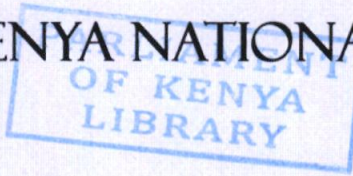


REPUBLIC OF KENYA



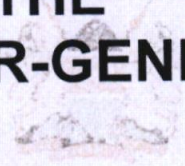
*Paper laid by
the leader of
majority on
30/4/2014
Mumukhi*

KENYA NATIONAL AUDIT OFFICE



*Volume
&*

**REPORT OF
THE
AUDITOR-GENERAL**



KENYA NATIONAL AUDIT OFFICE

ON

**THE FINANCIAL STATEMENTS OF
KENYA SCHOOL OF GOVERNMENT FOR
THE YEAR ENDED 30 JUNE 2013**





KENYA SCHOOL OF GOVERNMENT

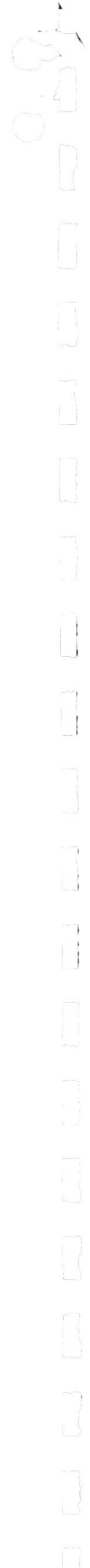
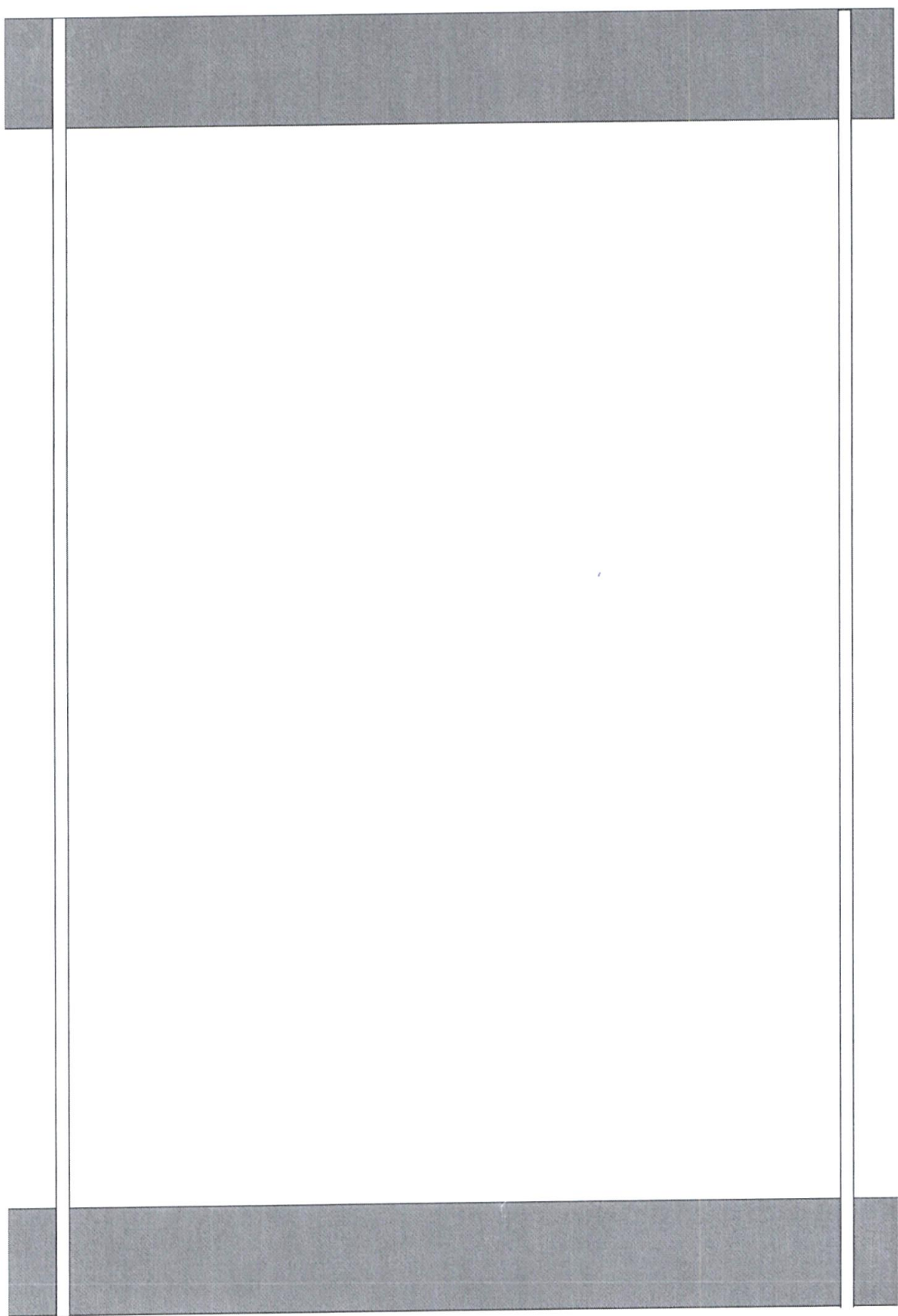


ANNUAL REPORT

AND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2013



KENYA SCHOOL OF GOVERNMENT

FOR THE YEAR ENDED 30 JUNE 2013

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KENYA SCHOOL OF GOVERNMENT

FOR THE YEAR ENDED 30 JUNE 2013

1.1 GENERAL INFORMATION

1 REGISTERED OFFICE AND PRINCIPAL PLACE OF OPERATION

Kenya School of Government
P.O BOX 23030-00604
Lower Kabete Road
Nairobi.

2 BANKERS

Kenya Commercial Bank Limited
P.O.Box 14959-00800
Nairobi

National Bank of Kenya Limited
P.O.Box 72866-00200
Nairobi

Central Bank of Kenya
P.O. Box 86372-80100
Mombasa

3 AUDITOR

The Auditor General
Kenya National Audit office
P.O Box 30084- 00100
Nairobi.

4 LAWYERS

Mwaniki Gachoka & Co. Advocates
P.O.Box 13439-00800
Nairobi

L.G Kimani & Co. Advocates
P.O.Box 73976-00200
Nairobi

KENYA SCHOOL OF GOVERNMENT

FOR THE YEAR ENDED 30 JUNE 2013

1 COUNCIL MEMBERS

Prof. Francis N. Kibera, PhD, CBS	Chairman (from 3/9/2012)
Prof. Owoko K'Obonyo	Member (from 22/8/2012)
Catherine Musakali	Member (from 22/8/2012)
Eliud Okech Owalo	Member (from 22/8/2012)
Grace Wakesho Maingi-Kimani	Member (from 22/8/2012)
Dr. Eric M. Aligula	Member (from 22/8/2012)
Micah Origa	Representing Principal Secretary National Treasury
Dr. Salome Gichura	Representing Principal Secretary Ministry of Education, Science and Technology
Dr. Rispa Odongo	Representing Commission for University Education
Prof. Michael N. Lokuruka	Representing Public Service Commission of Kenya
Juster Nkoroi, EBS	Representing Principal Secretary Ministry of Devolution and Planning, Directorate of Public Service Management
Elijah Wachira, HSC	Acting Director General / Secretary

2 SENIOR MANAGEMENT STAFF

Mr. Elijah Wachira, HSC	Acting Director General
CPA Osman Ibrahim, OGW	Acting Director Finance and Administration
Dr. Nura Mohamed	Acting Director Nairobi Campus
Mr. Alfonso Munyali	Director Mombasa Campus
Dr. Maurice Khayota	Director Embu Campus
Mr. Isaac Chebon, HSC	Director Baringo Campus
Mr. Jeremiah Nyaberi	Director Matuga Campus
Ms. Njambi Muchane, MBS	Director eLearning and Development Institute

KENYA SCHOOL OF GOVERNMENT

FOR THE YEAR ENDED 30 JUNE 2013

1 INCORPORATION

The Kenya School of Government (KSG) was established through Kenya School of Government Act of 2012 (Act) as a successor to the Kenya Institute of Administration (KIA) and the Kenya Development Learning Centre (KDLC) and the Government Training Institutes (GTIs) at Baringo, Embu, Matuga and Mombasa. The KSG Act came into effect on 1st July, 2012.

2 MANDATE

The Kenya School of Government's principal activity is to provide learning and development programmes to build capacity for the Public Service.

Further, the School shall:

Facilitate the establishment of professional networks and think tanks to develop and grow Public Sector leaders

Monitor, evaluate and communicate the impact of strengthened education and training programmes for national leadership and management

Conduct examination and award diplomas and other suitable awards to successful candidates

VISION

Excellence in public service capacity development

MISSION

To contribute to the transformation of the public service by inculcating national values and development of core skills and competencies for quality service delivery

CORE VALUES

Integrity
Customer Focus
Professionalism
Innovation and Creativity
Teamwork

KENYA SCHOOL OF GOVERNMENT

FOR THE YEAR ENDED 30 JUNE 2013

CHAIRMAN'S REPORT

The School was established by the Kenya School of Government Act no. 9 of 2012 and is one of the flagship projects of Kenya Vision 2030 . The School's mandate is to provide learning and development programmes to build capacity for the Public Service. This is the first report since establishment of the School.

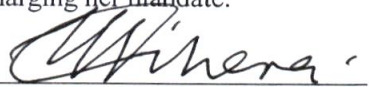
The financial year 2012/2013 was a year of transition where former Government Training Institutes which were the departments of the former Ministry of State for Public Service transiting from National Government to State Corporation. During the year the School prepared a strategic Plan for five years that is, 2012/2013 to 2016/2017 where all Campuses are required to run their activities in order to fulfil the mandate of the School.

We have put governance structures in place during the year. The Council was appointed on 22nd August 2012 and thereafter the following Council Committees were formed : Audit and Risk Management, Human Resources , Finance and General Purpose , Learning and Development Committee and ICT. As a result the Council approved several policies in finance, human resource and learning and development functions which will ensure uniformity in all campuses and achieve the objectives set out in the strategic plan. Further, Council and Committee Charters were developed

During the year under review, the Deloitte Consulting was commissioned to carry out capacity assessment in all campuses in order to assess the needs of the School. Branding of the School also took place where we now have corporate colours for the School.

I am grateful to the Government for the continued support to the School especially during this transition period. The School received grant in form of salaries of Kshs. 201 million for the staff of former Government Training Institutes, and total development and recurrent grant of Kshs. 605M.

I am also grateful to the Council, Management and staff for the good work that has resulted in the continued realization of the mandate of the School. Special thanks are also extended to the participants and their sponsors and other partners. I am very confident of the School's potential in discharging her mandate.



Prof. Francis N. Kibera, PhD, CBS
Chairman



Date

KENYA SCHOOL OF GOVERNMENT

FOR THE YEAR ENDED 30 JUNE 2013

DIRECTOR GENERAL'S REPORT

The School achieved revenue of Kshs. 1.5 billion against a target of Kshs.1.01 billion and a surplus of Kshs. 185 million during the year. The Management appreciates the financial support to the School by the Government where in the financial year 2012/2013, the School received Kshs. 201 million in form of salaries, recurrent grant of Kshs. 314 million and development grant of Kshs. 291 million.

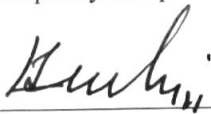
In order to achieve its revenue target, several curricula were rolled out including capacity assessment and devolution to the counties. Governors and County Executives were trained in order to develop capacities in the counties. Further, the trainings have been rolled out in all the campuses to ensure accessibility of trainings to all public servants at their convenience.

The School also partnered with several non-government entities in order to fund most of the county programmes including development of County Integrated Development Plans to assist in development of the Counties. Some of our donors included the World Bank and USAID. Our staff were able to visit the counties in order to understand their needs and develop programmes suitable to their needs.

A comprehensive review of all courses has been initiated so as to ensure standardization and relevance to the needs of the stakeholders' needs.

The School has several hostels with total bed capacity of 1,311 whose occupancy supplements the revenue of the School. Further it has seminar rooms and conference hall which increases the revenue of the school.

The Management has invested in building a common culture through leadership development programmes, intercampus exchanges and integrates operating systems as well as relying on internal capacity and prevailing good will from staff to manage change.



Mr. Elijah Wachira, HSC
Ag. Director General

20-3-2014

Date

KENYA SCHOOL OF GOVERNMENT

FOR THE YEAR ENDED 30 JUNE 2013

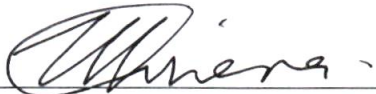
STATEMENT OF COUNCIL'S RESPONSIBILITIES

The Kenya School of Government Act requires the Council to prepare financial statements for each financial year which include a statement of financial position showing in detail the assets and liabilities of the School, a statement of comprehensive income and such other statements that the Council may deem necessary.

It also requires the Council to ensure the School keeps proper books of account and other books and records in relation to the School and to all the undertakings, funds, investments, activities and property of the School. They are also responsible for safeguarding the assets of the School.

The Council accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with generally accepted accounting practice and in the manner required by the Kenya School of Government Act. The Council is of the opinion that the financial statements give true and fair view of the state of financial affairs of the School and of its operating results. The Council further accepts responsibility for the maintenance of accounting records which may be relied upon in preparation of the financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Council to indicate that the School will not remain as a going concern for at least the next twelve months from the date of this Statement. However, Kenya Institute of Administration Act was repealed and Kenya School of Government became a successor of the School as from 1st July 2012. All rights, duties, obligations, assets and liabilities were automatically transferred to the School.



Prof. Francis N. Kibera, PhD, CBS
Chairman

Date:

20/3/2014



Mr. Elijah Wachira, HSC:
Ag. Director General

Date:

20-3-2014

REPUBLIC OF KENYA



Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: cag@kenao.go.ke
Website: www.kenao.go.ke

P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON KENYA SCHOOL OF GOVERNMENT FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya School of Government set out on pages 9 to 24, which comprise the statement of financial position as at 30 June 2013, and the statement of comprehensive income, statement of changes in reserves and statement of cash flows 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 explanation which, to the best of my knowledge and belief, were necessary for the purpose of 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 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 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 of 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 statement, 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 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 adverse opinion.

Basis for Adverse Opinion

1.0 Unsupported Balances

Included in the financial statements are debit and credit balances of Kshs.315,837,765 and Kshs.34,601,473 respectively whose supporting schedules were not availed for audit verification as detailed below:-

<u>Item</u>	<u>Finan. Stat. Bal.</u>	<u>Supported.</u> <u>Amount</u>	<u>Unsupported Balance</u>	
			<u>Debit</u>	<u>Credit</u>
	<u>Kshs.</u>	<u>Kshs.</u>	<u>Kshs.</u>	<u>Kshs.</u>
Revenue	1,530,972,546	1,496,371,073	--	34,601,473
Adm. expenses	946,590,316	734,377,755	212,212,561	-
Other operating expenses	<u>396,956,650</u>	<u>293,331,445</u>	<u>103,625,205</u>	<u>-</u>
	<u>2,874,519,512</u>	<u>2,524,080,273</u>	<u>315,837,766</u>	<u>34,601,473</u>

No explanation has been provided for failure to avail supporting schedules/analyses of expenses totalling Kshs.315,837,766 and revenue of Kshs.34,601,473. In the circumstances, it has not been possible to confirm the validity and accuracy of Expenses and Revenue totalling Kshs.1,343,546,966, and Kshs.1,530,972,546 respectively for the year ended 30 June 2013.

2.0 Cash and Cash Equivalent

2.1 The cash and cash equivalent reflects a balance of Kshs.335,342,664 while the supporting schedules reflect Kshs.308,956,250 resulting in an unexplained variance of Kshs.26,386,414. Further, the cash and cash equivalent balance of Kshs.335,342,664 includes a bank balance of Kshs.188,497,621 comprising of Nairobi Campus Kshs.72,662,292, E-learning and Development Institute-Kshs.76,574,824, Baringo Campus-Kshs.13,263,401, Embu Campus-Kshs.25,784,860 and Matuga Campus-Kshs.212,244 whose cash books were not availed for audit verification. No explanation has been provided for failure by the management to provide the

respective cash books in support of cash and cash equivalent balance of Kshs.188,497,621.

2.2 Baringo Campus Cash book

The cash and cash equivalent balance of Kshs.335,342,664 excludes Baringo Campus payments in cash book not in the bank statement amounting to Kshs.35,414,652.35 and receipts in bank statement not in the cash book of Kshs.6,712,094. Further, the cash and cash equivalents balance excludes payments in bank statement not in cash book of Kshs.91,515.65. In addition, the bank reconciliation statement availed for audit review reflects receipts in cash book not in bank statement of Kshs.3,836,620.30.

2.3 Mombasa Campus Cash book

The cash and cash equivalents balance of Kshs.335,342,664 also excludes Mombasa Campus payments in cash book not in bank statement of Kshs.61,695,256.45 and receipts in bank statement not in cash book of Kshs.1,474,808.90. Further, cash and cash equivalents balance excludes payments in bank statement not in cash book of Kshs.1,083,715.20. In addition, the reconciliation statements reflects receipts in cash book not in bank statement of Kshs.4,257,468.

2.4 Embu Campus Cash book

Further, the cash and cash equivalents balance of Kshs.335,342,664 excludes Embu campus payments in cash book not in bank of Kshs.59,440,981 and receipts in bank statements not in cash book of Kshs.23,061,365.20. In addition, cash and cash equivalent balance excludes payments in bank statement not in cash book of Kshs.626,271.67. Also, the bank reconciliation statement reflects receipts in cash book not in bank statement of Kshs.7,937,133.

2.5 Matuga Campus Cash book

In addition, the cash and cash equivalents balance of Kshs.335,342,664 excludes Matuga Campus payments in cash book not in bank statement of Kshs.46,782,750 and receipts in bank statement not in cash book of Kshs.168,000. Further, the reconciliation statement reflects payments in bank statement not in cash book of Kshs.3,228,351.80 and receipts in cash book not in bank statement of Kshs.3,570,010.

No explanation has been provided as to why these long outstanding items have not been cleared. Consequently, the accuracy and validity of cash and cash equivalents balance of Kshs.335,342,664 as at 30 June 2013 could not be confirmed.

3.0 Non-current Assets

3.1 Investments

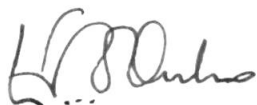
The Non-current assets balance of Kshs.3,579,452,216 includes investment balance of Kshs.52,871,650 while the confirmation certificate availed for audit review reflected a balance of Kshs.60,000,000 resulting in an unexplained or unreconciled difference of Kshs.7,128,350. Consequently, the accuracy and completeness of the investment balance of Kshs.52,871,650 as at 30 June 2013 could not be confirmed.

3.2 Property Plant and Equipment

The Property, Plant and Equipment balance of Kshs.3,311,934,110 includes land owned/occupied by Embu, Mombasa and Matuga Campuses valued at Kshs.56,000,000, Kshs.736,200,000 and Kshs.47,500,000 respectively whose title deeds were not availed for audit verification. In the circumstances and in absence of the title documents, it has not been possible to ascertain the ownership status of the three parcels of land and that the property, plant and equipment balance of Kshs.3,311,934,110 is fairly stated as at 30 June 2013.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly the financial position of Kenya School of Government as at 30 June 2013 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and do not comply with the Kenya School of Government Act, 2012.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL


Nairobi

9 April 2014

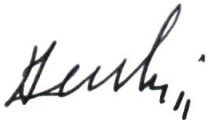
KENYA SCHOOL OF GOVERNMENT
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	Notes	2013 Kshs	2012 Kshs
ASSETS			
Non-Current Assets			
Property, Plant & Equipment	12	3,311,934,110	991,122,085
Leasehold land	13	214,646,456	217,222,214
Investments	14	52,871,650	52,871,650
		<u>3,579,452,216</u>	<u>1,261,215,949</u>
Current Assets			
Inventory	15	18,751,845	10,826,933
Trade & Other Receivables	16	271,253,810	112,258,828
Cash and Cash Equivalent	17	335,342,664	232,269,038
		<u>625,348,319</u>	<u>355,354,799</u>
Total Assets		<u>4,204,800,535</u>	<u>1,616,570,748</u>
ACCUMULATED FUNDS			
Capital Reserve		2,656,503,313	486,006,218
General Reserves		1,135,642,288	889,826,958
Total Accumulated Reserves		<u>3,792,145,601</u>	<u>1,375,833,176</u>
Current liabilities			
Trade and Other Payables	18	412,654,934	240,737,572
Total Accumulated Fund and Liabilities		<u>4,204,800,535</u>	<u>1,616,570,748</u>

The financial statements on pages 9 to 24 are signed on behalf of the Council by:


 Prof. Francis N. Kibera, PhD, CBS
 Chairman

Date: 20/3/2014


 Mr. Elijah Wachira, HSC
 Ag. Director General

Date: 20-3-2014

KENYA SCHOOL OF GOVERNMENT
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013 Kshs	2012 Kshs
Revenue	7	971,595,706	411,273,458
Other Income	8	<u>559,376,840</u>	<u>66,758,091</u>
		<u>1,530,972,546</u>	<u>478,031,549</u>
Administrative Expenses	9	(946,590,316)	(278,551,981)
Other Expenses	10	(396,956,650)	(114,560,253)
Finance Costs (Bank charges)		<u>(2,387,817)</u>	<u>(372,856)</u>
		<u>(1,345,934,782)</u>	<u>(393,485,090)</u>
Surplus		<u><u>185,037,764</u></u>	<u><u>84,546,459</u></u>

KENYA SCHOOL OF GOVERNMENT
STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 30 JUNE 2013

	Note	Capital reserve Kshs	Reserves Kshs	Total Kshs
YEAR ENDED 30 JUNE 2012				
As at 1 July 2011		360,308,824	805,280,499	1,165,589,323
Development grant	19	125,697,394	-	125,697,394
General reserves for the year		-	84,546,459	84,546,459
As at 30 June 2012		<u>486,006,218</u>	<u>889,826,958</u>	<u>1,375,833,176</u>
YEAR ENDED 30 JUNE 2013				
As at 1 July 2012		486,006,218	889,826,958	1,375,833,176
Acquisition from former KDLC		-	60,777,566	60,777,566
Development Grant-Additions	19	2,170,497,095	-	2,170,497,095
General reserves for the year		-	185,037,764	185,037,764
As at 30 June 2013		<u>2,656,503,313</u>	<u>1,135,642,288</u>	<u>3,792,145,601</u>

KENYA SCHOOL OF GOVERNMENT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013 Kshs	2012 Kshs
Cash flow from operating activities;			
Operating Surplus		185,037,763	84,546,459
<i>Adjustments for:</i>			
Depreciation of Property, Plant & Equipment	12	77,791,620	31,732,814
Amortisation of prepaid operating rentals	13	2,575,758	2,575,760
Deferred income		(7,713,753)	(9,528,753)
Earnings from previous years acquired		60,777,567	-
Gain on Disposal		(385,000)	(265,970)
Grant in kind		(1,027,230)	-
Interest Income		(14,959,188)	(29,550,336)
<i>Operating (deficit)/surplus before working capital changes</i>		302,097,537	79,509,974
Increase in inventories		(7,924,912)	(187,774)
(Increase)/ Decrease in trade & other receivables		(158,994,982)	14,632,933
Increase in trade & other payables		171,917,358	17,450,275
<i>Net cash (used)/generated from operating activities</i>		307,095,001	111,405,408
Cash flow from investing activities			
Purchase of property, plant & equipment		(496,961,912)	(390,159,454)
Proceeds from disposal of equipment		385,000	265,970
Interest Received		14,959,188	29,550,336
Net cash used in investing activities		(481,617,724)	(360,343,148)
Cash flow from financing activities			
Government grant-Development		277,596,348	21,000,000
Net cash generated from financing activities		277,596,348	21,000,000
Net increase/ (decrease) in cash and cash equivalent		103,073,625	(227,937,740)
Cash and cash equivalent at 1 July		232,269,038	460,206,778
Cash and cash equivalent at 30 June		335,342,663	232,269,038

KENYA SCHOOL OF GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

1 Summary of significant accounting policy

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

a. Basis of preparation

The financial statements are prepared on a going concern basis in compliance with International Financial Reporting Standards (IFRS). They are presented in Kenya Shillings, which is also the functional currency. The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the accounting policies adopted by the School. The judgements and estimates are reviewed at the end of each reporting period, and any revisions to such estimates are recognised in the year in which the revision is made. The areas involving the judgements of most significance to the financial statements, and the sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year, are disclosed in Note 2.

b. Translation of foreign currency

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the School operates), which is Kenya Shillings. Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date. The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognised on a net basis in the profit and loss account in the year in which they arise.

c. Revenue recognition

Revenue represents the fair value of consideration received or receivable for the sale of goods and services in the course of the School's activities. It is recognised when it is probable that future economic benefits will flow to the School and the amount of revenue can be measured reliably. It is stated net of Value Added Tax, rebates and trade discounts.

Sale of goods are recognised upon the delivery of the product and customer acceptance, while sale of services are recognised upon performance of the service and customer acceptance based on the proportion of actual service rendered to the total services to be provided.

Interest income is recognised in the period in which interest is earned and measured using the effective interest method.

KENYA SCHOOL OF GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

d. Financial instruments

Held to maturity investments

Comprise of non-derivative financial assets with fixed or determinable payments that the School has a positive intention and ability to hold to maturity.

Financial instruments held during the year were classified as follows:

- i.) Demand and term deposits with banking institutions and trade and other receivables were classified as receivables
- ii.) Trade and other liabilities were classified as financial liabilities.

e. Inventories

Inventories are stated at the lower of cost and net realisable value on a weighted average method.

f. Property, plant & equipment

Property, Plant and Equipment are stated at cost or valuation, less accumulated depreciation. Cost includes expenditure directly attributable to the acquisition of the assets.

Depreciation is provided on the cost/valuation of the assets on straight line basis at rates designed to write down the assets to their estimated residual values over their estimated useful lives as follows:

	Rate
Buildings	2.00%
Plant & equipment	12.50%
Furniture & fittings	12.50%
Linen & beddings	12.50%
Motor vehicles	25.00%
Computers	30.00%
Library books	5.00%

Gains and losses on disposal of property, plant and equipment are included in the profit and loss account. On disposal of revalued assets, amounts in the revaluation surplus reserve relating to that asset are transferred to retained earnings.

g. Computer Software and Development Costs

Generally, costs associated with computers software programmes are recognized as expenses in the period in which they are incurred.

However, costs that is clearly associated with an identifiable product, which is controllable by the School and has a definite benefit exceeding the cost beyond one year, is recognized as an intangible asset.

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h. Retirement Benefit

The School operates a defined contribution retirement benefits plan for its employees, the assets of which are held in a separate trustee administered scheme managed by an insurance company. The scheme is funded by contributions from both the employees at 7.5% and employer at a rate of 15% of employees basic pay respectively. The School's contributions are charged to the income statement in the year to which they relate.

The School and the employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are charged to profit and loss account in the year to which they relate.

i. Receivables

The receivables are stated at original invoiced amounts less an estimate made for doubtful receivables. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the end of year.

j. Provision for Doubtful Debts

General provision is made in respect of outstanding revenue where payment is considered doubtful. General provision for bad debts is calculated at the rate of 11% of trade debtors.

k. Cash and Cash Equivalent

For the purposes of the cash flow statement cash and cash equivalents comprise cash in hand, deposits in banks, short-term and highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. An investment with a maturity of 3 months or less is normally classified as being short term.

l. Operating Leases

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made/ received under operating leases are charged/ credited to the profit and loss account on a straight line basis over the lease period.

2 Significant accounting estimates, judgements and assumptions

The judgement made by the council members in the process of applying the School accounting policies that have the most significant effect on the amounts recognised in the financial statements include:

~ Whether the School has the ability to hold 'held-to maturity' investments until they mature. If the School was to sell other than an insignificant amount of such investments before maturity, it would be required to classify the entire class as 'available-for-sale' and measure them at fair value.

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3 Financial risk management

The School's activities expose it to a variety of financial risks including credit, liquidity and market risks. The School's overall risk management policies are set out by the Council and implemented by the management, and focus on the unpredictability of changes in the business environment and seek to minimise the potential adverse effects of such risks on the School's performance by setting acceptable levels of risk.

i. Credit Risk

Credit risk is the risk to financial loss to the School if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk mainly arises from customers and investment securities.

Credit risk on trade receivables is managed by ensuring that credit is extended to customers with an established credit history. The credit history is determined by taking into account past experience and other relevant factors. The management monitors credit on a monthly basis.

The amount that bests represents the School's credit risk as at 30 June 2013 is made up as follows:

	2013	2012
	Kshs	Kshs
Cash and cash equivalents	335,342,664	232,269,038
Receivables	271,253,810	112,258,828
	<u>606,596,474</u>	<u>344,527,866</u>

The School does not hold any collateral against the past due receivables.

ii. Liquidity risk

Liquidity risk is the risk that the School will encounter difficulty in meeting obligations associated with financial liabilities. The School manages liquidity risk by continuously reviewing forecasts and actual cash flows.

The table below analyses the School's financial liabilities at the balance sheet date. The amounts disclosed below are the expected undiscounted cash flows:

	2013	2012
	Kshs	Kshs
Trade and other payables	<u>412,654,934</u>	<u>240,737,572</u>

iii. Market risk

Market risk is the risk that changes in market prices, such as interest rate and foreign exchange rates.

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4 Comparative

The comparative figures comprises of the former Kenya Institute of Administration hereby as the acquirer. IFRS 3 states that "The acquirer is usually the combining entity whose relative size (measured in, for example, assets, revenues or profits) is significantly greater than that of the other combining entity or entities.

5 Acquisition Costs

Upon incorporation of the School, the former Government Training Institutes, Embu, Matuga, Mombasa and Baringo hereby called Campuses as per KSG Act 2012 and the former Kenya Development Learning Centre, their fixed assets have been recognised in the current financial year at historical costs.

6 Post Balance Sheet events

The asset valuation for the School was carried out in the year 2013/2014 and is awaiting the Council's approval. The revalued amount will be effected in the financial statements in the year 2013/2014.

	2013 Kshs	2012 Kshs
7 Revenue		
Training	615,628,037	191,897,098
Accommodation	214,837,319	178,263,265
Consultancy	68,176,807	5,855,776
Conference Centre	72,953,543	35,257,319
	<u>971,595,706</u>	<u>411,273,458</u>
8 Other operating income		
Recurrent government grant	516,583,896	10,000,000
Rent and Water	8,200,658	9,161,485
Miscellaneous receipts	7,879,496	1,870,978
Deferred income	7,713,753	9,528,753
Hire of Facilities	896,000	3,223,410
Interest Income	14,959,188	29,550,336
Decrease in provision for bad debts	2,758,849	995,299
Sale on boarded items	-	215,403
Gain on disposal of fixed assets	385,000	265,970
Foreign Exchange Gain	-	1,946,457
	<u>559,376,840</u>	<u>66,758,091</u>

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	2013	2012
	Kshs	Kshs
9 Administrative Expenses		
Personnel emoluments	451,149,625	199,516,378
Staff training expenses	22,879,144	1,414,904
Stationery-staff	11,672,223	1,509,887
Council expenses	6,579,806	3,929,460
Staff medical expenses	14,000,880	4,491,161
Security	5,202,741	-
Catering expenses	297,210,167	42,057,878
Field study trips	3,640,000	142,850
Gas and fuel expenses	18,278,781	4,583,659
Hire of accomodation services	5,690,122	3,040,407
Hire of transport	3,953,271	476,097
Hire of equipment	970,000	-
Educational Aids equipment	231,338	-
Resource persons fees	76,043,932	11,783,250
Stationery-participant	17,619,996	5,606,050
A-I-A expenditure	11,468,290	-
	<u>946,590,316</u>	<u>278,551,981</u>

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	2013 Kshs	2012 Kshs
10 Other Operating Expenses		
Amortisation-Land	2,575,758	2,575,760
Cleaning & sanitation expenses	29,818,901	4,389,929
Depreciation	77,791,620	31,732,814
Electricity	30,344,444	12,956,166
External travelling & accomodation	76,002,882	6,257,970
Flowers & decorations	3,587,003	1,699,476
Hire of consultancy	14,993,462	2,650,990
ICT expense	13,686,536	7,003,939
Increase in general provision for bad debts	-	-
Insurance	5,318,326	5,231,609
Kitchen utensils	2,187,790	889,682
Laundry expenses	5,131,908	835,818
Maintenance of building & stations	24,055,183	7,185,109
Maintenance of plant and equipment	11,364,723	1,245,964
Miscellaneous expenses	4,300,537	2,165,026
Motor vehicle maintenace	7,634,588	1,497,920
Other expenses	6,264,849	12,096,431
Research Expenses	5,280,709	-
Telephone & fax	7,640,048	1,664,864
Transport	14,826,151	2,399,409
Uniform & clothing	2,695,567	687,375
Wages	23,184,732	6,343,482
Water and conservacy	12,621,666	1,744,212
Advertising & publicity	1,755,476	480,924
Entertainment expenses	9,236,374	276,712
Printing and publishing	1,625,171	548,672
Marketing expenses	3,032,246	-
	<u>396,956,650</u>	<u>114,560,253</u>

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11. Property, plant & Equipment

	Buildings Kshs	Work in progress Kshs	Plant & equipment Kshs	Office equipment Kshs	Motor vehicles Kshs	Furniture & fittings Kshs	Linen & beddings	Computers & Kshs	Library Kshs	Total Kshs
2012										
Cost/Valuation										
At 1 July 2011	638,160,142	6,166,125	31,929,069	15,714,909	29,331,445	14,109,600	592,196	20,817,750	3,071,085	759,892,321
Additions	1,719,183	353,130,041	5,310,092	3,423,016	4,395,000	6,679,281	954,814	14,281,370	266,657	390,159,454
Transfer from W-I-P	3,267,344	(3,267,344)	-	-	-	-	-	-	-	-
Disposals	-	-	(678,000)	(6,498,910)	-	(230,750)	-	(219,751)	-	(7,627,411)
At 30 June 2012	643,146,669	356,028,822	36,561,161	12,639,015	33,726,445	20,558,131	1,547,010	34,879,369	3,337,742	1,142,424,364
Depreciation										
At 1 July 2011	48,624,650	-	12,420,788	14,387,629	28,099,610	5,430,767	74,025	16,032,198	2,127,209	127,196,876
Disposals	-	-	(678,000)	(6,498,910)	-	(230,750)	-	(219,751)	-	(7,627,411)
Charge for the year	13,156,272	-	4,008,834	2,021,559	2,330,584	2,406,481	193,375	7,448,822	166,887	31,732,814
At 30 June 2012	61,780,922	-	15,751,622	9,910,278	30,430,194	7,606,498	267,400	23,261,269	2,294,096	151,302,279
Net book value										
At 30th June 2012	581,365,747	356,028,822	20,809,539	2,728,736	3,296,251	12,951,633	1,279,610	11,618,100	1,043,646	991,122,085

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12. Property, plant & Equipment

2013	Land Kshs	Buildings Kshs	Work in progress Kshs	Plant & equipment Kshs	Office equipment Kshs	Motor vehicles Kshs	Furniture & fittings Kshs	Linen & beddings Kshs	Computers & networking Kshs	Library books Kshs	Total Kshs
Cost/Valuation											
At 1 July 2012	-	643,146,669	356,028,822	36,561,161	12,639,015	33,726,445	20,558,131	1,547,010	34,879,369	3,337,742	1,142,424,364
Acquisition	1,001,700,000	486,324,450	258,460,600	75,672,428	1,511,040	13,678,164	49,273,405	-	13,994,414	-	1,900,614,501
Additions		121,329,580	258,231,942	22,122,215	580,459	3,100,000	15,726,373	18,360,419	35,949,129	22,589,027	497,989,144
Transfer from W-I-P		2,000,950	(2,000,950)								-
Disposals	-	-	-	-	-	(2,087,000)	-	-	-	-	(2,087,000)
At 30 June 2013	1,001,700,000	1,252,801,649	870,720,414	134,355,804	14,730,514	48,417,609	85,557,909	19,907,429	84,822,912	25,926,769	3,538,941,009
Depreciation											
At 1 July 2012		61,780,922	-	15,751,622	9,910,278	30,430,194	7,606,498	267,400	23,261,269	2,294,096	151,302,279
Disposals			-			(2,087,000)	-	-	-	-	(2,087,000)
Charge for the year		25,056,028	-	16,453,213	1,936,158	5,293,291	9,431,923	1,230,931	17,247,057	1,143,019	77,791,620
At 30 June 2013	-	86,836,950	-	32,204,835	11,846,436	33,636,485	17,038,421	1,498,331	40,508,326	3,437,115	227,006,899
Net book value											
At 30th June 2013	1,001,700,000	1,165,964,699	870,720,414	102,150,969	2,884,078	14,781,124	68,519,488	18,409,098	44,314,586	22,489,654	3,311,934,110

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	2013 Kshs	2012 Kshs
13 Leasehold land		
At 1 July	217,222,214	219,797,974
Amotisation charge for the year	<u>(2,575,758)</u>	<u>(2,575,760)</u>
At 30th June	<u><u>214,646,456</u></u>	<u><u>217,222,214</u></u>
<p>The School holds a piece of land L.R. 23160, 28.91 ha, for a term of 99 years starting from 1/11/1997.</p>		
14 Investment		
Treasury bond-9 years	48,377,700	48,377,700
Treasury bond-30 years	<u>4,493,950</u>	<u>4,493,950</u>
At 30th June	<u><u>52,871,650</u></u>	<u><u>52,871,650</u></u>
15 Inventories		
Dry foodstuff	4,122,354	1,746,637
Oil and Lubricants	48,356	82,064
Cleaning materials	2,130,641	615,195
Hardware, electrical and water fittings	1,305,439	1,315,911
Stationery	5,549,938	1,866,153
Cutlery & crockery	43,511	159,545
Linen	621,208	111,030
Bookshop books	<u>4,930,398</u>	<u>4,930,398</u>
	<u><u>18,751,845</u></u>	<u><u>10,826,933</u></u>
16 Trade and other receivables		
Trade debtors	264,491,746	115,027,189
Provision for bad debts	<u>(10,514,143)</u>	<u>(13,272,992)</u>
	253,977,603	101,754,197
Staff debtors	6,757,219	5,624,373
Other receivables	<u>10,518,988</u>	<u>4,880,258</u>
	<u><u>271,253,810</u></u>	<u><u>112,258,828</u></u>

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	2013 Kshs	2012 Kshs
17 Cash and cash equivalent		
Cash on hand	589,557	230,046
<u>Cash at bank</u>		
Kenya Commercial Bank	214,492,943	70,979,354
Central Bank of Kenya-Mombasa	8,003,024	-
National Bank of Kenya	9,851	-
Fixed deposits-short term	112,247,289	-
Treasury bills & term deposits	-	161,059,638
	<u>335,342,664</u>	<u>232,269,038</u>
18 Trade and other payables		
Trade and other payables	232,897,292	45,543,710
Retentions	40,848,538	33,195,245
Advance receipts	112,093,233	133,393,986
Audit fees	800,000	400,000
VAT	23,268,822	27,080,540
Deposits	2,747,049	1,124,091
	<u>412,654,934</u>	<u>240,737,572</u>
19 Development Grant		
At 1st July	125,697,394	114,226,147
Additions	277,596,348	21,000,000
Assets taken over	1,900,614,500	-
Deferred Income	(7,713,753)	(9,528,753)
At 30 June	<u>2,296,194,489</u>	<u>125,697,394</u>
20 Capital Reserves		
At 1st July	<u>360,308,824</u>	<u>360,308,824</u>
At 30th June	<u>360,308,824</u>	<u>360,308,824</u>
21 Contingent liabilities		
i. Julie Nyawira Mathenge sued the Institute over Plot Nos. 11509-11514 Lower Kabete Nairobi. She was allegedly allocated the said plots which stand on the Institute's plot. She filed a court case HCC No. 679 of 2006 at high court. The titles were revoked through a gazette notice in November 2010 by the Minister of Lands Hon. James Orengo. The School has requested Mwaniki Gachoka & Co. Advocates to pursue the matter and ensure the titles revert back to Kenya School of Government.		

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- ii. Mr. John Kiguru Karume has sued the Institute claiming plot numbers 11512, 11513 and 11514 at the KSG shopping centre and partly inside KSG compound. He filed a court case HCCC ELC 80 of 2009. The titles were revoked through a gazette notice in November 2010 by the Minister of Lands Hon. James Orengo. The Institute has requested Mwaniki Gachoka & Co. Advocates to pursue the matter and ensure the Titles revert to KSG.
- iii. Mr. Keffa N. Mwithaga sued the Institute alleging wrongful dismissal. He filed a Case No. HCCC 314 of 2007 in the High Court. Mr. Mwithaga revised his plaintiff to include notice for termination of service, unpaid leave and pending honoraria payment amounting to Ksh. 607,000. The plaintiff was allowed by the Judge and will proceed to final hearing.
- iv. Mr. Bishar Aden Sanweini a former KIA employee whose services were terminated took the School to court claiming wrongful dismissal. The case was dismissed at the commercial court due to lack of representation and frequent absenteeism by the Advocate representing the plaintiff. However the Complainant has sued the School at the Industrial Court.
- iv. Grace Bosibori was a former employee of KIA currently known as Kenya School of Government, whose services were terminated as she failed to return to work after expiry of her unpaid leave. She took the School to court claiming wrongful dismissal and is currently seeking Kshs. 16 Million as compensation.
- v. A section of Annex Plot No. M1/XXVI/234 for Mombasa Campus was grabbed by private developers whose case HCC MBA No. 323 of 2009 and HCC No. 94 of 2012 are still pending in court. The block was illegally and irregularly subdivided into pieces 951, 1059, 1060, 1083 and 1084 without the School's consent and allocated as follows:-
- (a) Parcels XXVI/951 and 1059 were allocated to Messrs Mohamed Baker, Hassan Ali and Hassanali Yusufali and MECAP Company. In 2009 MECAP Company filed a case in the High Court of Mombasa i.e. HCCC No. 323 of 2009 against the Attorney General and the Ministry of State for Public Service. A witness statement has since been prepared by the Legal Officer in the Ministry and presented to the State Law Office.
- (b) Parcel XXVI/1084 was allocated to Mary Wambui and Peter Rono in June 1997 trading as Mapasro Enterprises Limited, for a term of 99 years. Later in the same year, the allottees sold the plot to Kalliste Limited. In 2012, Kalliste filed a civil suit No. 94 of 2012 at the High Court of Mombasa suing the Attorney General and Tulsi Construction. Tulsi Construction has been contracted by the School to build the Ultra-Modern Complex. A witness statement by the Legal Officer in the Ministry has been written and presented to the State Law Office.
- (c) Parcels LR. M1/XXVI/951, M1/XXVI/1059 and M1/XXVI/1084 were revoked by the Ministry of Lands via Gazette Notice of 27th April, 2012.
- Although there can be no assurances on the above litigations, the School believes, based on the information currently available, that the ultimate resolution of these legal proceedings would not likely have material effect on the results of its operations, financial position or liquidity.

