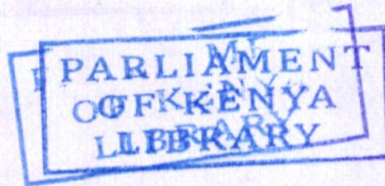


REPUBLIC OF KENYA



*Paper laid*  
By Hon Aden Duale,  
Leader of Majority on  
Thurs 13/11/14  
*[Signature]*

KENYA NATIONAL AUDIT OFFICE

*Volume 24*

**REPORT OF  
THE  
AUDITOR-GENERAL**



KENYA NATIONAL AUDIT OFFICE

**ON**

**THE FINANCIAL STATEMENTS OF  
KENYA INSTITUTE FOR PUBLIC POLICY  
RESEARCH AND ANALYSIS FOR THE  
YEAR ENDED 30 JUNE 2013**

KENYA INSTITUTE FOR PUBLIC POLICY RESEARCH  
AND ANALYSIS (KIPPRA)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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**CORPORATE INFORMATION**

**BOARD OF DIRECTORS**

- : Prof Agnes W. Mwang'ombe - Chairperson (Retired on 30th May 2013)
- : Dr John M. Omiti - Executive Director/Secretary (Appointed on 12 February 2013)
- : PS, Ministry of Planning, National Development & Vision 2030 -  
Alternate: Mr Jamshed Ali Abubakar
- : PS, Ministry of Finance - Alternate: Mrs Josephine Kanyi
- : PS, Ministry of Trade - Alternate: Mr Antony Muriu
- : Mr Nyachienga Nyamache (Retired on 31 January 2013)
- : Dr Cynthia J. Kipchillat (Retired on 31 January 2013)
- : Mrs Ann W. Mutahi (Retired on 31 January 2013)
- : Mr Jackson G. Kamau (Retired on 31 January 2013)
- : Mr Samson G. Obae (Retired on 31 January 2013)
- : Dr Festus M. Meme (Retired on 31 January 2013)
- : Prof Francis Mwega (Retired on 31 January 2013, Re-appointed on 12 February 2013)
- : Mrs Oglia Karani (Retired on 31 January 2013, Re-appointed on 12 February 2013)
- : Mr Samson M. Okioma (Retired on 31 January 2013)

**SENIOR MANAGEMENT TEAM**

- : Dr John M. Omiti - Executive Director (Appointed on 12 February 2013)
- : Dr Eric Aligula - Programs Coordinator (Ag. ED, 1 June 2012 – February 2013)
- : Dr Dickson Khainga - Senior Analyst, Head, Macroeconomics Division
- : Ms Eldah Onsomu - Analyst, Ag. Head, Social Sector Division
- : (Vacant) - Head, Infrastructure and Economic Services Division
- : Prof. Joe Kieyah - Principal Analyst, Head, Private Sector Development Division
- : CPA Maina Njoroge - Finance and Investment Manager (Resigned 31 August 2013)
- : Nancy Laibuni - Ag. Head, Productive Sector Division
- : Mr Felix Muriithi - Knowledge Management & Communications Manager

**REGISTERED OFFICE**

- : Bishops Garden Towers
- : 2nd Floor, Bishops Road
- : P.O. Box 56445, 00200
- : NAIROBI

**INDEPENDENT AUDITOR**

- : Auditor General
- : Kenya National Audit Office (KENAO)
- : Anniversary Towers
- : P.O. Box 49384, 00100
- : NAIROBI

**PRINCIPAL BANKER**

- : Commercial Bank of Africa Limited
- : Mama Ngina Street
- : P.O. Box 30437, 00100
- : NAIROBI

## **BOARD COMMITTEES**

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

The Programs Committee is charged with review of annual and quarterly work plans, and Performance Contracts. The Finance Committee reviews annual budgets and procurement plans, quarterly and annual financial reports.

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

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

### **Programs Committee**

Prof Francis Mwege - Chair  
Dr Cynthia Kipchillat  
Mr Antony Muriu  
Mr Jamshed A. Abubakar  
Dr Festus Murithi Meme

### **Audit Committee**

Dr Cynthia Kipchillat - Chair  
Mr Jamshed A. Abubakar  
Mr Samson M. Okioma (Resigned November 2012)  
Mr Jackson Gitahi  
Mr Antony Muriu

### **Finance Committee**

Mr Nyamache Nyachienga - Chair  
Mrs Josephine Kanyi  
Mrs Ogla Karani  
Mr Samson Obae  
Dr Festus Murithi Meme

### **General Purposes Committee**

Mr Jackson K. Gitahi - Chair  
Prof Francis Mwege  
Mr Samson Obae  
Mrs Ogla Karani  
Mrs Josephine Kanyi



EXECUTIVE DIRECTOR  
NAIROBI

10/12/

2013

## REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 30 June 2013, which disclose the state of affairs of the institute.

### INCORPORATION

The Kenya Institute for Public Policy Research and Analysis (KIPPRA) was formally established through Legal Notice No. 56 in the Kenya Gazette of 9 May 1997, and later through the KIPPRA Act No. 15 of 2006. KIPPRA is an autonomous public institute whose primary mission is to conduct public policy research and analysis leading to policy advice to the Government of Kenya (GoK) and the private sector. The Institute operates under the Ministry of Planning, National Development and Vision 2030.

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

### PRINCIPAL ACTIVITIES

The principal functions of the Institute are to:

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

### RESULTS

	2013 Shs'000'	2012 Shs'000'
<b>Income</b>		
Support from Development Partners	61,388	27,386
Support from the Government of Kenya	184,698	118,841
Projects Income	60,877	79,654
Other Income	23,726	19,873
<b>Total income</b>	<u>330,689</u>	<u>245,754</u>
<b>Expenditure</b>	<u>283,963</u>	<u>290,909</u>
<b>Operating surplus/(deficit)</b>	46,726	(45,155)
Net finance income	<u>2,190</u>	<u>3,045</u>
<b>Net surplus/(deficit) for the year</b>	<u><u>48,916</u></u>	<u><u>(42,110)</u></u>

**REPORT OF THE DIRECTORS (CONTINUED)**

**BOARD MEMBERS' BENEFITS**

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


**DIRECTORS**

The directors who held office during the year and at the date of this report are shown on page 1.

**INDEPENDENT AUDITOR**

The Auditor General will continue as the auditor as per section 12 of the Public Audit Act (Cap 412A). The Auditor General appointed PKF Kenya during the year to carry out the audit on their behalf as per section 39 of the Public Audit Act.

**BY ORDER OF THE BOARD**



EXECUTIVE DIRECTOR  
NAIROBI

10/12/ 2013

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**


The KIPPRA Act requires the directors to prepare financial statements which give a true and fair view of the state of affairs of the institute as at the end of the financial year and of the results for that year. It also requires the directors to ensure that the institute maintains proper accounting records which disclose with reasonable accuracy the financial position of the institute. The directors are also responsible for safeguarding the assets of the institute.

The directors accept the responsibility for the financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, consistent with previous years and in conformity with International Financial Reporting Standards, the requirements of KIPPRA Act and the Public Audit Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the institute as at 30 June 2013 and of its operating results for the year then ended. The directors further confirm the accuracy and completeness of the accounting records maintained by the institute which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the systems of internal financial controls.

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

Approved by the board of directors on 10/12/ 2013 and signed on its behalf by:

  
\_\_\_\_\_  
DIRECTOR

  
\_\_\_\_\_  
DIRECTOR

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Kenya Institute for Public Policy Research and Analysis set out on pages 8 to 25 which comprise the statement of financial position as at 30 June 2013 and the statement of income and expenditure 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.

### Directors' responsibility for the financial statements

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

### Auditor's responsibility

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

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

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Kenya Institute for Public Policy Research as at 30 June 2013 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the provisions of the KIPPRA Act, 2006 and Public Audit Act.

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

**Emphasis of matter**

Without qualifying our opinion, we draw attention to accounting policy (i) which states that no provision for taxation has been recognised in the financial statements as the directors are of the opinion that the institute is exempt from taxation.

**Report on Other Legal Requirements**

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

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

*PKF Kenya*

Certified Public Accountants  
PIN NO. P051130467R

NAIROBI

30 December 2013

1187/13

CPA Ritesh Haresh Mirchandani  
Practising Certificate No. 1631

REPUBLIC OF KENYA



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Website: [www.kenao.go.ke](http://www.kenao.go.ke)

P.O. Box 30084-00100  
NAIROBI

## **KENYA NATIONAL AUDIT OFFICE**

### **REPORT OF THE AUDITOR-GENERAL ON KENYA INSTITUTE FOR PUBLIC POLICY RESEARCH AND ANALYSIS FOR THE YEAR ENDED 30 JUNE 2013**

#### **REPORT ON THE FINANCIAL STATEMENTS**

The financial statements of the Kenya Institute for Public Policy Research and Analysis (KIPPRA) set out on pages 8 to 34, which comprise the statement of financial position as at 30 June 2013, and the statement of income and expenditure 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 PKF Kenya, auditors appointed under Section 39 of the Public Audit Act 2003. The audit was carried out in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2013. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

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

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

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

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

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003. The audit was conducted in accordance with International

Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Institute as at 30 June 2013 and of its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenya Institute for Public Policy Research and Analysis Act, 2006.

### **Emphasis of matter**

I draw attention to accounting policy (i) which states that no provision for taxation has been recognized in the financial statements as the Directors are of the opinion that the Institute is exempt from taxation. My opinion is not qualified in respect of this matter.

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

As required by the KPPRA Act, 2006 and Public Audit Act, 2003, I report, based on my audit, that;

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit;
- ii. In my opinion proper books and other records of account of income, expenditure, assets and liabilities have been kept by the Institute;

- iii. The Institute's balance sheet and income and expenditure account are in agreement with the books of account;
- iv. Due provisions have been made for repayment of all money borrowed by the Institute; and;
- v. Adequate amounts have been set aside for depreciation and renewal of the assets of the Institute.



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

**Nairobi**

**15 April 2014**

**STATEMENT OF INCOME AND EXPENDITURE AND OTHER COMPREHENSIVE INCOME**

	Notes	2013 Shs'000'	2012 Shs'000' (Restated)*
<b>Income</b>			
Support from Development Partners	2	61,388	27,386
Support from the Government of Kenya (GoK)	2	184,698	118,841
Project income	3	60,877	79,654
Other operating income	4	23,726	19,873
<b>Total income</b>		<b>330,689</b>	<b>245,754</b>
<b>Expenditure</b>			
Administrative expenses		262,415	264,957
Other operating expenses		21,548	25,952
<b>Total expenditure</b>		<b>283,963</b>	<b>290,909</b>
<b>Operating surplus/(deficit)</b>	5	<b>46,726</b>	<b>(45,155)</b>
Net finance income	7	2,190	3,045
<b>Net surplus/(deficit) for the year</b>		<b>48,916</b>	<b>(42,110)</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>48,916</b>	<b>(42,110)</b>

The notes on pages 12 to 25 form an integral part of these financial statements.

Report of the independent auditor - pages 6 and 7.

\* Refer to note 1.

**STATEMENT OF FINANCIAL POSITION**

	Notes	2013 Shs'000'	As at 30 June 2012 Shs'000' (Restated)*	2011 Shs'000' (Restated)*
<b>RESERVES AND LIABILITIES</b>				
Accumulated Fund		197,083	148,167	190,277
<b>Reserve funds</b>		<u>197,083</u>	<u>148,167</u>	<u>190,277</u>
<b>Non-current liabilities</b>				
Provision for gratuity	8	19,947	18,207	20,915
		<u>217,030</u>	<u>166,374</u>	<u>211,192</u>
<b>REPRESENTED BY</b>				
<b>Non-current assets</b>				
Property and equipment	11	10,710	14,189	12,973
Intangible assets	12	93	455	811
Staff Gratuity Fund	8	19,947	18,207	20,915
		<u>30,750</u>	<u>32,851</u>	<u>34,699</u>
<b>Current assets</b>				
Financial assets	13	240,918	212,449	121,006
GoK Funds Receivable		-	44,750	-
Other receivables and prepayments	14	41,170	38,745	37,010
Cash and cash equivalents	15	150,531	72,312	171,362
EFD-Kenya Account	19	8,763	6,101	3,172
		<u>441,382</u>	<u>374,357</u>	<u>332,550</u>
<b>Current liabilities</b>				
Other payables	16	5,324	33,897	36,597
Deferred income	17	226,650	180,384	113,343
EFD Account	19	8,763	6,101	3,070
Payable to gratuity fund	9	10,921	15,921	-
Other accrued liabilities	10	3,444	4,531	3,047
		<u>255,102</u>	<u>240,834</u>	<u>156,057</u>
<b>Net current assets</b>		<u>186,280</u>	<u>133,523</u>	<u>176,493</u>
		<u>217,030</u>	<u>166,374</u>	<u>211,192</u>

The financial statements on pages 8 to 25 were approved and authorised for issue by the Board of

Directors on 10/12/ 2013 and were signed on its behalf by:

[Signature] DIRECTOR [Signature] DIRECTOR

The notes on pages 12 to 25 form an integral part of these financial statements.

Report of the independent auditor - pages 6 and 7.

\* Refer to note 1.

**STATEMENT OF CHANGES IN EQUITY**

	Note	Revaluation reserve Shs'000'	Retained earnings Shs'000'	Total Shs'000'
<b>Year ended 30 June 2012</b>				
At start of year		2,700	326,464	329,164
Prior year adjustment				
UN Women Project Refund	1	-	(4,668)	(4,668)
Rockefeller Foundation Refund	1	-	(20,876)	(20,876)
Deferred income - support from GoK	1	-	(113,343)	(113,343)
Transfer to retained earnings on disposal*		<u>(2,700)</u>	<u>2,700</u>	<u>-</u>
As restated		-	190,277	190,277
Total comprehensive loss for the year		<u>-</u>	<u>(42,110)</u>	<u>(42,110)</u>
At end of year		<u>-</u>	<u>148,167</u>	<u>148,167</u>
<b>Year ended 30 June 2013</b>				
At start of year		-	148,167	148,167
Total comprehensive income for the year		<u>-</u>	<u>48,916</u>	<u>48,916</u>
At end of year		<u>-</u>	<u>197,083</u>	<u>197,083</u>

\*The fair value reserves arose upon the valuation of certain motor vehicles which had since been disposed off as at 30 June 2012. A prior year adjustment has been passed to correct the misstatement.

The notes on pages 12 to 25 form an integral part of these financial statements.

Report of the independent auditor - pages 6 and 7.

**STATEMENT OF CASH FLOWS**

	Notes	2013 Shs'000'	2012 Shs'000'
<b>Operating activities</b>			
Cash from/(used in) operations	18	106,403	(3,017)
Net tax received		-	107
Net cash from/(used in) operating activities		106,403	(2,910)
<b>Investing activities</b>			
Cash paid for purchase of property and equipment	11	(1,905)	(7,465)
Cash paid for purchase of intangible asset	12	-	(276)
Net movement in financial assets maturing after 91 days		(4,218)	50,625
Interest received		1,179	821
Net cash (used in)/from investing activities		(4,944)	43,705
Increase in cash and cash equivalents		101,459	40,795
<b>Movement in cash and cash equivalents</b>			
At start of year		214,381	171,362
Increase		101,459	40,795
Effect of exchange rate changes		1,011	2,224
At end of year	15	316,851	214,381

The notes on pages 12 to 25 form an integral part of these financial statements.

Report of the independent auditor - pages 6 and 7.

## NOTES

### SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### a) Basis of preparation

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS).

These financial statements comply with the requirements of the Kenya Institute for Public Policy Research and Analysis Act and Public Audit Act. The statement of income and expenditure and other comprehensive income represent the statement of income and expenditure referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

#### **New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2012 and not adopted in advance of the effective date.**

IAS 19, 'Employee benefits' was amended in June 2011. The impact on the institute will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in other comprehensive income as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The institute is yet to assess the full impact of the amendments which are applicable to financial periods beginning on or after 1 January 2013.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities.

IFRS 9 requires financial assets to be classified into two principal measurement categories: those measured as at fair value and those measured at amortised cost. The institute is yet to assess. IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.

International Financial Reporting Standard 10 (IFRS 10) on 'Consolidated Financial Statements', International Financial Reporting Standard 11 (IFRS 11) on 'Joint Arrangements' and International Financial Reporting Standard 12 (IFRS 12) on 'Disclosures of Interests in Other Entities' which are effective for the periods commencing 1 January 2013 are not expected to have a material impact on the institute.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the institute.

#### b) Key sources of estimation uncertainty

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

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

**NOTES (CONTINUED)**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**b) Key sources of estimation uncertainty (continued)**

- In determining the present value of retirement benefit obligations, the company uses the projected unit credit method. The methodology and assumptions used for estimating the liability amount are reviewed on a regular basis to reduce any differences between estimates and actual experience. The significant assumptions used are set out in note 8. These have not been subjected to a review by a professional actuary.
- No provision for tax liability has been made in the financial statements. This is on the assumption that the KIPPRA Act, section 27 which states that the institute is exempt from taxes irrespective of the Minister of Finance approval by notice in the Gazette not having taken place. Refer to accounting policy (i) for further information

**c) Revenue recognition**

**(i) Grants**

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

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

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

**(ii) Project income**

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

**(iii) Donations in kind**

Donations in kind are recognised on a receipt basis and recorded at their estimated market values.

**(iv) Interest income**

Interest income is recognized on an accrual basis.

**d) Translation of foreign currencies**

Transactions in foreign currencies during the year are converted into Kenya Shillings (the functional currency), at rates ruling at the transaction dates. Assets and liabilities at the date of this report which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the profit or loss in the year in which they arise.

**e) Property and equipment**

All property and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the institute and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

NOTES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) **Property and equipment (continued)**

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

	<u>Rate %</u>
Computers	33.3
Motor vehicles	25.0
Furniture and fittings	12.5
Office equipment	12.5

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit/loss.

f) **Intangible assets**

**Computer software**

The costs incurred to acquire and bring to use specific computer software licences are capitalized. The costs are amortized on a straight line basis over the expected useful lives, not exceeding three years. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

g) **Financial instrument**

Financial assets and financial liabilities are recognised when the institute becomes a party to the contractual provisions of the instrument. Management determines all classification of financial assets at initial recognition.

- **Financial assets**

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

The company's financial assets which include cash and bank balances, other receivables and prepayments and investment in treasury bills fall into the following category:

- **Held-to-maturity:** financial assets with fixed or determinable payments and fixed maturity where the management have the positive intent and ability to hold to maturity. Subsequent to initial recognition, such assets are carried at amortised cost using the effective interest method. Changes in the carrying amount are recognised in profit or loss.
- **Loans and receivables:** financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within 12 months of the reporting date. All assets with maturities greater than 12 months after the reporting date are classified as non-current assets. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method. Changes in the carrying amount are recognised in profit or loss.

Purchases and sales of financial assets are recognised on the trade date i.e. the date on which the company commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the institute has transferred substantially all risks and rewards of ownership.

**NOTES (CONTINUED)**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**g) Financial instruments (continued)**

- **Financial assets (continued)**

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Impairment of financial assets is recognised in the statement of comprehensive income under administrative expenses when there is objective evidence that the institute will not be able to collect all amounts due per the original terms of the contract. Significant financial difficulties of the issuer, probability that the issuer will enter bankruptcy or financial reorganisation, default in payments and a prolonged decline in fair value of the asset are considered indicators that the asset is impaired.

The amount of the impairment loss is calculated as the difference between the assets carrying amount and the present values of expected future cash flows, discounted at the financial instrument's effective interest rate.

Subsequent recoveries of amounts previously written off/impaired are credited to profit or loss/other comprehensive income in the year in which they occur.

Gains and losses on disposal of assets whose changes in fair value were initially recognised in profit or loss are determined by reference to their carrying amount and are taken into account in determining operating profit/(loss). On disposal of assets whose changes in fair value were initially recognised in equity, the gains/losses are recognised in the reserve, where the fair values were initially recognised. Any resultant surplus/deficit after the transfer of the gains/losses are transferred to retained earnings.

Management classifies financial assets as follows:

Government securities are classified as held-to-maturity as the institute has the intention and ability to hold these to maturity. These are carried at amortised cost.

Cash in hand and balances with financial institutions and other receivables and prepayments are classified as loans and receivables and are carried at amortised cost.

Management classify the fair values of financial assets based on the qualitative characteristics of the fair valuation as at the financial year end. The three hierarchy levels used by management are:

- **Level 1:** where fair values are based on non-adjusted quoted prices in active markets for identical financial assets.
- **Level 2:** where fair values are based on adjusted quoted prices and observable prices of similar financial assets.
- **Level 3:** where fair values are not based on observable market data.

- **Financial liabilities**

- **Financial liabilities measured at amortised cost :** These include other payables, accruals and staff gratuity fund. These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

All financial liabilities are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Financial liabilities are derecognised when, and only when, the institute's obligations are discharged, cancelled or expired.

**h) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and financial assets with maturities of less than 3 months.

**NOTES (CONTINUED)**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**i) Taxation**

The institute does not have tax exemption certificate. However, under section 27 of the Kenya Institute for Public Policy Research and Analysis Act (KIPPRA Act), subject to other applicable laws, the institute is exempt from taxes as the Minister for the time being responsible for Finance may by notice in the Gazette specify. Therefore, no provisions for tax liabilities, including liabilities in respect of Value Added Tax (VAT) that has not been charged on services that would otherwise be subject to VAT under the VAT Act have been made in the financial statement. The directors are of the opinion that the tax exemption should be applicable irrespective of the absence of a specific Gazette notice/approval from the Minister of Finance and are in the process of regularising this position with the Kenya Revenue Authority.

**j) Employee entitlements**

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

**k) Retirement benefit obligations**

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

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

**l) Comparatives**

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

**NOTES (CONTINUED)**

**1. Prior year adjustments**

The following prior adjustments have been made in the accounts:

- The institute refunded an balance of unspent amount relating to UN Women Project amounting to Shs. 4,668,328. A prior year adjustment has been made to recognise the refund payable.
- The institute refunded an balance of unspent amount relating to Rockefeller Foundation Project amounting to Shs. 20,286,000. A prior year adjustment has been made to recognise the refund payable.
- The institute received Shs. 113,343,000 from the Government of Kenya for development of headquarter project which is yet to be started. A prior year adjustment has been made to recognised deferred income.

**2. Grant income**

	2013 Shs'000'	2012 Shs'000' (Restated)
<b>Support from Development Partners:</b>		
Think Tank Initiative (TTI)	40,421	27,386
The African Capacity Building Foundation (ACBF)	20,967	-
<b>Sub Total</b>	<u>61,388</u>	<u>27,386</u>
<b>Support from the Government of Kenya (GoK)</b>	<u>184,698</u>	<u>118,841</u>
<b>Total grant income</b>	<u><u>246,086</u></u>	<u><u>146,227</u></u>

**3. Project income**

FAO: Food price volatility in Kenya	2,854	-
ITC; Kenya: A company perspective on NTB	1,140	-
KICC: MICE Project	600	-
ILO: Assessing Green Jobs in Kenya	1,456	-
MEMR: Communication Tools for a Green Economy	755	-
CCK: Competition in the Mobile Voice Market	5,803	-
IDRC: Integrating Population structures into growth	2,988	-
STIPRO: Kenya National Launching workshop	647	-
NCIC: National Cohesion Index	7,597	-
UNEP: Preliminary Green Economy Indicators for Africa	506	-
IILA: Situation analysis of illicit trade in Tobacco Products in Kenya	600	-
World Bank: PETTS+ Survey implementation	7,870	-
Brookings Institute: AGI	1,211	-
ACBF: African Governance Outlook (Kenya)	-	1,661
FANRPAN: Collaboration Workshop	-	1,162
ACBF: ACI Regional Focal Points	-	415
FAO: Monitoring Food & Agricultural Policies (MAFAP)	1,913	872
Ministry of Energy: 2nd National Energy Conference	-	8,028
Brookings Institute: African Development & Structural Transformation	-	5,730
Amsterdam Institute for International Development: Health Insurance	-	5,455
Hawaii State University: NTA Workshop	-	281
SIDA: Public Expenditure Review	7,512	2,965
MOE: Petroleum Demand in Mt Kenya & Northern Kenya	-	15,905
TSC: Teachers Staffing Model	-	222
Salaries & Remuneration Commission: PP Sector Wage Differentials	10,475	5,640
JICA: Youth Unemployment & Underemployment in Kenya	2,387	1,379
JICA: Inequalities & Social Cohesion Study	2,387	1,379
EACC: Public Policy Training	-	353
Ministry of Agriculture: Commodities Exchange	-	1,832
SCAC: Management of State Corporations in Kenya	-	9,965
ACET: Country Case study on Economic Transition	-	2,377
Washington University: Youth Save	2,176	2,862
Ministry of Trade: Cluster Analysis	-	2,079
MOJCA: National Cohesion & Integration Policy	-	4,122
Energy Regulatory Commission: Petroleum Demand Study	-	4,970
<b>Total project income</b>	<u><u>60,877</u></u>	<u><u>79,654</u></u>

**NOTES (CONTINUED)**

4. Other operating income	2013 Shs'000'	2012 Shs'000'
Investment Income (Treasury Bills Interest)	20,022	16,741
FAC Rental overheads (Reimbursement of overheads and rental income)	2,053	1,979
Workshop Income (Atlantic Council)	602	-
EFD Overheads	-	197
Sale of Tender Documents	446	130
Media Articles (NMG)	240	-
Sale of KIPPRA Publications	228	-
Sustainability a/c Interest	-	92
Compensation for loss of Laptop	97	79
Disposal Proceeds from sale of property and equipment	38	655
<b>Total other operating income</b>	<u>23,726</u>	<u>19,873</u>

**5. Operating surplus/(deficit)**

The following items have been charged in arriving at operating surplus/(deficit):

Depreciation on property and equipment (Note 11)	5,384	6,261
Amortisation of intangible assets (Note 12)	362	632
Auditors' remuneration	905	350
Directors' emoluments	13,196	15,000
Staff costs (Note 6)	<u>181,713</u>	<u>168,702</u>

**6. Staff costs**

	GOK Shs'000'	TTI Shs'000'	ACBF Shs'000'	Projects Shs'000'	Total 2013 Shs'000'	Total 2012 Shs'000'
Salaries	132,752	12,450	5,776	12,666	163,075	155,389
Recruitment cost	4,616	-	-	-	4,616	573
Medical cost	11,723	-	-	-	11,723	10,606
Group Life Insurance	663	-	-	-	663	446
Other staff cost	1,489	-	-	-	1,489	1,564
Pension costs:						
- National Social Security Fund	147	-	-	-	147	124
	<u>151,390</u>	<u>12,450</u>	<u>5,776</u>	<u>12,666</u>	<u>181,713</u>	<u>168,702</u>

**7. Net finance income**

	2013 Shs'000'	2012 Shs'000'
Interest received on bank deposits	1,179	821
Net foreign exchange gain	<u>1,011</u>	<u>2,224</u>
	<u>2,190</u>	<u>3,045</u>

**NOTES (CONTINUED)**

**8. Retirement benefit obligations**

The institute operates a gratuity scheme for qualifying employees which qualifies as a defined benefit scheme. Under the plan, the employees are entitled to 12.5% of their monthly basic salary for every month of service. The monthly gratuity is paid to a separate gratuity bank account maintained internally by the institute from where gratuity is paid out from whenever a staff contract comes to an end or whenever an employee leaves employment. Interest earned from the fund is transferred to the institute and treated as interest income for the period. The staff gratuity fund (see non - current asset section of the balance sheet) represents the total funds held with respect of gratuity. This amount is represented by the gratuity bank account balance amounting to Shs. 8,866,041 (2012: Shs. 2,314,766) and borrowing by the institute from gratuity fund (see current liability section of the balance sheet) amounting to Shs. 10,920,722 (2012: Shs. 15,920,722) which has been used for other purposes.

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

	2013 Shs'000'	2012 Shs'000'
Present value of internally funded obligations	<u>19,947</u>	<u>18,207</u>

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

	2013 Shs'000'	2012 Shs'000'
At start of year	18,207	20,915
Utilised during the year	(11,156)	(14,726)
Charge to profit or loss	<u>12,896</u>	<u>12,018</u>
At end of year	<u>19,947</u>	<u>18,207</u>

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

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

	2013 Shs'000'	2012 Shs'000'
Current service cost (included in salaries and wages)	<u>12,896</u>	<u>12,018</u>

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

	2013	2012
Discount rate	10%	10%
Future salary increases	9%	9%
Average number of contracted years	<u>3yrs</u>	<u>3yrs</u>

**9. Payable to gratuity fund**

Payable to gratuity fund represents funds borrowed from the staff gratuity fund and invested in treasury bills. During the year, Shs. 5 million was refunded back to the staff gratuity fund when several contracts matured and the amount in the gratuity account was insufficient to meet the resulting obligation hence the reduction of the liability from Shs. 15.9 million in the previous year to Shs. 10.9 million in the current year.

NOTES (CONTINUED)

10. Other accrued liabilities (Provision for outstanding leave days)

	2013 Shs'000'	2012 Shs'000'
At start of year	4,531	3,047
(Credit)/charge to profit or loss	<u>(1,087)</u>	<u>1,484</u>
At end of year	<u><u>3,444</u></u>	<u><u>4,531</u></u>

11. Property and equipment

Year ended 30 June 2013

	Motor vehicles Shs'000'	Furniture and fittings Shs'000'	Office equipment Shs'000'	Computer equipment Shs'000'	Total Shs'000'
<b>Cost</b>					
At start of year	11,250	7,887	8,925	4,087	32,149
Additions	<u>-</u>	<u>124</u>	<u>432</u>	<u>1,349</u>	<u>1,905</u>
At end of year	<u>11,250</u>	<u>8,011</u>	<u>9,357</u>	<u>5,436</u>	<u>34,054</u>
<b>Depreciation</b>					
At start of year	6,310	4,657	4,281	2,712	17,960
Charge for the year	<u>2,225</u>	<u>762</u>	<u>1,124</u>	<u>1,273</u>	<u>5,384</u>
At end of year	<u>8,535</u>	<u>5,419</u>	<u>5,405</u>	<u>3,985</u>	<u>23,344</u>
<b>Net book value</b>	<u><u>2,715</u></u>	<u><u>2,592</u></u>	<u><u>3,952</u></u>	<u><u>1,451</u></u>	<u><u>10,710</u></u>

Year ended 30 June 2012

	Motor vehicles Shs'000'	Furniture and fittings Shs'000'	Office equipment Shs'000'	Computer equipment Shs'000'	Total Shs'000'
<b>Cost</b>					
At start of year	17,172	14,672	11,607	25,494	68,945
Additions	4,369	553	971	1,572	7,465
Fully depreciated	<u>(10,291)</u>	<u>(7,338)</u>	<u>(3,653)</u>	<u>(22,979)</u>	<u>(44,261)</u>
At end of year	<u>11,250</u>	<u>7,887</u>	<u>8,925</u>	<u>4,087</u>	<u>32,149</u>
<b>Depreciation</b>					
At start of year	13,788	11,025	6,818	24,329	55,960
Fully depreciated	<u>(10,291)</u>	<u>(7,338)</u>	<u>(3,653)</u>	<u>(22,979)</u>	<u>(44,261)</u>
Charge for the year	<u>2,813</u>	<u>970</u>	<u>1,116</u>	<u>1,362</u>	<u>6,261</u>
At end of year	<u>6,310</u>	<u>4,657</u>	<u>4,281</u>	<u>2,712</u>	<u>17,960</u>
<b>Net book value</b>	<u><u>4,940</u></u>	<u><u>3,230</u></u>	<u><u>4,644</u></u>	<u><u>1,375</u></u>	<u><u>14,189</u></u>

Fully depreciated fixed assets were removed from the fixed asset schedule since most had been disposed of over the years.

**NOTES (CONTINUED)**

12. Intangible assets - Software costs	2013 Shs'000'	2012 Shs'000'
<b>Cost</b>		
At start of year	7,466	7,190
Additions	-	276
At end of year	<u>7,466</u>	<u>7,466</u>
<b>Amortisation</b>		
At start of year	7,011	6,379
Charge for the year	362	632
At end of year	<u>7,373</u>	<u>7,011</u>
<b>Net book value</b>	<u>93</u>	<u>455</u>

**13. Financial assets**

**Held to maturity**

Investments in Treasury Bills	<u>240,918</u>	<u>212,449</u>
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The carrying amounts of the institute's financial assets are denominated in Kenya Shillings.

Held-to-maturity investments can be analysed as follows:	2013 Shs'000'	2012 Shs'000'
Maturing within 91 days (Note 15)	166,320	142,069
Maturing after 91 days	<u>74,598</u>	<u>70,380</u>
	<u>240,918</u>	<u>212,449</u>

None of the financial assets is either past due or impaired.

The fair values of the financial assets are categorised under Level 1 based on the information set out in accounting policy (g). In the opinion of the directors, the carrying value of the investments above approximates their fair value.

14. Other receivables and prepayments	2013 Shs'000'	2012 Shs'000'
Rent deposit	2,222	2,222
Prepaid Rent	437	418
Car park deposits	332	332
Accrued project income	28,041	34,552
Gratuity interest income (Gratuity A/c)	29	29
Telkom Kenya: ISDN deposit	69	69
Security Bid – Ministry of Culture & National Heritage	100	100
CBA safety locker deposit	13	13
Toyota EA motor vehicle deposit	8,297	-
ACBF ACEES Receivables	545	-
KSMS Workshop Recovery	-	200
Strathmore Business School Recovery	-	200
HELB Performance Guarantee	304	304
CCK Performance Deposit	306	306
Bank Guarantee: national Cohesion Project	<u>475</u>	<u>-</u>
	<u>41,170</u>	<u>38,745</u>

In the opinion of the directors, the carrying amounts of other receivables and prepayments approximate to their fair value.

**NOTES (CONTINUED)**

**14. Other receivables and prepayments (continued)**

The institute's credit risk arises primarily from accrued project income. The directors are of the opinion that the institute's exposure is limited because the debt is widely held. There is no significant concentration of credit risk

The carrying amounts of the institute's other receivables and prepayments are denominated in Kenya Shillings.

Accrued project income that are aged past 90 days are considered past due.

As of 30 June 2013, accrued project income amounting to Shs.19,962 (2012: Nil) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these accrued project income is as follows:

	2013 Shs'000'	2012 Shs'000'
3 to 12 months	8,079	34,552
Over 12 months	19,962	-
	<u>28,041</u>	<u>34,552</u>

**15. Cash and cash equivalents**

	2013 Shs'000'	2012 Shs'000'
Cash at bank and in hand	<u>150,531</u>	<u>72,312</u>

For the purpose of the statement cash flow, the year end cash and cash equivalents comprise the following:

Cash and bank balances	150,531	72,312
Financial assets maturing within 91 days (Note 13)	<u>166,320</u>	<u>142,069</u>
	<u>316,851</u>	<u>214,381</u>

The institute's cash and bank balances are held with a major Kenyan financial institution and, insofar as the directors are able to measure any credit risk to these assets, it is deemed to be limited. Not included within cash and cash equivalents are funds designated for the gratuity scheme (note 8) and EFD liability (note 19).

The carrying amounts of the institute's cash and cash equivalents are denominated in the following currencies:

	2013 Shs'000'	2012 Shs'000'
Kenya Shilling	143,474	57,429
US Dollar	<u>7,057</u>	<u>14,883</u>
	<u>150,531</u>	<u>72,312</u>

**16. Other payables**

	2013 Shs'000'	2012 Shs'000' (Restated)
Projects payable	444	5,958
GoK payable	3,664	1,622
TTI payable	983	773
ACBF payable	233	-
Refund payable	<u>-</u>	<u>25,544</u>
	<u>5,324</u>	<u>33,897</u>

**NOTES (CONTINUED)**

**16. Other payables (continued)**

In the opinion of the directors, the carrying amounts of other payables approximate to their fair value.

The carrying amounts of the institute's other payables are denominated in Kenya Shillings.

**17. Deferred income**

	2013 Shs'000'	2012 Shs'000' Restated
Support from the Government of Kenya (GoK)	<u>226,650</u>	<u>180,384</u>

**18. Cash from/(used in) operations**

Reconciliation of operating surplus/(deficit) to cash from operations:

Operating surplus/(deficit)	48,916	(42,110)
<b>Adjustments for:</b>		
Depreciation on property and equipment (Note 11)	5,384	6,261
Amortisation of intangible assets (Note 12)	362	632
Net foreign exchange (gains) (Note 7)	(1,011)	(2,224)
Interest received (Note 7)	(1,179)	(821)
Changes in working capital:		
- GoK/Grants receivable	44,750	(44,750)
- Other receivables and prepayments	(2,425)	(1,735)
- Accrued staff leave days	(1,087)	1,484
- Gratuity payable	(5,000)	15,921
- Other payables	(28,573)	(2,716)
- Deferred income	<u>46,266</u>	<u>67,041</u>
Cash from/(used in) operations	<u>106,403</u>	<u>(3,017)</u>

**19. Environment for Development (EFD - Kenya Account)**

The institute entered into an agreement with the Environment Economics Unit (EEU) at Gothenburg University represented by the Environment for Development - Kenya (EFD Kenya) in 2007 for a 3 - year research collaboration. Funds received from Gothenburg University are normally to support specific annual budgeted activities. Surplus funds at the end of each year are normally carried forward to the following year and remain a liability to EEU. The institute normally charges the Unit a nominal rent and proportionate level of overheads. The outstanding EFD balance as at 30 June 2013 was Shs. 8.7 million (2012: Shs. 6.1 million). The institute is holding the same amount in a separate bank account for repayment of this liability which is presented separately from cash and cash equivalents.

**20. Related party transactions and balances**

	2013 Shs'000'	2012 Shs'000'
The following transactions were carried out with related parties.		
i) Donations from Government of Kenya	<u>230,964</u>	<u>185,882</u>
ii) Funds receivable from Government of Kenya	<u>-</u>	<u>44,750</u>
iii) Key management personnel compensation		
Short term employee benefits	25,599	29,462
Post employment benefits	<u>3,593</u>	<u>4,612</u>
	<u>29,192</u>	<u>34,074</u>

**NOTES (CONTINUED)**

**21. Risk management objectives and policies**

**Financial risk management**

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

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

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

**(a) Market Risk**

*- Foreign exchange risk*

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

At 30 June 2013, if the Kenya Shilling had weakened 10 per cent against the US dollar with all other variables held constant, operating surplus for the year would have been Shs.705,705 (2012: Shs.1,488,250) lower. Conversely, if the Kenya Shilling had strengthened 10 per cent against the US dollar with all other variables held constant, operating surplus would have been Shs.705,705 (2012: Shs.1,488,250) higher.

**(b) Credit risk**

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

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

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

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

**(c) Liquidity risk**

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

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

**NOTES (CONTINUED)**

**22. Commitments**

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

At the reporting date these commitments were as follows:	2013 Shs'000'	2012 Shs'000'
Property and equipment - Motor vehicle	<u>8,298,858</u>	<u>-</u>

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

**Operating lease commitments - as a lessee**

The future minimum lease payments payable under non-cancellable operating leases are as follows:	2013 Shs'000'	2012 Shs'000'
Not later than 1 year	5,062	4,756
Later than 1 year and not later than 5 years	<u>14,889</u>	<u>19,951</u>
	<u>19,951</u>	<u>24,707</u>

**23. Events after the reporting period**

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

**24. Incorporation**

The Kenya Institute of Public Policy Research and Analysis is a non-profit making organization and was formally established through Legal Notice No.56 in The Kenya Gazette of 9 May 1997. The KIPPRA Act No. 15 of 2006 was enacted in December 2006 and became operational effective on 1st February, 2007 making the Institute a semi-autonomous State Corporation under the Ministry of Planning, National Development and Vision 2030.

**25. Presentation currency**

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

**SCHEDULE OF EXPENDITURE**

	2013 Shs'000'	2012 Shs'000'
<b>1. ADMINISTRATIVE EXPENSES</b>		
<b>Employment:</b>		
Salaries	163,222	155,513
Recruitment cost	4,616	573
Medical cost	11,723	10,606
Group Life Insurance	663	446
Other staff cost	1,489	1,564
<b>Total employment costs</b>	<u>181,713</u>	<u>168,702</u>
<b>Other administration expenses:</b>		
Motor vehicle expenses	1,263	1,278
Postage & courier	513	143
Telephone	1,247	1,094
Internet	1,874	1,343
Stationery	1,866	1,715
Library	1,123	631
Publications	5,609	3,681
Legal fees	2,039	560
Audit fees	905	350
Travel	2,210	2,675
Research costs	25,244	25,032
Others	4,421	4,690
Consultants Fees	-	20,734
Training & Workshops	27,249	26,131
Board Expenses	4,893	5,972
Bank Charges	246	226
<b>Total other administrative expenses</b>	<u>80,702</u>	<u>96,255</u>
<b>Total administrative expenses</b>	<u><u>262,415</u></u>	<u><u>264,957</u></u>
<b>2. OTHER OPERATING EXPENSES</b>		
<b>Establishment:</b>		
Depreciation on property and equipment	5,383	6,261
Rent	14,155	16,242
Insurance	684	646
Amortisation of intangible assets	362	632
Repairs and maintenance	964	2,171
<b>Total other operating expenses</b>	<u><u>21,548</u></u>	<u><u>25,952</u></u>
<b>3. NET FINANCE INCOME</b>		
Interest received on bank deposits	1,179	821
Net foreign exchange gain	1,011	2,224
<b>Total net finance income</b>	<u><u>2,190</u></u>	<u><u>3,045</u></u>

Kenya Institute For Public Policy Research And Analysis (KIPPRA)  
 Consolidated statement of comprehensive income  
 For the year ended 30 June 2013

Appendix I

INCOME	2013 Shs'000'	2012 Shs'000'
From all sources	<u>330,691</u>	<u>313,935</u>
<b>EXPENSES</b>		
<b>General Administration</b>		
Motor vehicle expenses	1,263	1,278
Postage and courier	513	143
Telephone	1,247	1,094
Internet	1,874	1,343
General insurance	684	646
Stationery	1,866	1,715
Library	1,123	631
Publications	5,609	3,681
Repairs and maintenance	964	2,171
Rent	14,155	16,242
Legal fees	2,039	560
Provision for audit fees	905	350
Travelling	2,210	2,675
Research costs	5,269	25,032
Other Office Costs	<u>4,422</u>	<u>4,640</u>
	<u>44,143</u>	<u>62,201</u>
<b>Staff</b>		
Salaries, Bonus and Gratuity	163,791	154,411
Recruitment costs	4,616	573
Medical	11,723	11,948
Group life	663	446
Accrued staff leave written back	<u>920</u>	<u>1,565</u>
	<u>181,713</u>	<u>168,943</u>
<b>Training &amp; Capacity Building</b>		
Workshop costs	4,997	8,091
Staff training and YPs Programme	<u>22,252</u>	<u>18,040</u>
	<u>27,249</u>	<u>26,131</u>
<b>Contingencies</b>		
Bank charges	242	225
Board expenses	<u>4,893</u>	<u>5,972</u>
	<u>5,135</u>	<u>6,197</u>
<b>Consultancies &amp; other professional services</b>		
	19,975	20,734
<b>Depreciation</b>		
	<u>5,744</u>	<u>6,893</u>
<b>TOTAL EXPENDITURE</b>	<u><b>283,959</b></u>	<u><b>291,099</b></u>
Operating surplus	46,732	22,836
Finance income	<u>2,190</u>	<u>3,045</u>
<b>Net surplus</b>	<u><b>48,922</b></u>	<u><b>25,881</b></u>

	2013 Shs'000'	2012 Shs'000'
<b>INCOME</b>		
From GOK	<u>184,698</u>	<u>186,782</u>
<b>EXPENSES</b>		
<b>General Administration</b>		
Motor vehicle expenses	650	940
Postage and courier	153	143
Telephone	564	1,094
Internet	341	1,343
General insurance	684	646
Stationery	981	1,715
Library	147	194
Publications	1,333	1,000
Repairs and maintenance	964	2,171
Rent	9,105	11,200
Legal fees	2,039	560
Audit fees	-	350
Travel	827	180
Other Office Costs	<u>4,114</u>	<u>2,500</u>
	<u>21,902</u>	<u>24,036</u>
<b>Staff</b>		
Salaries and gratuity	132,899	57,162
Recruitment	4,616	573
Medical expenses	11,723	9,000
Group life cover	663	446
Other	<u>920</u>	<u>650</u>
	<u>150,821</u>	<u>67,831</u>
<b>Training &amp; Capacity Building</b>		
Workshop costs	2,807	110
Staff training and YP's program	<u>4,500</u>	<u>6,200</u>
	<u>7,307</u>	<u>6,310</u>
<b>Contingencies</b>		
Bank charges	122	113
Board expenses	<u>3,263</u>	<u>5,520</u>
	<u>3,385</u>	<u>5,633</u>
<b>Consultancies &amp; other professional services</b>	4,409	1,024
<b>Depreciation</b>	<u>5,744</u>	<u>6,893</u>
<b>TOTAL EXPENDITURE</b>	<u>193,568</u>	<u>111,727</u>
Operating surplus	(8,870)	75,055
Finance income	<u>636</u>	<u>439</u>
<b>Net surplus</b>	<u>(8,234)</u>	<u>75,494</u>

Kenya Institute For Public Policy Research And Analysis (KIPPRA)  
 Detailed income and expenditure statement  
 From retained earnings account  
 For the year ended 30 June 2013

Appendix III

<b>INCOME</b>	<b>2013 Shs'000'</b>	<b>2012 Shs'000'</b>
Other	-	-
<b>EXPENSES</b>		
<b>General Administration</b>		
Motor Vehicle	-	338
Publications	-	471
Rent	-	5,042
Travel	-	1,148
Other Office Costs	-	1,756
	-	8,755
<b>Staff</b>		
Salaries	-	70,599
Medical	-	2,948
Accrued leave	-	915
	-	74,462
<b>Training &amp; Capacity Building</b>		
Workshop costs	-	3,624
Staff Training & YP Program	-	5,983
	-	9,607
<b>Consultancies &amp; other professional services</b>	-	1,568
<b>Board Expenses</b>	-	452
<b>TOTAL EXPENDITURE</b>	-	<b>94,844</b>
Operating (Deficit)	-	(94,844)
Finance Income	-	-
<b>Net (Deficit)</b>	-	<b>(94,844)</b>

Kenya Institute For Public Policy Research And Analysis (KIPPRA)  
 Detailed income and expenditure statement  
 Think Tank Initiative (TTI) account  
 For the year ended 30 June 2013

Appendix IV

	2013 Shs'000'	2012 Shs'000'
<b>INCOME</b>		
TTI Grant	<u>40,422</u>	<u>27,386</u>
<b>EXPENSES</b>		
<b>General Administration</b>		
Postage	360	-
Internet & Web Hosting	1533	-
Library	976	437
Publications	4,276	2,210
Travel	44	630
Other office expenses	<u>308</u>	<u>384</u>
	<u>7,497</u>	<u>3,661</u>
<b>Staff</b>		
Salaries	<u>12,450</u>	<u>16,045</u>
<b>Bank charges</b>	35	31
<b>Training &amp; Capacity Building</b>		
Workshops	529	379
Staff training & YP Program	<u>12,677</u>	<u>5,857</u>
	<u>13,206</u>	<u>6,236</u>
<b>Consultancies &amp; other professional services</b>	8,273	3,320
<b>Board Allowances</b>	<u>1470</u>	<u>-</u>
<b>TOTAL EXPENDITURE</b>	<u>42,931</u>	<u>29,293</u>
Operating deficit	(2,509)	(1,907)
Finance income	<u>119</u>	<u>139</u>
<b>Net deficit</b>	<u>(2,390)</u>	<u>(1,768)</u>

*Kenya Institute For Public Policy Research And Analysis (KIPPRA)*  
*Detailed income and expenditure statement*  
*The African Capacity Building Foundation (ACBF) account*  
*For the year ended 30 June 2013*

**Appendix V**

<b>INCOME</b>	<b>2013 Shs'000'</b>	<b>2012 Shs'000'</b>
ACBF Grant	<u>20,967</u>	<u>-</u>
<b>EXPENSES</b>		
<b>General Administration</b>		
Motor Vehicle	613	-
Telephone	683	-
Stationery	885	-
Rent	5,050	-
Audit fees	905	-
Travel	<u>692</u>	<u>-</u>
	<u>8,828</u>	<u>-</u>
<b>Staff Costs</b>		
Salaries	<u>5,776</u>	<u>-</u>
Bank charges	15	-
Staff training & YP Program	5,075	-
Board Allowances	<u>160</u>	<u>-</u>
<b>TOTAL EXPENDITURE</b>	<u><b>19,854</b></u>	<u><b>-</b></u>
Operating surplus	1,113	-
Finance income	<u>63</u>	<u>-</u>
<b>Net Surplus</b>	<u><b>1,176</b></u>	<u><b>-</b></u>

	2013 Shs'000'	2012 Shs'000'
<b>INCOME</b>		
Project	60,877	79,654
Other	<u>23,727</u>	<u>20,113</u>
<b>TOTAL INCOME</b>	<u><b>84,604</b></u>	<u><b>99,767</b></u>
<b>EXPENSES</b>		
<b>General Administration</b>		
Travel	647	717
Research Costs	<u>5,269</u>	<u>25,032</u>
	<u>5,916</u>	<u>25,749</u>
<b>Staff</b>		
Annual bonus	<u>12,666</u>	<u>10,606</u>
<b>Training &amp; Capacity Building</b>		
Workshop costs	<u>1,661</u>	<u>3,979</u>
<b>Contingencies</b>		
Bank charges	<u>70</u>	<u>81</u>
<b>Consultancies &amp; other professional services</b>	<u>7,293</u>	<u>14,820</u>
<b>TOTAL EXPENDITURE</b>	<u><b>27,606</b></u>	<u><b>55,235</b></u>
Operating surplus	56,998	44,532
Finance income	<u>1,372</u>	<u>2,467</u>
<b>Net surplus</b>	<u><b>58,370</b></u>	<u><b>46,999</b></u>

	2013 Shs'000'	2012 Shs'000'
<b>Bank balance</b>	<u>8,762</u>	<u>6,101</u>
<b>Represented by:</b>		
Balance brought forward	6,101	3,070
Receipts during the period	3,235	8,013
Interest received	<u>20</u>	<u>17</u>
<b>Total Fund Available</b>	<u>9,356</u>	<u>11,100</u>
Less: period expenditure	<u>(594)</u>	<u>(4,999)</u>
Account balance	<u>8,762</u>	<u>6,101</u>

	TTI	GOK	ACBF	KIPPRA	2013	2012
	Shs'000'	Shs'000'	Shs'000'	Project	Shs'000'	Shs'000'
				Shs'000'		
<b>INCOME</b>						
Government of Kenya	-	184,698	-	-	184,698	118,841
Development Partners	40,422	-	20,967	-	61,389	27,386
Projects	-	-	-	60,877	60,877	79,654
Other	-	-	-	23,727	23,727	20,113
<b>TOTAL INCOME</b>	<b>40,422</b>	<b>184,698</b>	<b>20,967</b>	<b>84,604</b>	<b>330,691</b>	<b>245,994</b>
<b>EXPENDITURE</b>						
General Administration	7,497	21,902	8,828	5,916	44,143	62,201
Staff	12,450	150,821	5,776	12,666	181,713	168,942
Staff training & YPs Program	12,677	4,500	5,075	-	22,252	18,040
Depreciation	-	5,744	-	-	5,744	6,893
Board	1,470	3,263	160	-	4,893	5,972
Bank charges	35	122	15	70	242	225
Consultancies & other Professional Services	8,273	4,409	-	7,293	19,975	20,734
Workshop	529	2,807	-	1,661	4,997	8,091
<b>TOTAL EXPENDITURE</b>	<b>42,931</b>	<b>193,568</b>	<b>19,854</b>	<b>27,606</b>	<b>283,959</b>	<b>291,098</b>
<b>Operating (deficit)/surplus</b>	<b>(2,509)</b>	<b>(8,870)</b>	<b>1,113</b>	<b>56,998</b>	<b>46,732</b>	<b>(45,104)</b>
Financial income	119	636	63	1,372	2,190	3,045
<b>Net (deficit)/surplus</b>	<b>(2,390)</b>	<b>(8,234)</b>	<b>1,176</b>	<b>58,370</b>	<b>48,922</b>	<b>(42,059)</b>

