAN

CHARLES M. RINGERA
BOARD SECRETARY/CEO