ICPAK

Credibility . Professionalism . AccountAbility

2011

ANNUAL REPORT & FINANCIAL STATEMENTS

Certified

Public

Accountants

ABOUT US

The Institute of Certified Public Accountants of Kenya (ICPAK) is the professional body for Certified Public Accountants in Kenya established in 1978 by the Accountants Act, CAP 531. Since then, ICPAK has been dedicated to development and regulation of the accountancy profession in Kenya so as to enhance its contribution and that of its members to national economic growth and development. In 2008, a new Accountants Act No. 15 was enacted to replace the 1978 Accountants Act to take into account the various developments that had shaped the accounting profession globally and in Kenya.

The Accountants Act No 15, 2008 prescribes the following as the functions of the Institute:

- To promote standards of professional competence and practice amongst members of the Institute
- To promote research into the subject of accountancy and finance and related matters, and the publication of books, periodicals, journals and articles in connection therewith;
- To promote the international recognition of the Institute.
- To advise the Examination Board on matters relating to examinations standards and policies;
- To advise the Minister on matters relating to financial accountability in all sectors of the economy;
- To carry out any other functions prescribed for it under any of the other provisions of this Act or any other written law; and
- To do anything incidental or conducive for the performance of any of the preceding functions.

OUR VISION

To be a globally recognized Professional Accountancy Institute

OUR MISSION

To develop and regulate the accountancy profession in Kenya through;

- Supporting the CPA to be recognized globally as Competent Professionals who Add Value whilst Serving and Protecting the public interest
- Building Sustainable Institutional Capacity to provide that support

Principal bankers

Barclays Bank of Kenya Limited
P. O. Box 30116 - 00100
NAIROBI.

Standard Chartered Bank of Kenya Limited
P. O. Box 32886 - 00600
NAIROBI.

CFC Stanbic Bank Limited
P. O. Box 72833 - 00200
NAIROBI.

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MESSAGE FROM THE CHAIRMAN

It was a great honour for me to take over the chairmanship of ICPAK in June 2011 from Michael Itote. It could not have come at a more challenging time with the country grappling with implementation of the Constitution.

In the year 2011 we continued to operate in an extremely challenging and fast-changing environment. The rising energy costs, poor infrastructure and scarcity of resources, continue to impact our daily lives. Indeed, 2011 was a tough year for the economy and for investors. The NSE-20 Share Index dropped by 29% and inflation peaked at 19.72% in November. To be sure, we witnessed 13 straight months of rising inflation rates which subsequently lead to higher interest rates both short-term and long-term. To exacerbate the situation; the Kenyan shilling weakened significantly during the course of the year reaching an all-time low of Kshs 107/dollar in October. A perfect storm played out as the key economic variables all took a turn for the worse.

Flexibility and adaptability will be the key in the business world of tomorrow. In the context of our profession, the challenges and resultant opportunities continue to grow. Regulatory changes, mounting complexity of business operations, and reporting thereon, and consequently heightened expectations of Accountants, make the business world not only a land of challenge but a world of opportunity for the skilled professional that remains flexible and can adapt quickly to change.

To position the CPA brand globally, the Institute signed a number of Mutual Recognition Agreements (MRA) to promote mutual recognition of our credential within the various regions. Among these were; the formalization of East African Community Institutes of Accountants (EACIA) MRA, thereby creating practice opportunities for CPAs in Uganda, Tanzania, Rwanda and Burundi. Additionally, ICPAK entered into a Memorandum of Understanding (MoU) with the Institute of Chartered Accountants of England and Wales.

The Institute recognises the challenges in the environment and continued to support our members to take advantage of the opportunities that present themselves. Over the years we have developed our reputation as an institution that seeks to promote accountability, good governance and public interest protection and this agenda remained at the forefront of our activities in 2011. This was emphasized through a proactive approach to influencing legislation, policy, regulatory framework and any other matters impacting on governance and accountability.

In 2011, the Institute positioned itself to effectively participate in the implementation of the Constitution of Kenya 2010. We critically reviewed and made representations on various enabling legislations where the Institute's expertise is relevant.

At the Council, we continued to focus on long term sustainability and to this end commenced work towards our dream of putting up a multi storey state of the art office complex, an Accountants monument we will be proud of on the Thika superhighway. Indeed my vision is that a large proportion of our audit firms will be housed at the complex.

Finally, I would like to thank the management team and the people of ICPAK for what they have been able to accomplish in the last year. It has been an honour for me to serve as Chairman for this year, especially at this time of fundamental change. I have enjoyed the experience immensely and hope that I have been able to contribute to securing a sustainable future for our wonderful profession.

CPA Patrick M Mtange

MESSAGE FROM THE CHIEF EXECUTIVE

We look back on year 2011 with great pride in our achievements as a nation and as an Institute. I believe tough times bring out the best in people. It forces them to think differently about issues and become more creative and innovative. Indeed, we are usually strengthened by such experiences. More than ever, the citizens of our great country understand the importance of our pillars, Credibility, Professionalism and AccountAbility, in safeguarding our precious resources for economic development. The profession was called upon and recognized as an advisor and critical stakeholder in issues of Governance and AccountAbility. The worth of a CPA remains indisputable.

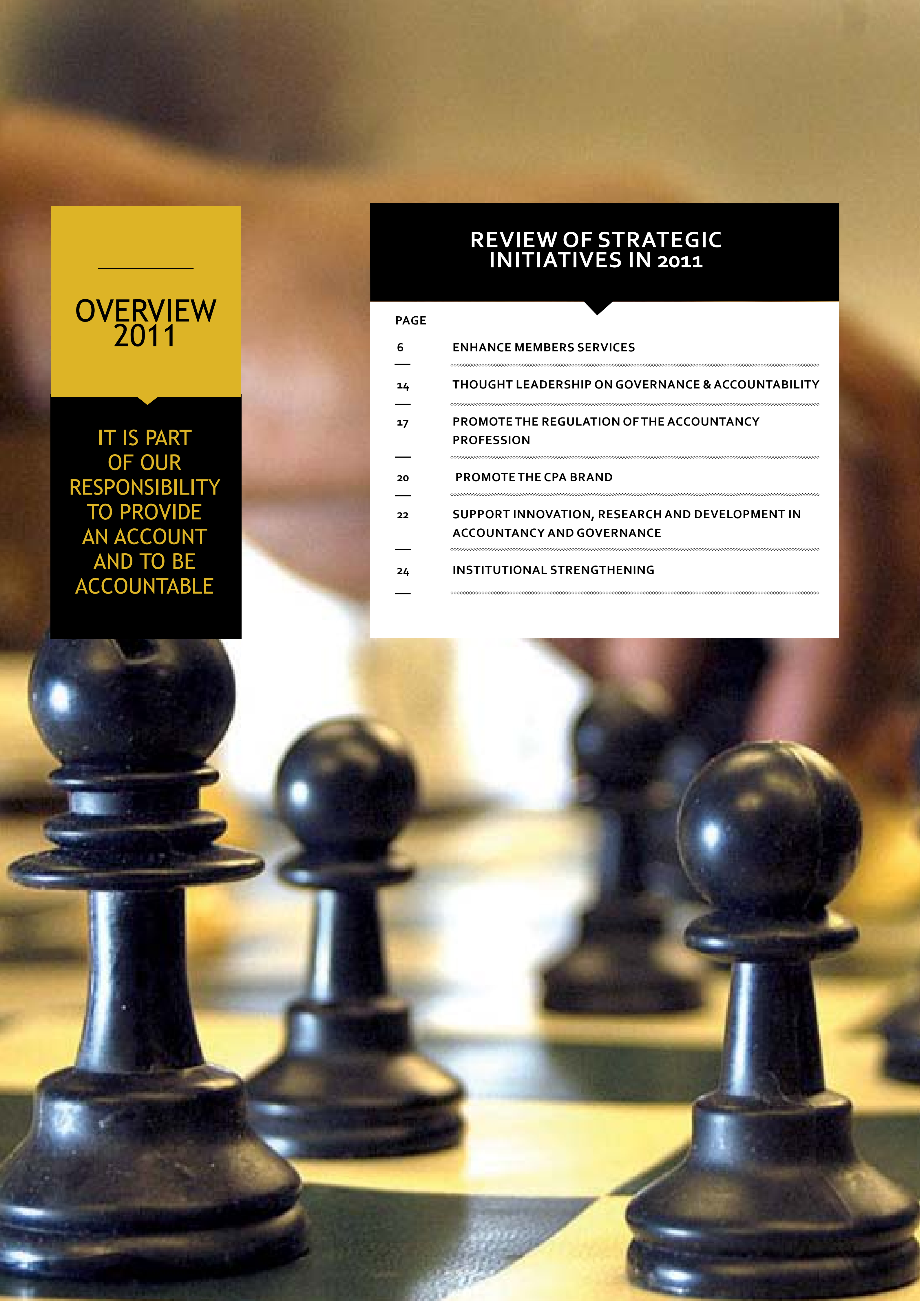
The first ever Africa Congress of Accountants was held on Kenyan soil hosted by the Institute. The occasion was graced by His Excellency the President, Honorable Mwai Kibaki, Deputy Prime Minister, Honorable Uhuru Kenyatta as well as other dignitaries drawn from across the globe. We owe the success of the event to the support received from our membership. Thank you.

The Institute remains committed to continually increasing and re-inventing member services and value. This year we sought to strengthen our brand and presence both locally and globally. We developed a number of value adding services and opened more and strengthened the existing branch network.

In 2010, active members grew by 22% from 6041 to 7363 and revenue grew by 13% (2010 –15%) indicating the continued faith members have in their Institute. On the other hand expenses grew 18% mainly on account of improvement in member services and capacity building at the Institute. The surplus for the year 2011 was Kshs 18 million (2010, 43 million). Included in the 2010 surplus is an amount of Kshs 36 million in revaluations. In real terms surplus grew by 140% as compared to 2010. This is a commendable achievement given the fact that in 2010 we discontinued some operations as a result of selling part of the CPA centre to KCA University. It is also noteworthy that the Institute is achieving growth inspite of maintaining member subscriptions fees at the same rate for close to 10 years. In those ten years the cost of providing services to members has increased significantly. In the coming days, ICPAK has an urgent need to be more innovative in developing new income streams, one of which is the proposed construction of ICPAK complex that will generate more revenue as some of the space will be let.

During the year, we were challenged to focus more on implementation of the 2010-14 Strategic Plan. We conducted a mid term review of the strategic plan in order to align it to changing member needs and environmental changes both operating and regulatory. The secretariat remains at your service, indeed, we are fortunate to serve such a noble profession. We continually renew our commitment to serve you; the member, our first priority.

CPA Caroline J Kigen



OVERVIEW 2011

IT IS PART OF OUR RESPONSIBILITY TO PROVIDE AN ACCOUNT AND TO BE ACCOUNTABLE

REVIEW OF STRATEGIC INITIATIVES IN 2011

STRATEGIC PLAN 2010 TO 2014

The Institute continues to operate in a fast changing environment where flexibility and adaptability are vital for business sustainability and continuity. These challenges require that we continually reassess our strategies for adequacy in meeting the ever evolving member needs.

In 2011 the Institute undertook a successful Strategic Plan Review in a bid to address the emerging needs within the environment both operating and regulatory and a focused implementation of the Plan with key milestones being achieved.

Our members remain the key to our future, and throughout the year our efforts were geared towards making each and every member competent to contribute positively to the accountancy profession against the backdrop pf public interest protection.

The Reviewed Strategic Plan has six Strategic Pillars from the earlier five with Research and Innovation added in recognition of the necessity to create a knowledge hub on matters related to accountancy and governance.

These pillars are each supported by a number of strategic objectives and activities required to achieve the objectives.

A snapshot overview of the pillars and strategic objectives are as highlighted below;

Pillar No.	Description	Strategic Objectives
1	**Enhance member services**	• Achieve a member retention rate of 100% of active members per Annum • Develop and implement a demand driven and effective CPD Program • Provide technical support to members so as to enhance their skills and competencies.
2	**Thought leadership on governance & accountability**	• Impact on governance and accountability in all sectors of the economy
3	**Promote the regulation of the accountancy profession**	• Enhance public trust and confidence in the Institute and its members • Ensure that members maintain the highest standards of professional conduct and competence
4	**Promote the CPA brand**	• Position the CPA as a pre-eminent brand
5	**Support innovation, research and development in accountancy and related areas**	• Thought leadership in areas of accounting & related areas
6	**Institutional strengthening**	• Institutionalize a strong governance mechanism • Develop an effective and efficient secretariat that delivers quality and lifelong value to members • Establish a strong and sustainable financial base • Mainstream ICT in the Institute's operations to enhance efficiency • Improve the physical infrastructure by construction of a new office block • Establish an oversight mechanism to ensure that the Institute is achieving the objectives laid out in the strategic plan

OVERVIEW 2011

REVIEW OF STRATEGIC INITIATIVES IN 2011

1 ENHANCE MEMBER SERVICES

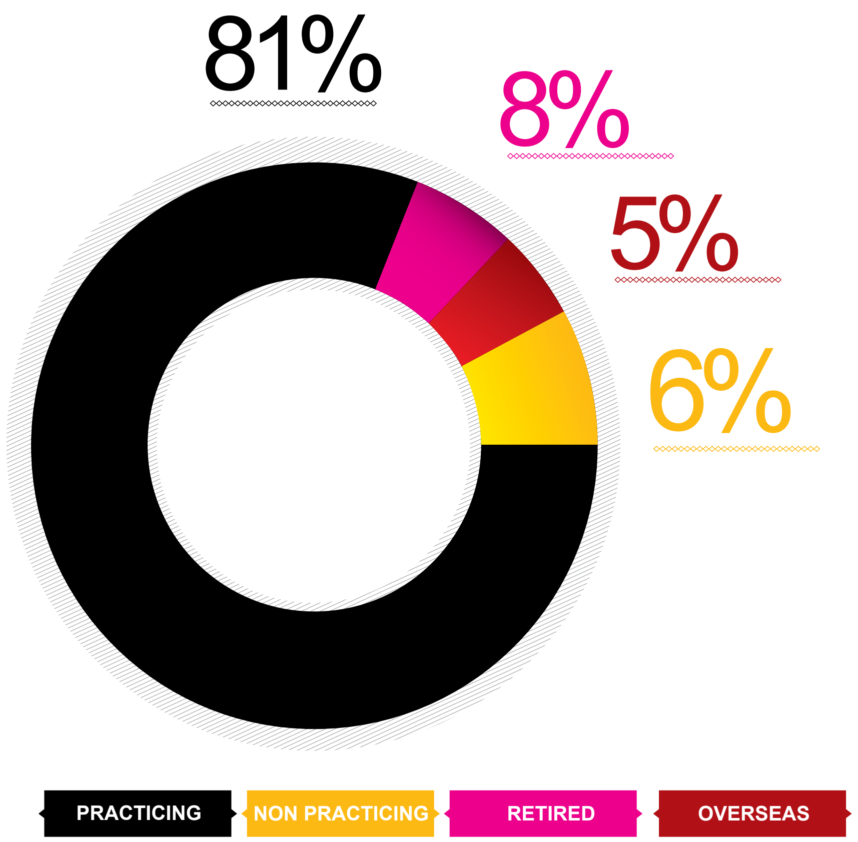
Our endeavor is to develop and support our members professionally so that they discharge their services for the good of the public through provision of a range of focused services to cater for their common and specific needs within the different segments. On the other hand, the Institute continuously seeks innovative value propositions to meet the new and emerging member needs.

Member Retention and Growth

Over the years, ICPAK membership has continued to grow. In the year 2011, active membership stood at 7,363 with 1,334 members registered in the year. Transfer to inactive category was 349 members compared to 467 members in 2010. Graphical representation of member categories in 2011 is as illustrated.

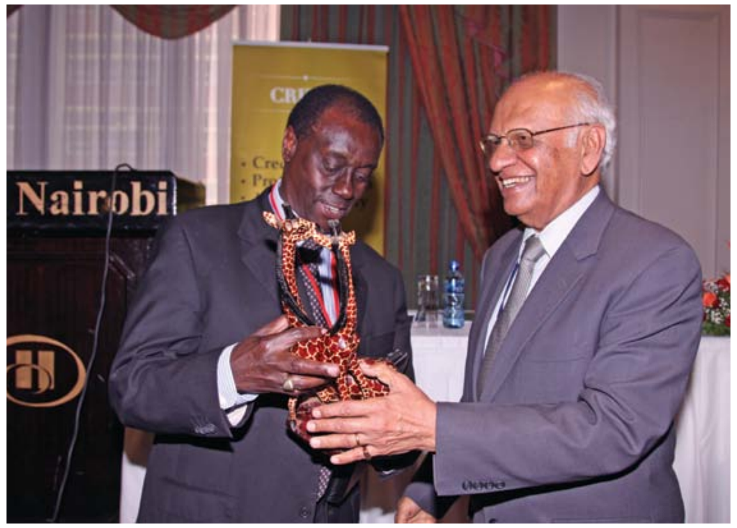
Chart 1:

Graphica Representation of Membership Categories in 2011



Training and development

The Institute is committed to the continuing professional development of its members through its CPD Programs. This is in response to our mandate of developing the accountancy profession and the requirement by International Education Standards (IESs) prescribed by the International Federation of Accountants (IFAC) for its member bodies. The Institute also organizes tailor made (in-house) trainings for interested organizations on Tax matters, Corporate Governance, Enterprise Risk Management among other finance and accounting related areas. In 2011, the department held a total 48 major training events and 30 branch training events in Kisumu, Mombasa, Eldoret, Nyeri and Nakuru. Among the major events held included the Africa Congress of Accountants, the Annual Seminar, Managerial Accountants seminar, Internal Audit and Executive Retreat.



The Inaugural Africa Congress of Accountants (ACOA)

The Institute successfully hosted the inaugural Africa Congress of Accountants (ACOA) from 7th to 9th of November 2011 at the Kenyatta International Conference Centre (KICC) in Nairobi. Themed "Accountancy & Infrastructure in Africa" the congress raised thought provoking issues through lively discussions on the role of accounting and the accountant in sustainable development for the continent.

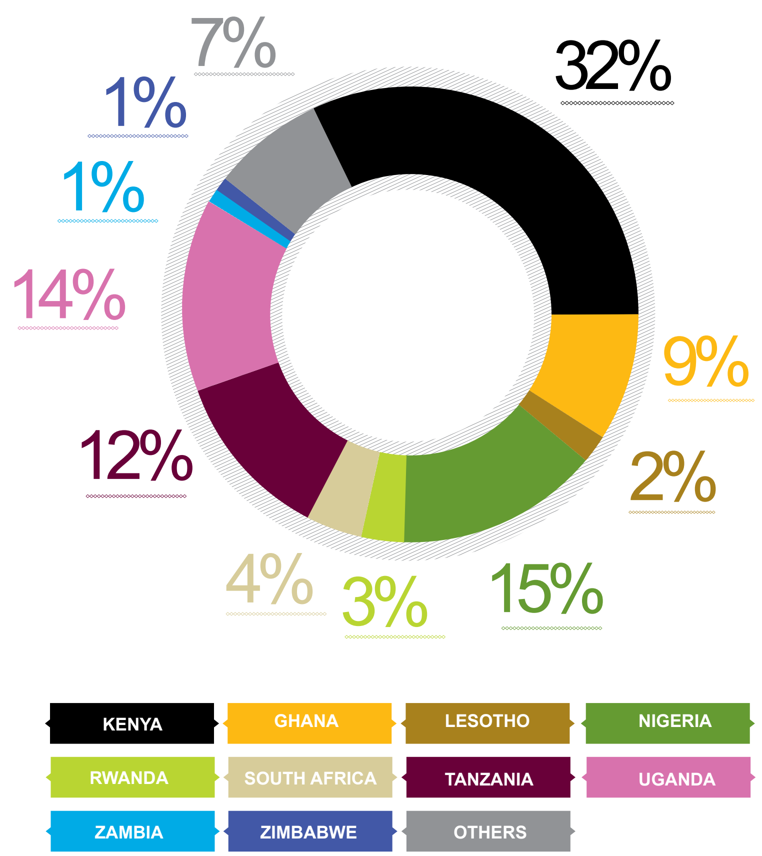
The conference was attended by over 400 delegates and over 30 speakers and session chairs. The congress attracted delegates from 25 countries. The event, in addition to improving the Institute profile both to the public and other accountancy institutes in the world, also showcased Kenya as a destination both for tourism and international conferencing.

The official opening of the event was graced by H. E. Hon. Mwai Kibaki, the President of the Republic of Kenya. Among the speakers at the congress were Hon. Uhuru Kenyatta(Deputy Prime Minister) in his capacity as the Minister of Finance, Major General Sebastian Owuama (PAFA President) , Prof. Arnold Schilder (Chairman of IAASB), Dr. Jim McFie,(Strathmore University), Dr. Josephine Ngure (AfDB), Paul Pactor (representing IASB), Mr. Khemraj Reetun(National Audit Office of Mauritius), Mrs. Adenike Adeniran (International Federation of Women Accountants, Nigeria), Alex Hilman (Israel), Shirley Olsen (SAIPA) among other speakers from across the continent and beyond.

Representation from various countries was as below;

Chart 2:

Graphical presentation of delegates by country of origin



The category, 'Others', on the chat above include Angola, Burkina Faso, Burundi, Botswana, Gambia, DRC, Egypt, England, Liechtenstein, Malawi, Morocco, Namibia, Sierra Leone and Trinidad & Tobago.

The 27th Annual Seminar

Themed "Restoring Public Trust", the 27th Annual Seminar was held from 18th to 20th of May, 2011 at the Wildwaters in Mombasa. The seminar aimed at eliciting thought and discussions on the accountants' role in promoting corporate governance. The official opening was graced by Hon. Wycliffe Oparanya (Minister, Planning, National Development and Vision 2030). Among the speakers at the event were Amish Gupta (Director, Standard Investment Bank), Hon. Mutula Kilonzo (Minister of Justice and Constitutional Affairs), Adan Mohamed (MD, Barclays), Jona Owitti (Former ISACA Chair), and CPA David Muturi,(CEO, Kenya Institute of Management). The event attracted over 850 delegates representing a 30% growth over the attendance of 2010.

In line with the feedback received from participants in previous seminars, ICPAK addressed their concerns by ensuring effective communication for all bookings such as hotel and air tickets. Efforts were also made to improve airport transfers and general management of transport during the seminar. While we celebrate the huge turnout at the annual seminar, ICPAK appreciates the monumental logistical challenges that come with such a huge event and remains committed to continual improvement

IFRS for SMEs - Train for Trainers Seminar

The year 2011 also saw ICPAK host the IFRS for SMEs Training for Trainers seminar, in partnership with the Eastern Central and South African Federation of Accountants (ECSAFA) and the International Federation of Accountants (IFAC) on 2nd -4th November 2011 at the Hilton Hotel Nairobi. This was an event organized to give an in-depth understanding of both the framework and content of IFRS for SMEs to trainers.

The lead trainers; Paul Pacter (Director of Standards for SMEs at the IASB) and Michael Wells (Director, IFRS Education Initiative) both from the International Accounting Standards Board (IASB) emphasized the importance of adoption and applicability of IFRS to SMEs in emerging economies such as Kenya. The event attracted over a hundred delegates from 12 African countries.

Classification of Institute Training Programs

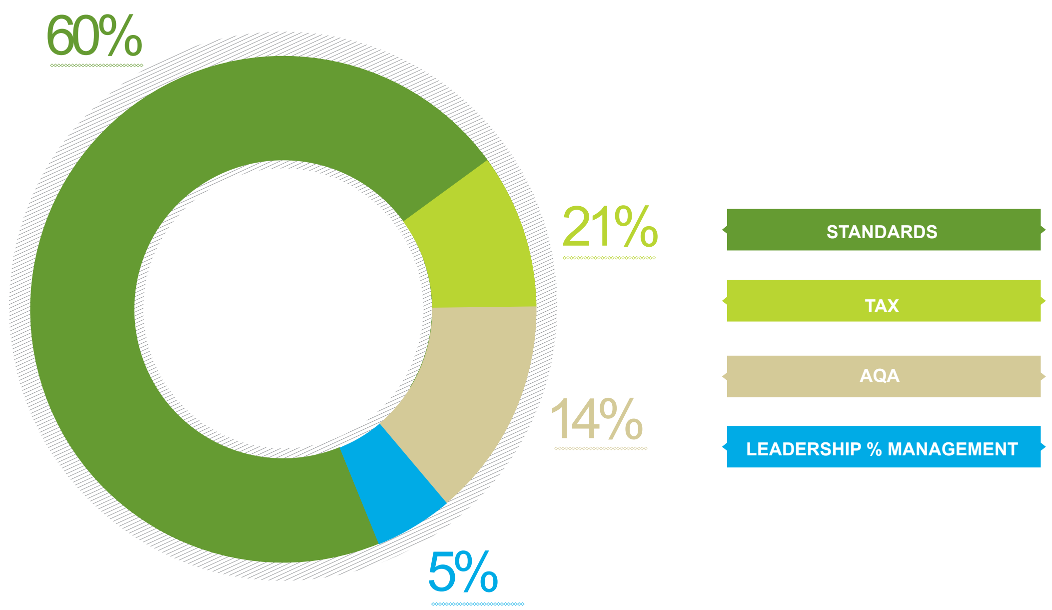
The Institute's training programs are broadly classified into; reporting standards, Tax, Audit Quality Assurance (AQA) and Leadership & Management. The classification is meant to ensure that various members' competencies are developed and that various members' training needs are addressed. Attendance to these seminars was 21%, 14%, 5%, and 60% respectively.

The chart below represents the attendance at CPD events by category for the year under review:

The Institute 2011 CPD events continued to attract both members and non-members. On average, 25% participants were non-members while 75% of participants were members. Leadership and management category of CPD events were the most preferred by non-members followed by tax category of the CPD events.

Chart 3:

Attendance (in %) by CPD event category

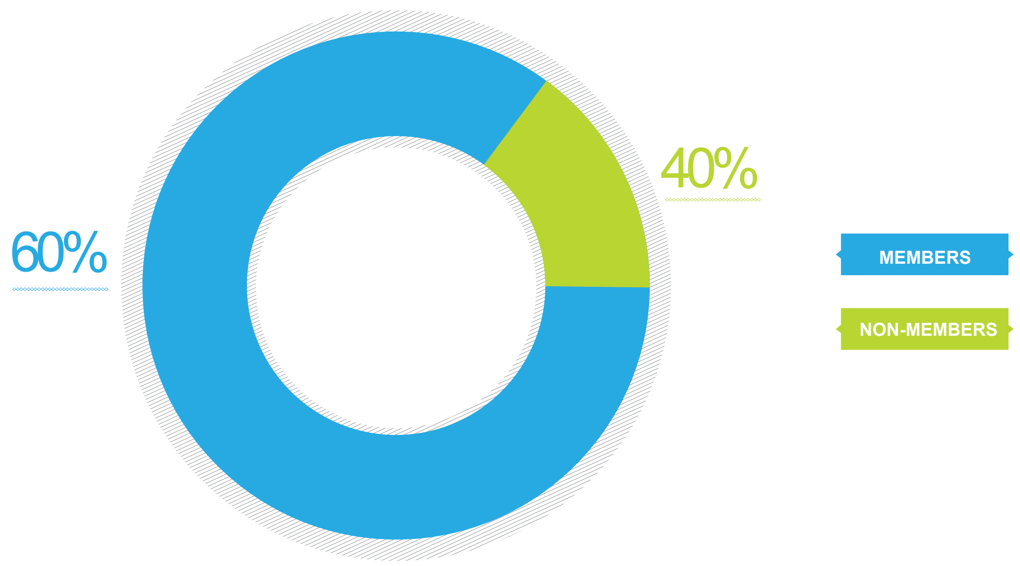


Standards

Reporting standards category of CPD events comprised of all trainings in International Financial Reporting Standards (IFRS), International Standards on Auditing (ISAs), International Accounting Standards (IAS) and International Public Sector Accounting Standards (IPSAS). About 85% of participants in these trainings were members of ICPAK as shown by the chart below:

Chart 4:

Participants by membership status in Standards and related CPD events

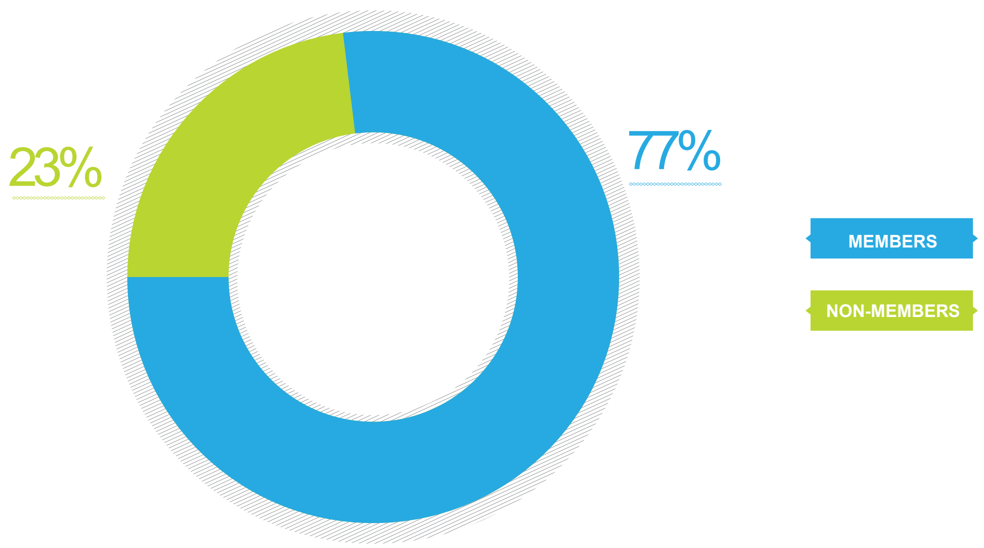


Tax

CPD events on tax and tax related matters were held. This category attracted 23% percent non-members.

Chart 5:

Participants by membership status in tax related CPD events

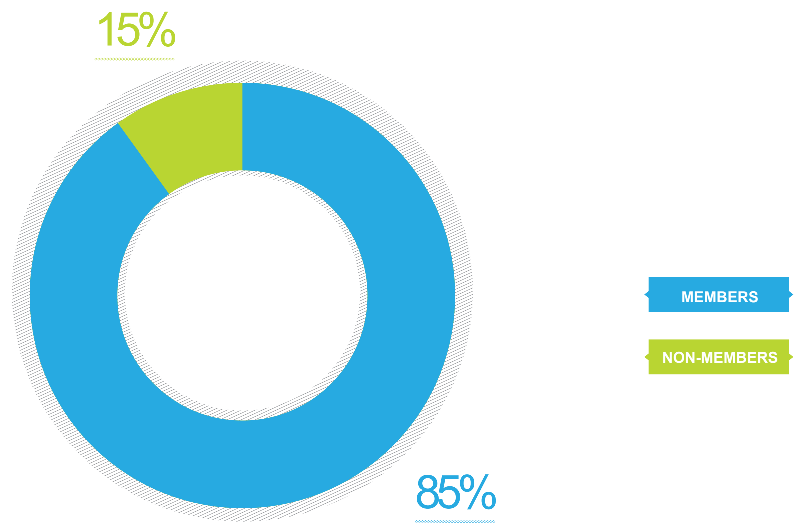


Audit Quality Assurance (AQA)

This category of trainings is mainly designed to equip auditors/practitioners with sufficient skills to handle auditing issues and to safeguard public interest. This category of events attracted about 15% non-members.

Chart 6:

Participants by membership status in AQA CPD events

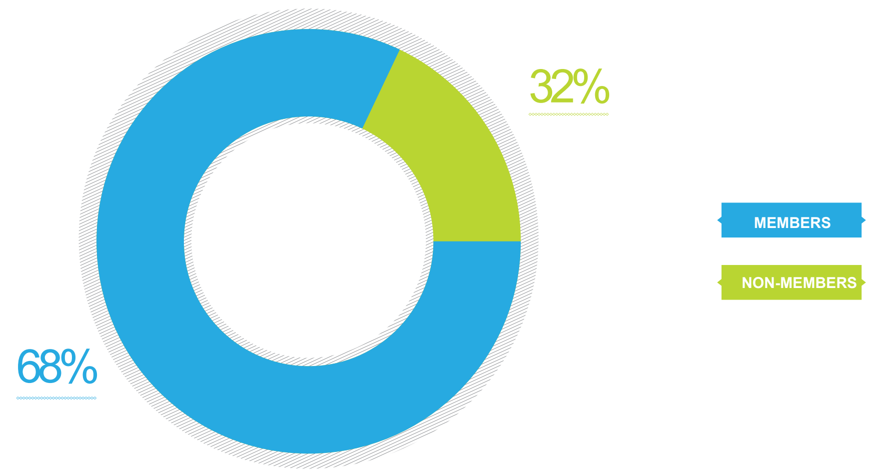


Leadership & Management

This event was aimed at sharpening participants' leadership, management and high level conceptual ability required at the helm of management. The seminars held under this category s include the Annual seminar, the Executive retreat, and the Economic symposium among others. This category of events continues to be popular to both members and non-members. About 32% of participants in this category of events in 2011 were non-members.

Chart 7:

Participants by membership status in Leadership & Management CPD event



OVERVIEW 2011

REVIEW OF STRATEGIC INITIATIVES IN 2011

2 THOUGHT LEADERSHIP ON GOVERNANCE AND ACCOUNTABILITY

Over the years we have developed our reputation as an institution that seeks to promote accountability, good governance and public interest protection and this agenda remained at the forefront of our activities in 2011. This was emphasized through taking a proactive approach to influencing legislation, policy, regulatory framework and any other matters impacting on governance and accountability.

One of our key strategies in enhancing our profile is to ensure that as a profession we continue to earn public trust and enhance confidence in the accountancy profession. In this regards, the Institute seeks to remain a strong and fair regulator of the accountancy profession in Kenya and continues to promulgate high internationally recognized financial reporting standards that would lead to strong firms, practices and accounting professionals.

Key participations

In 2011, the Institute positioned itself to effectively participate in the implementation of the Constitution of Kenya 2010. We critically reviewed and made representations on various enabling legislations where the Institute's expertise was relevant. Critical of these were:

- The Commission On Revenue Allocation Bill, 2011
- Independent Offices (Appointment) Bill, 2011
- Salaries & Remuneration Bill, 2011
- Public Finance Management Bill, 2011
- County Governments Financial Management Bill, 2011
- Contingencies Fund & County Emergency Fund Bill, 2011
- National Government Loans Guarantee Bill, 2011

In response to the desire to modernize the VAT Law regime, the Institute took a leading role in marshalling support from stakeholders by holding discussions on the need to revamp this law. The efforts of the Institute yielded a modernized VAT Bill 2011 that is being reviewed by the Ministry of Finance.

Strategic Alliances and partnerships

The Institute continued to develop partnerships and strategic alliances through which we were able and continue to influence and participate in the developments impacting the profession both locally, regionally and internationally. Locally, the Institute collaborated with the Kenya Revenue Authority in addressing matters relating to the interpretation of the various Revenue Acts including the VAT Act, the Income Tax Act, Customs and Excise Act.

We have also grown our reputation internationally and regionally through participation in the various Boards and Committees of the international standard setters. During the year, the Institute consolidated its influence in the newly created Pan African Federation of Accountants (PAFA) where it holds a permanent seat on the Board. The Institute's strength and profile is depicted by the high number of representatives as shown below;

Strong Representation both at International and Regional Levels

The following represent the Institute at various IFAC and PAFA Committees and Boards

IFAC

- **CPA Felicitas Irungu** — International Ethics Standards Board for Accountants(IESBA)
- **CPA Owen Koimburi** — Developing Nations Committee (DNC);
- **CPA Ashif Kassam** — International Auditing and Assurance Standards Board (IAASB); - Term expired in October 2011
- **CPA Caroline Kigen** — Compliance Advisory Panel (CAP);
- **CPA Ndung'u Gathinji** — Nominations Committee;
- **CPA Steve Lugalia** — Professional Accountants in Business Committee (PAIB);
- **CPA Anne Owuor** — International Public Sector Accounting Standards Board (IPSASB)

PAFA

- **CPA Patrick Mtange** — Board Member
- **CPA Caroline Kigen** — Technical Advisor

Lobby and Advocacy Initiatives

In the year 2011, we sought to lobby and advocate on behalf of members on matters that create and add value and we identified and worked with the Parliamentary Committee on Implementation of the Constitution and Kenya National Audit Office. The initiatives focused on concerted efforts aimed at strengthening systems around public accountability. In the same year, the Institute effectively participated in empowering Parliament to carry on its legislative mandate through Parliamentary Initiative Network (PIN), an initiative of the State University of New York. In addition, the Institute set out to create linkages with Institutions pursuing similar objectives. In this regard, the Institute agreed with CPA Parliamentarians on a framework of collaboration.

Regional Development and National Urban Development Policy
On matters of regional development, the Institute partnered with the Department of Urban Development under the Ministry of Local Government in the development of the National Urban Development Policy. The policy addresses the creation of structures by which Kenya can effectively take the challenges of rapid urbanization. This was further necessitated by the provisions of the Constitution in relation to devolution that recognizes that urban and cities are critical governance units that must be adequately planned for. The Institute convened the Urban Finance Thematic Group that gave policy directions on better financial management for urban development.

Representation in Boards
To effectively influence corporate governance, the Institute continued to lobby for CPAs to be included in Boards of Directors of various institutions especially those of a public interest nature, and in year 2011, we secured new representations in the following; Ethics Commission for Co-operative Societies, the Nairobi Stock Exchange and Association of Professional Societies of East Africa.

Publications
In the period under review, the Institute, in response to a raging debate on what constitutes national revenues for horizontal distribution between the National and County Government, articulated that short term or long term debt would not form part of government revenues. The Commission on Revenue Allocation in developing the criteria for revenue sharing took cognisant of the above arguments.

National Budget Submissions
We submitted year 2010/2011 budget proposals to the Treasury Budget team. In response to our submissions, we facilitated a work shop for the members of the Parliamentary Budget Committee and the Finance and Administration Committee. The reading of the 2011/12 gave rise to an opportunity to conduct post budget seminars, an exercise that was effectively done in all the five branches.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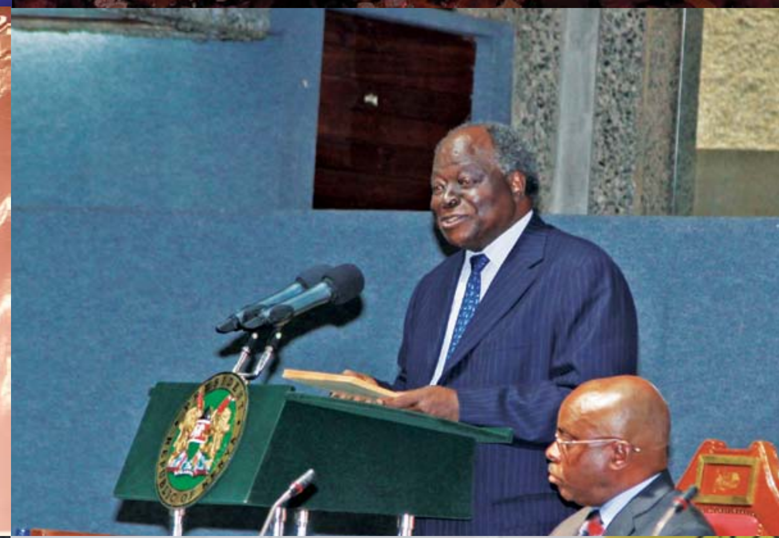
REVIEW OF STRATEGIC INITIATIVES IN 2011

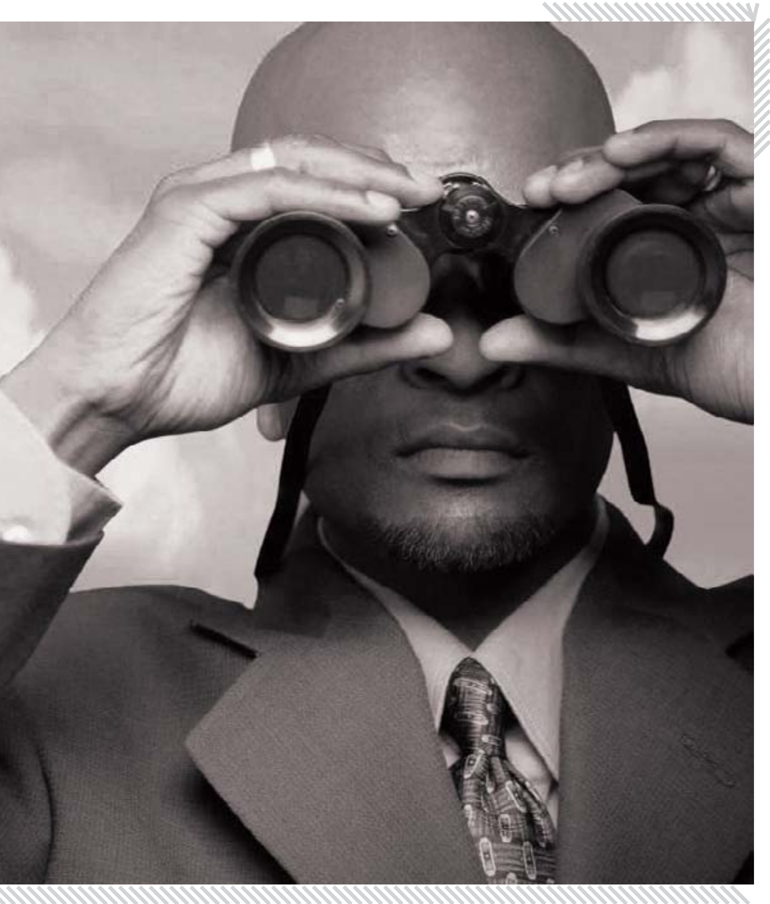
3 PROMOTE THE REGULATION OF THE ACCOUNTANCY PROFESSION





In recognition of the fact that public interest need to be safeguarded, the Institute continued to uphold and enhance its mandate to regulate the accountancy profession in 2011. This is due to the increasing dynamism in the environment facing both the profession and the business world.

Among the strategies ICPAK has adopted in enhancing regulation is to ensure compliance by its members to the prescribed standards, rules and regulations through increased awareness, effective practice monitoring and disciplinary mechanisms.



Member discipline

In the year 2011, ICPAK through its legal department managed to draft various legal opinions and responded to various online queries touching on the conduct of members. There were 3,450 internet queries and more than 600 physical letters. A good number being correspondences related to member career support queries in form of confirmation of professional status and legal related opinion on operational and guiding tools and principles.

The Institute also managed to investigate about 13 allegations of misconduct against members and managed to get reasonable evidence on 5 matters that were forwarded to the disciplinary committee for inquiry. The Institute through external lawyers also managed to successfully deal with cases taken to court and appeals lodged by the members who felt aggrieved by the decisions of the disciplinary committee. Two appeals were in progress by the end of the year.

In combating complaints against members and illegal practitioners, the Institute continued to undertake campaigns on member education and awareness and has so far received good reports on the impact of this education to the members and the business community as a whole. This feedback will assist in strengthening our strategies.

Practice Monitoring

The Institute continued to enhance compliance by its members to the prescribed standards and regulations through increased awareness and effective practice monitoring. During the year, 70 firms were reviewed. Of these, 47 firms were second time reviews. The total number of firms reviewed since inception of the program is 350. These include:-

- 4 Large firms
- 35 Medium sized firms
- 311 Small firms

It is worth noting that practice monitoring continues to lead to improvements and

public interest protections. Most firms that were subjected to a second review had improved except for 3 firms whose cases were forwarded to the Disciplinary Committee for necessary action. In the year 2012, the Institute plans to carry out reviews for 100 firms which will include 2 large firms and 20 medium tier firms. 60 of these reviews will be first time reviews while 40 will be repeat reviews.

Common Non-Compliance Issues Identified In 2011

- Failure to comply with the requirements of International Standards on Quality Control Number 1. (ISQC 1.)
- Inadequate training for staff working in small and medium sized firms.
- Insufficient support of work done to support the audit opinion issued.
- Failure to record members of the engagement team who have complied with ethical and independence requirements.
- Failure to determine the use of external confirmations (e.g. from banks, debtors, etc) which is necessary to obtain sufficient audit evidence at the assertion level
- Where an internal audit function existed, failure to consider the activities of internal auditing and their effect, if any, on external audit procedures
- Failure to link the analytical procedures performed to the planned audit procedures.
- In some cases, working papers did not indicate who performed the audit procedures and when they were performed.
- In some cases, the audit work performed by assistants was not supervised or reviewed.
- Failure when designing audit procedures to determine an appropriate means of selecting items for testing.
- Failure to document audit procedures performed to confirm the existence and condition of inventories.
- Failure to carry out procedures to become aware of any litigation and claims involving the entity which may rise.
- Audit reports in some cases were not in accordance with ISA 700 revised format.
- Failure to document the decision to accept or continue an audit engagement.
- Failure to consider whether the terms of the letter of engagement need to be revised.

The Institute will continue working on the review program with the view of making members constantly aware of the need to uphold quality in all they do. In addition these non compliance issues form the basis for future trainings to be conducted by the Institute and members are encouraged to attend the same.

High Quality Internationally Recognized Standards

The Institute continued to play a greater role in the Standard Setting process by responding to various exposure drafts and discussion papers in the year 2011.

The Exposure Drafts and Consultation Papers responded to are as outlined below;

EXPOSURE DRAFTS & DISCUSSION PAPERS RESPONDED TO FROM IAASB AND IASB BY ICPAK IN 2011 INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD IAASB
Proposed Revised International Standards on Auditing 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment and 610 Using the Work of Internal Auditors.
Proposed International Standard on Related Services ISRS 4410 (Revised), Compilation Engagements
Proposed International Standard on Review Engagements ISRE 2400 (Revised), Engagements to Review Historical Financial Statements

INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB)
Mandatory Effective Date of IFRS 9 and Transition Disclosures (Amendments to IFRS 9 (2009), IFRS 9 (2010) and IFRS 7).
Financial Instruments: Impairment
Improvements to IFRSs

OVERVIEW 2011

REVIEW OF STRATEGIC INITIATIVES IN 2011

4 PROMOTE THE CPA BRAND

The main objective of promoting the CPA brand is to enhance the visibility of the Accountancy profession in Kenya and in the global arena. Over the years and in particular 2011, the Institute used different channels of communication for example the internet and media outreach to continue its efforts of promoting the CPA Brand and the use of the CPA credentials. These measures were undertaken to ensure that the Institute's statutory roles, its mission, values and its work in supporting the growth of the accountancy profession as well as the CPA brand are effectively communicated to a broad audience.

The Institute signed a number of Mutual Recognition Agreements (MRA) to promote mutual recognition of our credential within the various regions. Among these were; the formalization of East African Community Institutes of Accountants (EACIA) MRA, thereby creating practice opportunities for CPAs in Uganda, Tanzania, Rwanda and Burundi without having to be examined for professional proficiency. Additionally, ICPAK entered into a Memorandum of Understanding (MoU) with the Institute of Chartered Accountants of England and Wales. The MoU will grant CPAs seeking practice opportunities in the UK and surrounding regions.

Position the CPA as a pre-eminent brand

The key concern in this regard is continued development and continuous enhancement of the CPA value proposition. This is achieved through marketing the qualities and the standards of the CPA qualification and undertaking public education campaigns which explain in detail to the public the role of the CPA and by extension, that of the Institute. To enhance the CPA brand visibility, we are consistently encouraging our members to use the CPA prefix before their names.

Recognition of the CPA Brand

In the year 2011, the Institute engaged various stakeholders in ensuring the recognition of the professional accountant in Kenya. The lobbying effort yielded the acknowledgement and reservation of the Constitutional offices of the Auditor General and the Controller of Budget which had been argued as, could have been held by any other professional with relevant experience. The efforts thus secured two constitutional offices to two able CPAs in good standing. This saw heightened interest from institutions both public and private seeking to partner with the Institute in identifying suitable accountants for senior governance positions.

Branding of ICPAK events

The Institute ensured that all its events were properly branded in the year 2011. ICPAK advertised its events and got coverage for the same events by the media. Among the events that attracted most coverage in the year 2011 were; the Annual seminar, Economic symposium, Financial Reporting Awards (FiRe) and Africa Congress of Accountants Conference held in the year with the total length of clips coverage totaling 1hr 5 minutes in the year.

Corporate Social Responsibility

The Institute continues to exert its presence and visibility through its various Corporate Social Responsibility (CSR) programs that it has put in place over the years. Among these are the hosting of annual member golf tournaments through which the proceeds raised are used as charity funds to extend donations to various needy groups. Other CSR activities are carried out during the Annual seminar and are varied from year to year.

During its Annual seminar in the year 2011, the Institute organized a blood donation program in partnership with the Kenya National Blood Transfusion Services- Mombasa branch. The donations were used to supplement the demand at the Coast General Hospital. Other CSR programs undertaken during the event were visits to the Likoni School for the blind and the Coast General Pediatrics ward during which members made various donations. Other activities included participation in the Dettol Mater Heart run and a visit to Mama Fatuma Home.

OVERVIEW 2011

REVIEW OF STRATEGIC INITIATIVES IN 2011

5 SUPPORT INNOVATION RESEARCH AND DEVELOPMENT IN ACCOUNTANCY AND RELATED AREAS

The Institute recognizes the need to develop and promote the accountancy profession through knowledge building. It is in this regard that we appreciate the need to support research in accountancy and governance.

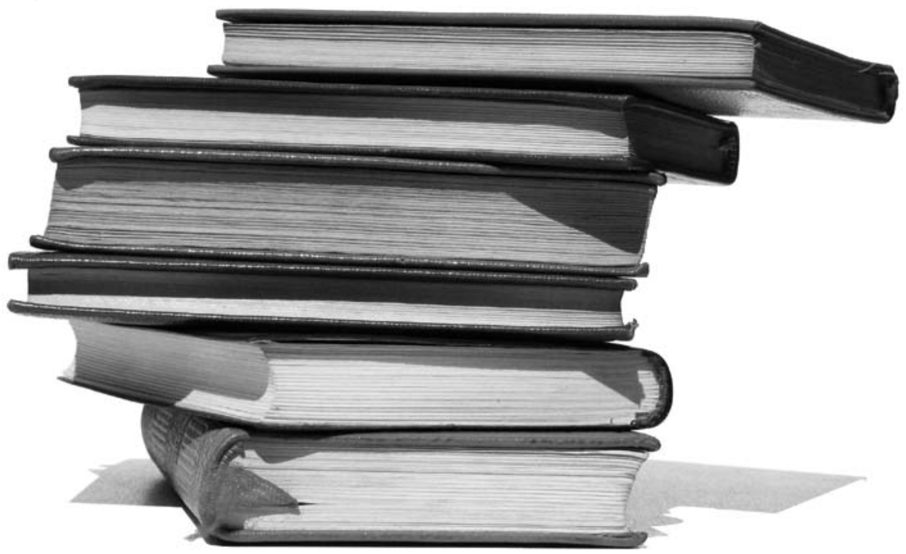
Thought leadership in Areas of Accounting

The Institute endeavored to develop a research policy and collate past researches on the Accountancy profession to create a knowledge hub. The Institute further aimed at producing peer reviewed articles on the subject of accountancy and governance and conducted research and disseminated the findings on governance and accountability issues in order to build knowledge.

Highlights of research and innovation innitiatives undertaken in 2011

Surveys at IFAC level

ICPAK members participated in research conducted by IFAC on the small and medium practices identifying their main challenges and expectations for the future. Over 400 responses were received from our members and among the findings were, that limited access to finance and overburdening regulations remained the key obstacles to the growth of the small practices.



Research Committee

During the year the Institute put in place a committee to help it pursue research both individually and collectively with other organizations. The committee developed research priorities that would be realized in 2012.

Member Perception Surveys

In 2011, ICPAK conducted its first new member perception survey targeting members who had joined that year. Arising from some of the findings, ICPAK continues to remodel its operations to meet member needs. In the study, it was established that 50% of new members join ICPAK after a two year period upon completion of their CPA exams. A whopping 80% of all new members only got to hear about ICPAK while in college or during the CPA course, a pointer to greater advocacy needed.

OVERVIEW 2011

REVIEW OF STRATEGIC INITIATIVES IN 2011

6 INSTITUTIONAL STRENGTHENING

The Institute has put in place effective structures to enable it deliver value to members and other stakeholders while it ensures there are adequate resources for its long term sustainability. Among the various initiatives were establishment of strong governance structures, systems and an effective and efficient secretariat that delivers quality and lifelong value to members.

Highlights of institutional strenghthening activities undertaken in 2011

Human Capital

The Human Resource Management at the Institute continues to demonstrate high quality practice with a focus on its most valued asset, the Human Capital. We are a knowledge driven organization that relies on highly motivated staff and will therefore entrench a culture that values its people and is proactive and responsive to the needs of the staff.

ICPAK staff remains key to our future sustainability, and throughout the year our efforts were geared towards making each and every employee appreciate their value and contribution in achieving the ICPAK vision of being a globally recognized Professional Accountancy Institute.

Efforts were made in the year to align the human resources (HR) strategies to ICPAK's Strategic Plan. This development allowed the Institute's management to make HR decisions that were supportive to the future direction of ICPAK. The Institute was able to recruit competent employees to fill vacancies that arose due to change in organization's structure to support the strategic plan. Among the positions filled during the year included; Audit Manager, Governance and Advocacy Officer and Legal Officer.

The Institute embarked on an exercise of reviewing and amending our human resources policies and procedures to further align them to internal changes, environmental changes, the new Labor Laws and the new Constitution. New policies introduced included policies on work life balance to accommodate a flexible working arrangement for staff whilst continuing to provide a high quality service to ICPAK members.
Succession planning continued to be a key factor in our operations in the year to prepare employees to fill anticipated leadership vacancies. Practices such as lateral moves, assignment to special projects and both internal and external training and development opportunities were used to fill key leadership positions that arose within the Institute. Three lateral moves were done in 2011 to fill the positions of Revenue

Accountant, Assistant Manager Practice Monitoring and a Registration Officer.

Staff exchange programs were conducted during the year, this saw a team of six members from the Institute of Certified Public Accountants of Rwanda (ICPAR) and a team of three members from Zambian Institute pay a visit to ICPAK to learn and exchange experiences and ideas with ICPAK's staff. The Institute will continue to have more of these exchange programs to continually improve our staffs' competencies and to expose them to other Accountancy Institutes to enable them learn new ideas in order to serve our members better.

Risk Management and Finance Capital Strengthening

The Institute continued to ensure that its financial base is strengthened to enable its future sustainability. Among the measures put in place in the year to address this were diversification of our training programs and commencement of the development of the new office block, hotel and apartments. On the other hand, to ensure maximum return on excess liquid assets, the Institute continued to invest its resources with reputable financial institutions which guaranteed maximum returns. Additionally, the Institute implemented the Council's policy of the requirement for new members to pay the whole amount of registration and subscription fee upfront to improve on member retention.

ICT Capital

The Institute continued to integrate ICT in its operations during the year under review. Among key developments in ICT infrastructures were;

Online Voting System

Members continued to embrace the electronic voting system in 2011. About 90 % of members who voted in 2011 used the system compared to only a few who used the system in the year 2010 when the system was first used. Members and staff were generally happy about this improvement noting the shorter time it took to tally and communicate the results.

Online seminar registration and other services

The online seminar registration system used to book and register for seminars was further enhanced. This has greatly improved flexibility, cost savings, efficiency of the secretariat and better planning of our events. ICPAK has also developed platforms to enable members to login to the Institute's website and access their CPD Records.

Review of Internal ICT Policies

In view of a rapidly changing ICT environment, ICPAK undertook the process of revising its ICT policies to meet the demands of the dynamic and ever-changing infrastructure. Among areas revised are Disaster Recovery and Management, Mobile Computing and implementation of a SMS Communication System to facilitate communication with members via the short messaging service.

Strategic Plan Implementation and Oversight

In order to ensure that the Institute achieved and continues to achieve its objectives as entrenched in the Strategic plan, it put in place oversight mechanisms through quarterly reporting to assess the progress of the strategic plan implementation. Development of departmental annual work plans ensured that overall operations of the Institute were based on the strategic plan. While reporting on the implementation progress was done quarterly to the Strategy committee, departmental assessments were done bi-annually through performance appraisal on the staff. The Council through the strategy committee was able to get timely feedback on the progress which helped in timely decision making.

GOVERNANCE STRUCTURE

Council Profiles

Management Team

Governance Framework

Council Committees

Schedule of attendance at Council meetings in the year

Council Profiles

CPA Patrick Mtange
Chairman

Patrick Mtange is currently, The Finance and Administration Manager for Diakonia - Africa regional office. He has extensive experience in both public and private sectors as he previously worked for Kenya Wildlife Service as Financial Controller; Finance Manager for KENGO, a local NGO; an accountant at Ministry of Tourism and Wildlife and worked with Barclays Bank Kenya Ltd. He was the Vice Chairman and board member of Public Procurement Oversight and Advisory Board (PPOAB).

CPA Benson Okundi
Vice Chairman

Benson is has over 15 years experience and is currently a partner at PricewaterhouseCoopers with the responsibility for public sector assurance services in Kenya and 8 other countries in Africa. He holds a Masters Degree in Business Administration (Project Management) from the University of Ghana, Legon, and a B.Comm (Accounting Option) from the University of Nairobi. Benson is a CPA and a Certified Public Secretary. He is currently the Convenor, Professional Standards Committee of ICPAK.

The Council Continuation

CPA Abdulwahid Aboo

Abdulwahid Aboo has been a Council Member for the last 7 years. He is the Sole-Proprietor of the Audit Firm, Abdulwahid Aboo & Company, since 1980. This firm is affiliated with Russell Bedford International (UK) since September, 2005 and later became a partnership as AAC Kenya, where now he is the Managing Partner. Previously he worked with PWC and the TSS Group of Companies. He is an FCCA, FAI, FCPAK, FCPSK.

CPA Felicitas Irungu

Felicitas joined Ernst & Young in 1989 as an audit trainee and rose through the ranks to audit manager in 1986 until 2003. Since 2003 she has been director in charge of Learning & Development and is also involved in audit support initiatives within the professional practice.

She has been involved in delivery of training programs, both in house programs and for clients. Felicitas holds a Bachelors Degree in Economics and Business Education (B Ed Hons) and is a CPA (K) and holds an MBA from Strathmore Business School. She is involved in other initiatives in the firm including Public Sector. She was appointed in the IFAC International Ethics Board of Accountants (IESBA) from January 2011.

CPA Geoffrey Malombe

Geoffrey Joined Government in 1997 and rose through the ranks to Assistant Accountant General in 2010. Before then he had worked with private sector and the Non Governmental Organizations. He has over 16 years working experience in Government gained while working at management levels with Ministries of Agriculture, Agriculture and Rural Development, Education, Science and Technology, Education and Finance. Geoffrey holds a Bachelors Degree in Agricultural Economics and is a CPA (K). He also holds an MBA from University of Nairobi. He is involved in other initiatives in the Ministry of Finance including the working committee on the preparation of legislations to implement Chapter Twelve of the Constitution on Public Finance.

CPA Joan Riitho

She has over 20 years working experience in Finance, Accounting and Auditing gained while working at senior management levels with Kenya Roads Board, Kenya Reinsurance Corporation, Kenya Commercial Bank and CARE International in Kenya. Currently she heads the Internal Audit Department of Rural Electrification Authority (REA). She holds a MBA Finance, and B.Com –Finance (Hons), both from University of Nairobi.

CPA Julius Mwatu

Julius Mwatu is currently the Chief Finance Officer – Indigo Telecom and Financial Consultant – Nedbank Eastern Africa. He has extensive experience in Finance, Audit and Taxation services having previously worked with KPMG, Ernst & Young and PKF.

Julius is a renowned trainer for ICPAK in the area of Taxation. He holds a Masters degree in Business Administration (Finance), BSc. – Statistics and is a CPS Finalist.

CPA Pius Nduatih

CPA Pius M. Nduatih is the Chief Executive Officer/Secretary to the Board of KASNEB, a position he has held since January 2008. He previously served as the Chief Officer, Finance Division at KASNEB. Prior to joining KASNEB, CPA Nduatih had served as Head of Finance at the Commission for Higher Education and Kenya Science Teachers College. CPA Nduatih graduated with a masters degree in Business Administration from the University of Leeds, UK in 1999 and a B.Com (Accounting) (Hons) in 1981. He is also a CPS and a member of ICPSK

CPA Rosemary Gituma

Rosemary Gituma is currently, Acting Head of Financial Management for East African Portland Cement Company, having joined the Company in 2000 as the Internal Audit Manager, and later holding position of Finance Manager. She has over 20 years experience at various senior positions in the private, public and NGO sectors. She holds an MBA in Accounting & Finance, and a B.Comm Accounting Option, both from the University of Nairobi. Rosemary serves as a director for EAPCC (Uganda) Ltd, and is the Trust Secretary for the Board of Trustees for EAPCC Retirement Pension Scheme Benefits. She is currently the Covenor, Strategy Services Committee of ICPAK.

CPA Wycliffe Shamiah

He has worked at the Capital Markets Authority, Kenya for the last 14 years and is currently Head of Market Supervision, where compliance with set requirements is monitored at the Authority. He is an Associate of Toronto Leadership Center. He holds a bachelor's degree in Economics and Mathematics and also a Masters in Business Administration (Finance) from University of Nairobi. He is a CPA (K) He represents the Capital Markets authority on the Council.

The management team

Standing from left
(CPA Richard Kamami, Tom Nyagare, CPA Eric Omondi, CPA Nebert Mandala, CPA Fredrick Riaga, CPA Susan Mungai)

Seated from left
(CPA John Wambugu, Everlyne Maingi, CPA Caroline Kigen, Elsie Nyambura, CPA Michael Makokha)

Our management team

we value our people

CPA Caroline J. Kigen
Chief Executive Officer

Director, Professional Services

MANAGERS

Compliance and Regulations
-CPA Richard Kamami

Training and Development
– Tom Nyagare

Standards

Value Addition Services
– CPA Michael Makokha

CPA Nebert Mandala
Director, Strategy and Shared Services

MANAGERS

Finance
-CPA Susan Mungai

Human Resource and Administration
- Everlyne Maingi

Procurement
- Patrick Abuya

Information Technology
- Dennis Milgo

Strategy
– CPA Alice Onono

MANAGERS

Marketing and Corporate Affairs
- Elsie Nyambura

Advocacy, Governance and International Relations
– CPA Fredrick Riaga

Legal and Company Secretarial Services
- CPA John Wambugu

Internal Audit
- CPA Erick Omondi

Governance Framework

Our key mandate is public interest protection and advocating for sound accountability and governance in all sectors of the economy. In this regard we are committed to best practice and continuously seek to promote best corporate governance practice. In 2011 we continued to entrench good governance in everything we did at all levels of the organization and operated in such a manner as to be Credible, Professional and Accountable.

The Institute of Certified Public Accountants of Kenya (ICPAK) is the professional organization for Certified Public Accountants in Kenya established in 1978 by the Accountants Act, CAP 531 which has since been repealed by the Accountants Act No. 15 of 2008. Since 1978, ICPAK has been dedicated to development and regulation of the accountancy profession in Kenya so as to enhance its contribution and that of its members to national economic growth and development.

The Accountants Act prescribes the following as the functions of the Institute:

1. To promote standards of professional competence and practice amongst members of the Institute.
2. To promote research into the subject of accountancy and finance and related matters, and the publication of books, periodicals, journals and articles in connection therewith.
3. To promote the international recognition of the Institute.
4. To advise the Examination Board on matters relating to examinations standards and policies.
5. To advise the Minister in charge of Finance on matters relating to financial accountability in all sectors of the economy.

The Accountants Act provides that ICPAK shall be governed by a Council which is mandated to issue standards of professional practice, including accounting and auditing standards. The Accountants Act also mandates the Council to issue by-laws, regulations and guidelines to govern matters affecting the operations of the Institute.

In discharging its Governance role the Council is authorized by the Accountants Act to establish such committees as are necessary for the performance of the functions of the Institute and to delegate powers conferred on it to such committees. The Accountants Act further provides for the establishment of a Secretariat and Management team headed by a Chief Executive/Secretary appointed by the Council to perform such functions as the Council may determine.

Governance Policy/Council Charter

The Council has put in place a governance policy whose purpose is to clearly define the roles, responsibilities, authority and accountabilities of the Council, Committees and the management so as to ensure they work together to deliver value to the Members and other Stakeholders of the Institute. This document, among other issues, ensures that the practices of the Council are consistent with and reflect the Council's commitment to best practice in corporate governance. It sets out the collective and individual powers, duties, obligations, responsibilities and liabilities of the Chairman, the Council members and the Chief Executive Officer. The Council Charter seeks to ensure the effectiveness of each Council member's contribution in the governance of the Institute by facilitating full and free exercise of independent judgment and professional competencies. In particular it spells out the governance arrangements that are to be applied in the Institute, on among others, the following areas: Roles and functions of the Chairman, Council members and Chief Executive Officer; Conduct of Council meetings; Management to Council reporting requirements and timelines; Council and committee members induction and development; Terms of reference for all Council Committees; Disclosure of material information to the public; Code of conduct.

The Council

The Council comprises of eleven (11) members, seven of whom are elected from the membership and by the members of the Institute, two appointed by the Minister of Finance and the remaining two, one representing the Kenya Accountancy and Secretarial National Examination Board (KASNEB) and the other the Capital Markets Authority (CMA). The Council is the governing body of the Institute and except for direction and guidance on general policy; the Council has delegated authority for conduct of day-to-day business to the Chief Executive Officer. The Council nonetheless retains the following key roles and responsibilities;

- Strategic Role: The Council's role in this regard is to make significant decisions regarding the Institute's Vision, Mission and Strategies.
- Oversight Role: The Council's role is to oversee Institute's Management in the implementation of the Strategic Plan thereby ensuring that the objectives stated therein are achieved.
- Stewardship Role: The Council represents the interests of the members and therefore has a role to be accountable to the members.
- Stakeholder Relationships Role: The Council has a role to protect and serve the public interest and in so doing enhance the Institute's public image both locally and internationally.

Council Meetings

An annual plan of scheduled Council and Committee meetings is prepared each year. The Council meets at least six times a year and special meetings are convened when need arises. The Council receive all information relevant to the discharge of their obligations in accurate, timely and clear form so that they guide and maintain full and effective control over strategic, financial, operational and compliance issues.

Code of Ethics

The Institute is committed to the highest standards of integrity, behavior and ethics in dealing with all its stakeholders. The Council adheres to the code of corporate governance as well as its own stringent standards of governance and control. A formal code of ethics has been approved by the Council and is fully implemented to guide Council members, Management, Employees and Stakeholders on acceptable behavior in conducting business. These include among others, requirement for Council and Committee members to act honestly, in good faith and in the best interests of the Institute; exercise duty of care and diligence; avoidance and disclosure of conflict of interest; maintenance of confidentiality of information about the Institute, commitment to and attendance to Institute's business and respect to fellow Council and Committee members.

Internal Control and Risk Management System
Review of Control Environment

The Council has collective responsibility for establishment and management of appropriate systems of internal control and for reviewing their effectiveness. The Institute has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information and safeguarding of member resources.

The system of internal control in place has defined procedures with operational and financial controls to ensure that assets are safeguarded, transactions authorized and recorded properly, and that material errors and irregularities are either prevented or detected within a reasonable period of time. The performance of the Institute is reported regularly to its management and the Council through performance trends, forecasts and actual performance analysis and budgets for close monitoring.

The Council reviews effectiveness of internal control systems in place by assessing the work of both internal and external assurance providers. Internal assurance is carried out by an independent Internal Audit Department that reports to the Council's Audit, Risk and Compliance Committee and provides confirmation that the Institute's standards, policies and procedures as set by the Council are being complied with. External assurance is provided by an audit firm appointed by the members.

The Council has reviewed the Institute's system of internal control and is satisfied that the system is effective. However, the Council recognizes that any system of internal control can provide only reasonable and not absolute assurance against material misstatement or loss.

The internal control and risk management systems are designed to mitigate rather than eliminate the risks identified in the financial reporting process. The Institute has a number of policies and procedures in key areas of financial reporting, including the finance policy, credit policy and the information and communication policy.

Risk assessment

The risk assessment process related to financial reporting is conducted annually. The significant accounts in the financial statements are identified based on the evaluation of the impact and likelihood of the risks materializing.

Control Activities

The management is responsible for ensuring that the internal control activities are performed and documented, and is required to report to the shared services committee on the compliance on a quarterly basis
In addition the Institute has implemented a formalized reporting mechanism for the strategy, budget and financial performance.

Monitoring

The monitoring of the internal control and risk management systems is performed at multiple levels such as periodical review of control documentation, audits performed by the internal audit and monitored by the Audit Committee. The Audit Committee charter outlines its roles and responsibilities related to supervision and monitoring of the internal control and risk management systems. The monitoring is performed on the basis of periodical reporting from the finance, internal and external audit.

Internal Audit

The internal audit department ensures objective and independent assessment of the adequacy, efficacy and quality of the internal controls. Internal audit conducts an annual review of business risks. On the basis of this and input from the Audit committee and management an audit plan is drawn up for the year.

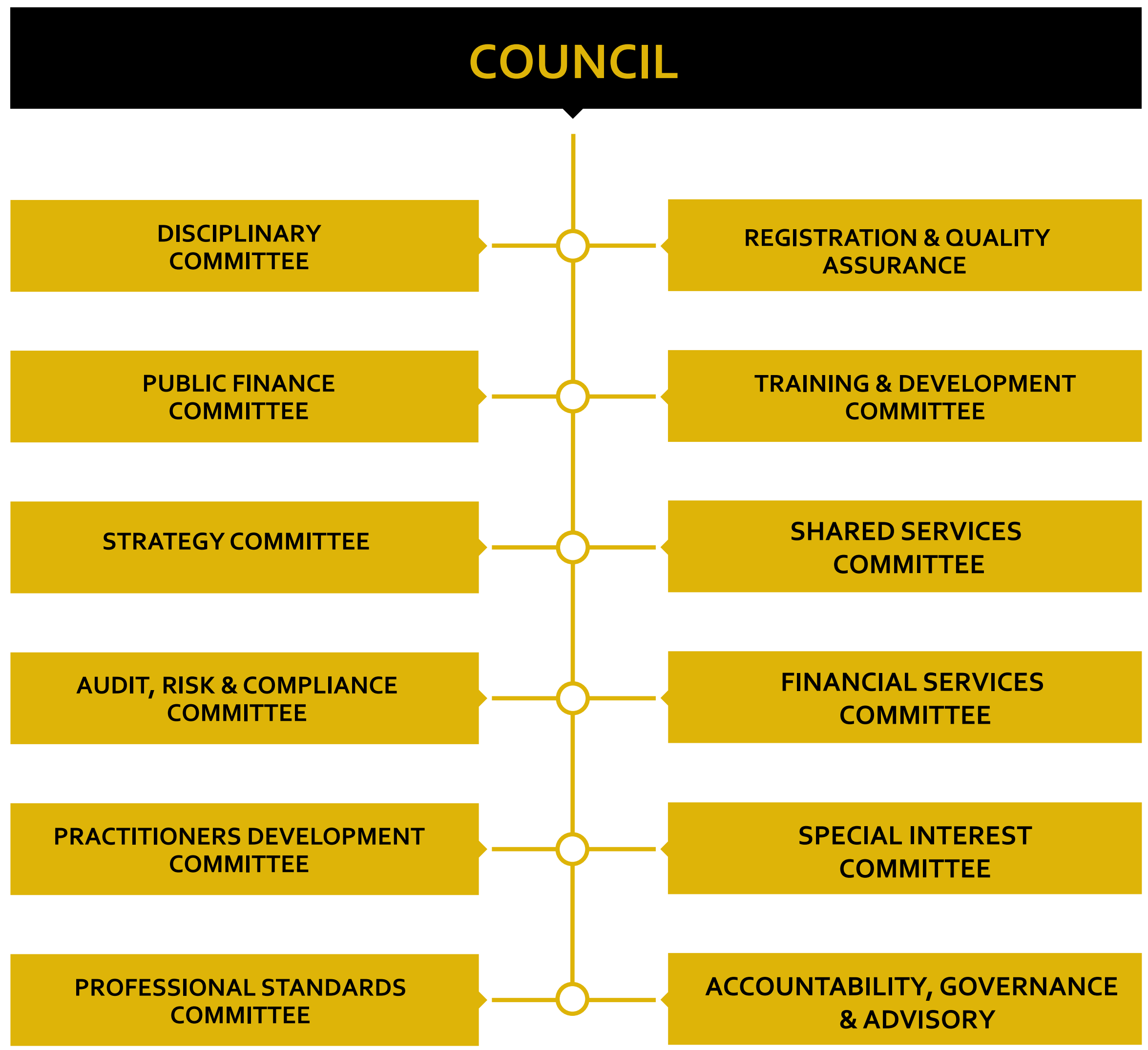
The plan is reviewed and approved by the Audit Committee and the Council. Internal Audit is responsible for planning, executing and reporting on the audit performed. The reporting includes observations and conclusions, together with suggestions for improvements to the internal controls in each area audited.

When conducting an audit, internal Audit assesses whether the audited function has well established internal control framework, policies and procedures in all important business areas and adequate internal control procedures. This includes the assessment of whether controls in relation to key ICT systems are satisfactory and whether they comply with the ICT policy.

Council Committees

In discharging its Governance role the Council is authorized by the Accountants Act to establish such committees as are necessary for the performance of the functions of the Institute and to delegate powers conferred on it to such committees. Formal reports and/or minutes of each Committee meeting are circulated to the Council within the time frame set out in the relevant Committee's Terms of Reference, together with a clear list of recommendations and/or other matters and issues for the consideration of the Council.

Membership of Council Committees is based on the needs of the Institute, relevant legislative and other requirements and the skills and experience of the individual members. The Council has sole responsibility for the appointment of Committee members who are drawn from the Council and Institute members in good standing. The role, function, performance and membership of each Committee is reviewed on an annual basis as part of the Council's self-assessment process.



Council Committees' Roles

1. Disciplinary Committee

This committee is responsible for handling inquiries into allegations of professional misconduct against members as defined by Section 30 of the Accountants Act No. 15 of 2008. The committee makes decisions based on evidence and advises Council on disciplinary action to be taken on errant members in accordance with the procedures and rules stipulated in the Accountants Act. It also advises the Council on the disciplinary/ethical issues arising that need member awareness through training. The Committee also handles the reinstatement of members who have been suspended on disciplinary grounds.

2. Registration & Quality Assurance Committee

This committee is charged with receiving, considering and approving applications for registration as a CPA and granting of practising certificates and annual licenses in accordance with the provisions of the Accountant's Act. The committee mandate also includes, monitoring compliance with professional quality assurance and other standards published by the Council for observance by the members of the Institute.

3. Governance and Advocacy Committee

This committee drives the advisory role of the Institute in accordance with the mandate prescribed by the Accountants' Act No. 15 of 2008 to advise the Minister of Finance on matters of accountability in all sectors of the economy. In seeking to achieve this objective, the Committee is expected to build networks and enter into collaborations with the critical institutions within the Executive, Parliament and Non-state actors pursuing similar objectives.

4. Public Finance Committee

This Committee is mandated to champion the Institute's participation in the development of policies with regard to public financial management. Of critical importance would be participation in the development of fiscal policies through the national budget. Subsequently, the Committee ensures active participation through liaison with relevant institutions and agencies of Government through the process of implementing the adopted fiscal policies.

5. Training and Development Committee

This committee oversees the development and implementation of Continuing Professional Development (CPD) policies, guidelines and the annual calendar. The committee also is mandated to advice the Council on matters that deal with the International Education Standards (IESs) issued by International Federation of Accountants (IFAC). The committee also oversees the Institute's members' training and development programme.

6. Strategy Committee

This committee oversees the development and review of the strategic plan. Its mandate includes focusing on strategies that would facilitate the Council to give guidance and strategic direction to the Institute. It also monitors and evaluates the implementation of the strategic plan. This includes; Ensuring that annual plans are consistent with the longer term strategic issues and they are implemented; Review the quarterly performance reports and make recommendations both to management and Council; Set performance standards and objectives for the Institute in line with the strategic plan; Review the environment and risk profile affecting the Institute and how this would impact on the strategy.

7. Shared Services Committee

This committee was constituted in July 2011. Previously the same functions were performed by the Finance and Administration committee. The committee's mandate is to provide best practice in the development, implementation and subsequent monitoring of the finance and administration function of the Institute on behalf of Council. It is charged with the responsibility of reviewing the Institute's policies in the areas of HR, IT, Procurement, Finance, Marketing and Public Relations.

The committee also focuses on: the review of financial performance as well as the review the financial reporting processes so as to obtain reasonable assurance over their effectiveness; review the annual budget and to support the Council in ensuring the effectiveness of Corporate Governance processes to enable the Institute to implement best practice as set out in appropriate guidance on Corporate Governance.

8. Audit, Risk and Compliance Committee

This committee is responsible for monitoring the internal control and risk management systems. The mandate of the committee includes; providing oversight over external auditing and financial reporting processes; provide effective oversight over the operations of the internal auditing function; oversee the continued implementation of the Internal Control Framework and risk management in the Institute's business processes; facilitate the conduct of appropriate corporate governance and committee's performance assessment exercises so as to provide assurance over the Institute's performance and governance processes and ensure compliance with relevant laws and regulations that governs the Institute's operations.

9. Financial Services Committee

This committee is tasked with providing guidance on financial reporting and auditing related matters affecting the financial services sector, and to avail necessary expertise in the formulation of policies and guidelines impacting the sector. The committee's mandate includes promoting good financial reporting and interpreting accounting and auditing standards related to the sector, in liaison with the Professional Standards Committee of the Institute.

10. Practitioners Development Committee

The purpose of the Committee is to research on, develop, plan, organize and monitor the implementation of various initiatives and programmes aimed at developing the capacity of the Institute's members who are in public practice, with a specific focus on the Small and Medium-sized Practices(SMPs).

11. Special Interest Committee

This committee is tasked with reviewing member database and demographics to establish members groups or clusters that require specific tailored vehicles e.g. with respect to location, sex, industry, hobbies & interests etc. The committee also evaluates emerging trends among members and advises Council on how to better serve these emerging categories.

12. Professional Standards Committee

This committee is tasked with promoting high professional accounting and auditing standards in Kenya by developing mechanisms through which the Institute can monitor and enforce standards of professional practice in accounting, auditing and ethics. The committee is tasked with promoting the development, use of and compliance to International Financial Reporting standards (IFRS), IFRS for SMEs, International Public Sector Accounting Standards (IPSAs) and International Standards on Auditing (ISAs) as well providing guidance on professional ethics.

Schedule of attendance at Council and Committee meetings in the year

Council

Members	Eligibility	Attendance
CPA Patrick Mtange	9	8
CPA Benson O. Okundi	4	4
CPA Felicitas Irungu	9	5
CPA Joan W. N. Riitho	9	5
CPA Abdulwahid M. H. Aboo	9	9
CPA Julius Mwatu	4	4
CPA Rosemary K. Gituma	4	3
CPA Wycliffe Shamiah	9	6
CPA Pius Nduati	4	3
CPA Geoffrey Malombe	3	2
CPA Michael Itote*	5	4
CPA Anne Elizabeth Owuor*	5	5
CPA Kellen Kariuki*	5	3
CPA Karithi Murimi*	5	5
CPA Philip Ndung'u*	5	0

Disciplinary Committee

Members	Eligibility	Attendance
CPA Jonathan Ciano	7	7
CPA Charity Muya	7	6
CPA Geoffrey Erick Odongo	7	7
CPA John Mudany	7	5
CPA Joshua Okumbe	7	6
CPA Grace Kiptui	7	6
CPA Waigi Kamau	7	6

Accountability, Governance and Advocacy Committee

Members	Eligibility	Attendance
CPA Patrick Mtange	4	4
CPA Benjamin Kimanga	4	4
CPA Chris Kisire	4	4
CPA Ismael Guyo	4	4
CPA Shilpa Haria	4	2
CPA Josephat Mwaura	4	1
CPA Tom Omariba	4	3

Registration & Quality Assurance Committee

Members	Eligibility	Attendance
CPA Jim Mc Fie	8	7
CPA Daniel Ndonye	8	8
CPA Yusuf Omari	8	3
CPA Humfrey Wanyama	8	5
CPA Beatrice Gathirwa	8	5
CPA Lewis Kamau	8	5
CPA Pius Nduatih	5	5
CPA Isaac Njuguna	4	3

Public Finance Committee

Members	Eligibility	Attendance
CPA Erastus Omolo	4	4
CPA Phillip Muema	4	3
CPA Francis Kamau	4	4
CPA Michael Koome	4	4
CPA Simon Kirui	4	3
CPA Priscilla Mathenge	4	3
CPA Lucy Yawe	4	1

Training and Development Committee

Members	Eligibility	Attendance
CPA Fenandes Barasa	3	3
CPA Margaret Ngatia	3	2
CPA George Obare	3	2
CPA Newton Gachondu	3	1
CPA Loice Shuma	3	2
CPA Wycliffe Temesi	3	0

Strategy Committee

Members	Eligibility	Attendance
CPA Rosemary Gituma	2	2
CPA Rosemary Wanyeki	2	1
CPA Elly Osewe	2	2
CPA Benard Siero	2	2
CPA Nicholas Letting	2	2
CPA Julius Mwangi	2	2
CPA Charles Gathuto	1	1

Finance & Administration/Shared Services Committee

Members	Eligibility	Attendance
CPA Kellen Kariuki*	3	3
CPA Felicitas Irungu	1	1
CPA Tom Omariba*	3	2
CPA Edwin Rono*	3	1
CPA Rashid Mohamed	1	1
CPA Jackson Ndula	4	4
CPA Wilson Chirchir	1	1
CPA Samuel Okello	1	0
CPA Doreen Mbogho	3	2

Audit, Risk and Governance Committee

Members	Eligibility	Attendance
CPA Joan Wambui Riitho	3	3
CPA Agnes Ogada	3	2
CPA George Rutto	3	3
CPA Renson Mwangola	3	3
CPA Nebert Avutswa	1	1
CPA Patrick Kimani	1	0
CPA Julius Mwangi*	2	2

Practitioners Development Committee

Members	Eligibility	Attendance
CPA Julius Mwatu	3	3
CPA Gabriel Wainaina	3	3
CPA Mike Mbaya	3	3
CPA Jacinta Mwendwa	3	3
Carol Mbuvi	3	2

Special Interest Committee

Members	Eligibility	Attendance
CPA Winnie Nyamute	3	3
CPA James Kidzuagane	3	3
CPA June Kivinda	3	3
CPA William Okari	3	1

* Retired June 2011

FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

CONTENTS

INSTITUTE INFORMATION

COUNCIL COMMITTEE AND CONVERNORS

Members of the Council

(Chairperson)
CPA Patrick M. Mtange

Vice Chairperson
CPA Benson O. Okundi

Members
CPA Abdulwahid M. H. Aboo
CPA Felicitas Irungu
CPA Joan W. N. Riitho
CPA Julius W. Mwatu
CPA Rosemary K. Gituma
CPA Geoffrey Malombe (representing Treasury)
CPA Pius Nduatih (representing KASNEB)
CPA Wycliffe Shamiah (representing CMA)

Retired
CPA Michael M. Itote Chairperson
CPA Anne E. Owuor
CPA Kellen Kariuki
CPA Kariithi Murimi (representing KASNEB)
CPA Philip Ndungu (representing Treasury)

Chief Executive &
Secretary to the Council
CPA Caroline J. Kigen

KCA University representatives

Board of trustees
CPA Patrick Mtange

Finance committee
CPA Abdulwahid M. H. Aboo

Audit risk and governance committee
CPA Anne E. Owuor

Council committees and convernors

Accountability, governance and advisory
CPA Patrick Mtange

Audit risk and compliance
CPA Joan W. N. Riitho

Disciplinary
CPA Jonathan Ciano

Financial services
CPA Kang'e Saiti

Practitioners development
CPA Julius W. Mwatu

Professional standards
CPA Benson O. Okundi

Public finance
CPA Erastus Omolo

Registration and quality assurance
CPA Dr. Jim Mc Fie

Shared services
CPA Felicitas Irungu

Special interest
CPA Winnie Nyamute

Strategy services
CPA Rosemary K. Gituma

Training and development
CPA Fernandes Barasa

REPORT OF THE COUNCIL FOR THE YEAR ENDED 31 DECEMBER 2011

1 Incorporation

The Institute of Certified Public Accountants of Kenya (ICPAK) is a body corporate established in 1978 under the provisions of the Accountants Act, Chapter 531 of the Laws of Kenya (Re-enacted as Accountants Act No. 15 of 2008) and is domiciled in Kenya. The address of the registered office is as set out on the back cover page.

2 Principal activities

The principal activities of the Institute are to promote standards of professional competence and practice amongst members of the Institute; to promote research into the subject of Accountancy and Finance and related matters, and the publication of books, periodicals, journals and articles in connection therewith; to promote international recognition of the Institute and the CPA (K) brand;advise the Kenya Accountants and Secretaries National Examination Board (KASNEB) on matters relating to examinations standards and policies; and to advise the Minister responsible for finance on matters relating to financial accountability in all sectors of the economy.

3 Membership

	2011 No.	2010 No.
Active members at end of year	7,363	6,041
Existing members at invoice date		
Practising	862	991
Non practising	4,482	3,410
Overseas	419	466
Retired	354	114
New members in the year	1,334	1,503
	7,451	6,484
Subscription debtors written off	(349)	(467)
Subscription debtors recovered	261	24
Active members at end of year	7,363	6,041

Active members are those members who owe less than two years subscription fees as at year end.

4 Results for the year

	2011 Kshs.	Restated 2010 Kshs.
Surplus for the year transferred to general fund	18,123,636	43,841,207

5 Financial statements

At the date of this report, the Council was not aware of any circumstances which would have rendered the values attributed to the assets in the financial statements misleading.

6 Auditor

The Institute's auditor MAZARS, Certified Public Accountants (K) (formerly KOKA Koimburi & Co.) has indicated willingness to continue in office.

By order of the Council

Caroline J Kigen

CPA CAROLINE J. KIGEN
Secretary to the Council

23rd March 2012

STATEMENT OF COUNCIL'S RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2011

The Accountants Act No. 15 of 2008 requires the Council to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Institute, as at the end of the financial year and of its operating results for the year. It also requires the Council to ensure that the Institute keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Institute. The Council is also responsible for safeguarding the assets of the Institute.

The Council accepts responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. It also accepts responsibility for:
i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
ii) selecting and applying appropriate accounting policies; and
iii) making accounting estimates and judgements that are reasonable in the circumstances.

The Council is 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 31 December 2011 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Accountants Act No. 15 of 2008.

Nothing has come to the attention of the Council 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 Council on 23rd March 2012 and signed on its behalf by:-

Patrick M Mtange

Chairman

Felicitas K Iwunga

Council Member

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF KENYA

Report on the financial statements
We have audited the accompanying financial statements of the Institute of Certified Public Accountants of Kenya, set out on pages 46 to 76 which comprise the statement of financial position as at 31 December 2011 and the statement of 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.

The Council's responsibility for the financial statements
The Council is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Accountants Act No. 15 of 2008; and for such internal control as Council determines is necessary to enable 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 independent opinion on these financial statement based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 risks of material misstatement of financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 opinion.

Opinion
In our opinion the accompanying financial statements give a true and fair view of the state of financial affairs of the Institute as at 31 December 2011 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Accountants Act No. 15 of 2008.

Mazars

MAZARS
Certified Public Accountants (K)
CPA Owen Koimburi

Nairobi. 23rd March **2012**

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

STATEMENT OF COMPREHENSIVE INCOME

	Note	2011 Kshs.	Restated 2010 Kshs.
Income			
Subscriptions	4	99,396,487	91,491,646
Member services	5 (a)	100,341,263	91,885,856
CPA Centre	6 (a)	18,340,791	19,250,473
Discontinued operations (net income)	6 (c)	12,096,001	2,066,456
Social responsibility	7 (a)	1,326,950	1,141,334
		231,501,492	205,835,765
Expenses			
Member services	5 (b)	57,283,274	58,329,060
CPA Centre	6 (b)	7,039,138	5,332,908
Social responsibility	7 (b)	1,346,366	1,011,227
Operating expenses	8	155,700,774	122,622,840
		221,369,552	187,296,035
Operating surplus		10,131,940	18,539,730
Other income	9	7,991,696	15,380,363
Surplus before re-branding & redundancy		18,123,636	33,920,093
Corporate branding	10	-	(6,535,363)
CPA Centre redundancy costs	11	-	(9,246,573)
Surplus before other comprehensive income		18,123,636	18,138,157
Other comprehensive income			
Revaluation surplus	12	-	29,021,429
Impairment of property and equipment	12	-	(3,318,379)
Surplus for the year	13	18,123,636	43,841,207

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2011

STATEMENT OF FINANCIAL POSITION

	Note	2011 Kshs.	Restated 2010 Kshs.
ASSETS			
Non current assets			
Property and equipment	12	107,386,108	90,751,044
Investment property	14	16,000,000	16,000,000
Prepaid operating lease rental	15	3,912,398	4,042,819
Investment in CPA Centre Limited	16	50,020	50,020
		127,348,526	110,843,883
Current assets			
Inventories	17	827,400	1,141,540
Trade and other receivables	18	80,083,597	71,056,521
Cash and cash equivalents	19	121,049,464	114,422,429
		201,960,461	186,620,490
Non current assets held for sale	20	85,506,354	83,656,354
Total assets		414,815,341	381,120,727
EQUITY AND LIABILITIES			
Equity			
General fund		255,971,296	235,764,228
Revaluation reserve	21	65,822,688	67,886,704
Designated fund	22	5,312,608	5,332,024
		327,106,592	308,982,956
Non current liabilities			
Due to CPA Centre Limited	26	50,020	50,020
Current liabilities			
Trade and other payables	23	28,776,653	19,575,937
CPA Centre sale deposit	24	34,000,000	34,000,000
Deferred subscriptions	25	24,882,076	18,511,814
		87,658,729	72,087,751
Total equity and liabilities		414,815,341	381,120,727

The financial statements on pages 46 to 76 were authorised for issue by the Council on 23rd March 2012 and were signed on its behalf by:

Patrick M Mtange
Chairman

Felicitas A iwungai
Council Member

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

STATEMENT OF CHANGES IN EQUITY

	Note	General fund Kshs.	Revaluation reserve Kshs.	Designated fund Kshs.	Total Kshs.
At 1 January 2010		216,347,194	43,592,638	5,201,917	265,141,749
Changes in equity in 2010					
Excess depreciation		1,408,984	(1,408,984)	-	-
Surplus for the year		43,841,207	-	-	43,841,207
Revaluation surplus		(29,021,429)	29,021,429	-	-
Property and equipment impaired	12	3,318,379	(3,318,379)	-	-
Surplus from social responsibilty	7	(130,107)	-	130,107	-
At 31 December 2010 - Restated		235,764,228	67,886,704	5,332,024	308,982,956
At 1 January 2011		234,355,244	65,374,259	5,332,024	305,061,527
Prior year adjustments	32				
- Depreciation write back		-	3,921,429	-	3,921,429
- Excess depreciation		1,408,984	(1,408,984)	-	-
As restated		235,764,228	67,886,704	5,332,024	308,982,956
Changes in equity in 2011					
Excess depreciation		2,064,016	(2,064,016)	-	-
Surplus for the year		18,123,636	-	-	18,123,636
Deficit from social responsibilty	7	19,416	-	(19,416)	-
At 31 December 2011		255,971,296	65,822,688	5,312,608	327,106,592

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

STATEMENT OF CASH FLOWS

	Note	2011 Kshs.	Restated 2010 Kshs.
Cash flows from operating activities:			
Surplus for the year	13	18,123,636	43,841,207
Adjustments for:			
Depreciation on property and equipment	8	4,995,949	4,476,302
Amortisation of prepaid operating lease rental	8	130,421	130,421
Amortisation of intangible assets	8	-	879,949
Fair value gain on investment property	9	-	(7,400,000)
Revaluation surplus	12	-	(29,021,429)
Impairment of property and equipment			3,318,379
Loss on disposal of property and equipment		53,084	7,246
Interest income	9	(7,291,696)	(7,980,363)
Surplus before working capital changes		16,011,394	8,251,712
Decrease in inventories	17	314,140	222,742
Increase in trade and other receivables	18	(9,027,076)	(28,621,616)
Increase/(decrease) in trade and other payables	23	9,200,716	(4,147,975)
Increase in deferred income	25	6,370,262	3,342,814
Increase in deposits	24	-	34,000,000
		22,869,436	13,047,677
Interest income	9	7,291,696	7,980,363
Net cash generated from operating activities		30,161,132	21,028,040
Cash flows from investing activities:			
Purchase of property and equipment	12	(2,145,900)	(2,002,833)
Proceeds from sale of property and equipment		39,200	-
Insurance compensation on computers		107,650	171,275
Work in progress	12	(19,685,047)	(3,240,068)
Land sub division costs	20	(1,850,000)	(738,978)
Net cash used in investing activities		(23,534,097)	(5,810,604)
Increase in cash and cash equivalents		6,627,035	15,217,436
At the start of the year		114,422,429	99,204,993
At end of the year	19	121,049,464	114,422,429

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES

1. Summary of 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 over the years presented unless otherwise stated.

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

a) Basis of preparation

The financial statements comprise a statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, and notes. Income and expenses,excluding the components of other comprehensive income, are recognised in the statement of comprehensive income. Other comprehensive income is recognised in the statement of comprehensive income and comprises items of income and expenses (including reclassification adjustments) that are not recognised in the statement of comprehensive income as required or permitted by IFRS. Reclassification adjustments are amounts reclassified in profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods.

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 it's judgment in the process of applying the accounting policies adopted by the Institute. Although such estimates and assumptions are based on the Council's best knowledge of the information available, actual results may differ from those estimates. The judgments 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 judgments 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.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

b) New and revised standards

Adoption of new and revised standards

The following new and revised standards and interpretations have become effective for the first time and have been adopted by the Institute where relevant to it's operations:

- IAS 24:Related Party Disclosures – In November 2009, IASB issued a revised version of IAS 24:Related Party Disclosures. The standard aims to ensure that financial reporting on thepossibility that the financial position of an entity and its economic performance could have been affected by the existence of related parties and transactions, balances, and commitments with such parties. The main changes in the standard are;inclusion of "commitments" with related parties among transaction to be disclosed. Disclosure is now required not only for the separate financial statements but also for the Consolidate and Individual financial statements.The new standard has a definition of "related party" which has been amended and simplified from the previous standard. Finally, the amended standard has a simplified disclosure requirement dedicated to "government-related entities". The revised IAS 24: Related Party disclosure was effective from period beginning on or after 1January 2011.

- IAS 32 (amendment) - Classification of rights issues – The amendments requires that "rights,options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amounts of any currency are equity instruments if the entity offers the rights, options or warrants pro rate to all of its existing owners of the same class of its own non-derivative equity instruments". This is a very narrow amendment and does not extend to other instruments that grant the holder the right to purchase the entity's own equity instruments such as the conversion feature in convertible bonds. The amendment was effective for annual periods beginning on or after 1 February 2010.

- IFRIC 14 (amendment) - Prepayments of a minimum funding requirement – The amendment to IFRIC 14 removes the unintended consequences arising from treatment of prepayments arising when there is a minimum funding requirement (MFR). The amendment results in prepayments of contribution in certain circumstances being recognized as an asset rather than an expense. The amendment was effective for annual periods beginning on or after 1 January 2011.

- IFRIC 19 - Extinguishing financial liabilities with equity instruments – The standard provides accounting guidance where a financial liability is extinguished by the issue of equity instruments, often referred to as a debt for equity swap. IFRIC 19 clarifies how such transactions are accounted for under IFRSs, and is aimed at eliminating diversity in practice.The Interpretation further provides guidance for the accounting treatment to be applied by the issuer of the equities (the debtor). In this situation, IFRIC 19 provide that the equity instrument issued should be measured at fair value; and where fair value can't be measured reliably, measurement should reflect the fair value of the liability extinguished. Any difference between the financial liability extinguished and the measurement of the equity instruments is recognized in profit or loss.

The adoption of the above where relevant has had no material effect on the Institute's accounting policies or disclosures.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

1.Summary of significant accounting policies (continued)

b) New and revised standards (Continued)

New and revised standards and interpretations in issue but not yet effective

At the date of authorisation of these financial statements, the following revised standards and interpretations were in issue but not yet effective. The Institute has not early adopted any of these revised standards, amendments and interpretations:

- IAS 12 (Amendment) - Income Taxes: the amendment requires that a rebuttable presumption be made that the carrying value of investment property carried at fair value will be recovered through sale. It is effective for accounting periods beginning on or after 1st January 2012.
- IFRS 7 (Amendment) - Disclosures-Transfers of financial assets: The amendments improve the disclosure requirements in relation to transferred financial assets and are effective for accounting periods beginning on or after 1st July 2011.
- IAS 1 (Amendment) - Presentation of financial statements: the amendment will require entities to group items of other comprehensive income according to whether or not they will be subsequently reclassified to profit or loss. It is effective for accounting periods beginning on or after 1st July 2012.
- IAS 19 (Amendment) - Employee Benefits: The key amendments include elimination of the 'corridor approach', modification of accounting for termination payments, and changes to the disclosure requirements for defined benefit plans. The amendments are effective for accounting periods beginning on or after 1st January 2013.
- IFRS 9 – Financial Instruments will eventually replace IAS 39 – Financial Instruments, Recognition and Measurement. The new standard will be effective for annual periods beginning on or after 1st January 2015. The chapters published to date cover recognition, derecognition, classification and measurement of financial assets and financial liabilities. Most gains or losses on financial assets measured at fair value will then be recognised in profit or loss, but the Institute will be able to make an irrevocable election to present changes in fair value of investments in equity instruments in other comprehensive income.
- IAS 27 (Revised) – Separate Financial Statements; IAS 28 (Revised) Investments in Associates and Joint Ventures; IFRS 10 – Consolidated Financial Statements; IFRS 11 – Joint Arrangements; IFRS 12 –Disclosure of Interests in Other Entities: these revised and new standards become effective for accounting periods beginning 1st January 2013, and have to be adopted simultaneously if adopted earlier. IFRS 10 establishes new principles of control, which determines whether an investee should be consolidated: it replaces parts of IAS 27, which will then deal only with separate financial statements of a parent, and SIC 12 – Consolidation of Special Purpose Entities. IFRS 11 establishes new principles for determining the nature of a joint arrangement, and eliminates the 'proportionate consolidation' method for joint ventures.

  The revised IAS 28 deals with the application of the equity method of accounting for associates and joint ventures. IFRS 12 sets out revised disclosure requirements for subsidiaries, joint arrangements, associated and unconsolidated structured entities.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

1.Summary of significant accounting policies (continued)

b) New and revised standards (Continued)

New and revised standards and interpretations in issue but not yet effective

- IFRS 13 – Fair Value Measurement: the new standard defines fair value, sets out a framework for measuring fair value, and requires disclosures about fair value measurements. IFRS 13 applies when other standards require or permit fair value measurements: it does not introduce any new requirements to measure an asset or a liability at fair value. The new standard is effective for accounting periods beginning on or after 1st January 2013.
- IFRIC 20 – Stripping costs in the production phase of a surface mine: the Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. The Interpretation is effective for accounting periods beginning on or after 1st January 2013.

  Where applicable to the Institute, the Council of the Institute has assessed the potential impact of the above and expect that they will not have a significant impact on the Institute's financial statements for 2012.

c) Foreign currency transactions

Transactions in foreign currencies during the year are converted into Kenya Shillings (functional currency) at rates ruling at the transaction dates. Assets and liabilities at the statement of financial position date 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 statement of comprehensive income in the year in which they arise.

d) Revenue recognition

i) Subscription income from active members is recognised in the year in which it is due.
Active members are considered to be those members:
- who are up to date with their subscription; and/or
- owing less than two years.

ii) Subscription income from other members is recognised when it is received and is treated as recovery

iii) Member services income is recognised upon service delivery.

iv) Rental income is recognised in the period it falls due.

v) Interest income is recognised on a time proportion basis using the effective interest method.

vi) Hostel income is recognised upon service delivery, net of VAT and discounts.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

1.Summary of significant accounting policies (continued)

e) Property, equipment and depreciation

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

Buildings, land improvement and furniture and fittings are subsequently shown at market value, based on periodic valuations carried out by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

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 the statement of comprehensive income during the financial year in which they are incurred.

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated under revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to the statement of comprehensive income. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the statement of comprehensive income) and depreciation based on the asset's original cost is transferred from the revaluation reserve to the general fund.

Depreciation is calculated on the straight-line basis to write down the cost of each asset, or the revalued amount, to its residual value over it's estimated useful life using the following rates:

Buildings	Over the42 year term of the leasehold land
Land improvements	20 years
Equipment	4 years
Computers	4 years
Furniture and fittings	10 years

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 and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining the surplus for the year. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to the general fund.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

1.Summary of significant accounting policies (continued)

f) Intangible assets

Computer software

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful life of three years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Institute, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development,staff costs and an appropriate portion of relevant overheads.

g) Investment property

Investment property is property held to earn rentals. It is a long-term investment in buildings that are not occupied substantially for own use. Investment property is initially recognised at cost and subsequently carried at fair value representing open market value at the reporting date as determined by independent registered valuers who hold a recognised and relevant professional qualification and have recent experience in the location and category of investment property being valued. Changes in fair value are recorded in the statement of comprehensive income.

Subsequent expenditure on investment property where such expenditure increases the future economic value in excess of the original assessed standard of performance is added to the carrying amount of the investment property. All other expenditure is recognised as an expense in the year in which it is incurred.

Gains and losses on disposal of investment property are determined by reference to their carrying amount and are taken into account in determining operating surplus.

h) Impairment of Non current assets

Internal and external sources of information are reviewed at each reporting date to identify indications that assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the higher of it's fair value less costs to sell and value in use. An impairment loss is recognised in the statement of comprehensive income whenever the carrying amount of an asset exceeds its recoverable amount.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and which results in an increase in the recoverable amount. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the statement of comprehensive income in the year in which the reversals are recognised.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

1.Summary of significant accounting policies (continued)

i) Financial instruments

Classification

The Institute classifies its financial instruments into the following categories:

Loans and receivables, which comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and excludes assets which the entity intends to sell immediately or in the near term or those which the entity upon initial recognition designates as at fair value through profit or loss or as available-for-sale financial assets.

Financial liabilities, which comprise all financial liabilities except financial liabilities at fair value through profit or loss.

Recognition and measurement

Financial assets

Financial assets are initially recognised at fair value. The Institute's financial assets which include cash and cash equivalents and receivables fall into the following categories:

Cash and cash equivalents: For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and short term marketable securities.

Receivables: Receivables are carried at original invoiced amount less an estimate made for doubtful debts based on a review of all outstanding amounts at the year-end. Bad debts are written off in the year in which they are identified. Subsequent recoveries of amounts previously written off are credited to income in the year of their recovery.

Financial liabilities

Financial liabilities including trade and other payables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

1.Summary of significant accounting policies (continued)

j) Employee benefits

Pension obligations

The Institute operates a defined contribution staff retirement benefit scheme for its employees. The scheme is administered by Insurance Company of East Africa and is funded by contributions from both the Institute and the employees. The Institute's contributions to the defined contribution retirement benefit scheme are charged to the statement of comprehensive income in the year in which they relate.

The Institute and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The Institute's contributions to the defined contribution scheme are charged to the statement of comprehensive income in the year to which they relate.

Employees entitlements

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

k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in-first-out (FIFO) method. Net realisable value is the estimate of the selling price in the ordinary course of business, less the selling expenses.

l) Leases

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases.

Amortisation of prepaid operating lease rentals is charged to the statement of comprehensive income on a straight line basis over the 42 year term of the leasehold land.

m) Non-current assets held for sale and discontinued operations

Non-current assets are classified as held for sale when the sale is highly probable and the noncurrent asset is available for immediate sale in its present condition.

Operations are classified as discontinued when cessation of such operations is highly probable.

Management must be committed to the sale or cease of operations, which should be expected to qualify for recognition as a completed sale or cessation within one year from the date of classification.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

1. Summary of significant accounting policies (continued)

n) Deferred subscriptions

Deferred subscriptions (also known as deferred/unearned income) are subscription fees received from members for subsequent periods as at year end. They are recorded as a liability until the fees are due, at which time they are recognised as income.

o) Cash and cash equivalents

Cash and cash equivalents include cash in hand and demand and term deposits, with maturities of 12 months or less from the date of acquisition, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts. In the statement of financial position, bank overdrafts are included as borrowings under current liabilities.

2.Significant judgements and key sources of estimation uncertainty

In the process of applying the accounting policies adopted by the Institute, the Council makes certain judgements and estimates that may affect the carrying values of assets and liabilities in the next financial period. Such judgements and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. The Council evaluates at each financial reporting date to ensure that they are still reasonable under the prevailing circumstances based on the information available.

i) Critical accounting estimates and assumptions

Property and equipment

Critical estimates are made by the Council in determining depreciation rates for property and equipment and amortisation of intangible assets. The depreciation and amortisation rates used are set out in policy 1 (e) and 1 (f) above respectively.

ii) Significant judgements in applying the entity's accounting policies

In the process of applying the Institute's accounting policies, the Council has made judgements in determining:

- Whether assets are impaired
- The classification of financial assets
- The going concern

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

3.Risk management objectives and policies

a) Financial risk management

The Institute's activities expose it to a variety of financial risks including credit, liquidity and market risks. Risk management is carried out by the shared services committee under policies approved by the Council. The policies focus on the unpredictability of changes in the business environment and seek to minimise the potential adverse effects of such risks on the Institute's performance by setting acceptable levels of risk. The Institute does not hedge against any risks.

i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from cash and cash equivalents, as well as credit exposures to customers, including outstanding receivables.

Credit risk on trade receivables is managed by ensuring that credit is extended to customers with a established credit history. The credit history is determined by taking into account the financial position, past experience and other relevant factors. Credit is managed by setting the credit limit and the credit period for each customer. The utilisation of the credit limits and the credit period is monitored by management on a monthly basis.

The maximum exposure of the Institute to credit risk as at the statement of financial position date is as follows:

	Fully performing Kshs.	Past due but not impaired Kshs.	Past due and impaired Kshs.	Total Kshs.
31 December 2011				
Financial assets				
Subscription receivables	-	5,913,688	-	5,913,688
Other receivables	14,553,103	59,616,806	-	74,169,909
Cash at bank	121,049,464	-	-	121,049,464
Gross financial assets	135,602,567	65,530,494	-	201,133,061
31 December 2010				
Financial assets				
Subscription receivables	-	6,624,575	-	6,624,575
Other receivables	26,052,265	38,379,681	-	64,431,946
Cash at bank	114,422,429	-	-	114,422,429
Gross financial assets	140,474,694	45,004,256		185,478,950

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

3.Risk management objectives and policies (continued)

a) Financial risk management (continued)

i) Credit risk (continued)

The ageing analysis of past due but not impaired trade receivables is:

	2011 Kshs.	2010 Kshs.
3 - 12 months	27,732,133	20,728,867
Over 12 months	37,798,361	24,275,389
	65,530,494	45,004,256

The past due debtors mainly comprise amount owed by related party. These are not impaired and continue to be paid. The Institute does not hold any collateral against the past due or impaired receivables. The management continues to actively follow up past due and impaired receivables.

ii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents to meet obligations as they fall due. The management ensures that adequate cash reserves are maintained to pay off liabilities as they crystallise. Financial assets are held in short term fixed deposits maturing within 3 and 12 months.

The current ratio during the year was 2.30 (2010: 2.59).

The table below summarises the maturity analysis for financial liabilities to their remaining contractual maturities.

	Between 1 - 3 months Kshs.	Between 3 - 12 months Kshs.	Over 12 months Kshs.
31 December 2011			
Trade and other payables	15,341,321	13,435,332	-
31 December 2010			
Trade and other payables	12,812,482	6,763,455	-

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

3.Risk management objectives and policies (continued)

a) Financial risk management (continued)

iii) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises three types of risks: currency risk, interest rate risk and other price risk.

Interest rate risk

The Institute's interest rate risk arises from short term bank deposits because of changes in market interest rates.
If the interest rates on the Institute's short term bank deposits at the year-end were to increase/decrease by 5%, with all other factors remaining constant, the surplus for the year would be lower/higher by Kshs. 368,175.

Currency risk

Currency risk arises on financial instruments that are denominated in foreign currency.
The Institute has no trade receivables, nor trade payables, nor borrowings which are denominated in foreign currency as at the reporting date.

b) Financial risk management

The Institute's objective in managing its equity is to ensure that it supports the development of its business and is able to continue as a going concern. The Institute is not subject to any external equity or capital requirements.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

4.Subscriptions income

	2011 Kshs.	2010 Kshs.
Active members at beginning of year		
Practising	17,136,250	20,375,000
Non practising	44,780,250	34,100,000
Overseas	3,259,250	3,611,500
Retired	1,293,750	420,000
Registration and licence fees	8,499,500	9,669,917
New members in the year	23,950,000	27,441,250
	98,919,000	95,617,667
Subscription debtors written off	(6,364,173)	(4,745,521)
Subscription debtors recovered	6,841,660	619,500
Active members at end of year	99,396,487	91,491,646

Subscription debtors written off represents the value of 2011 subscriptions due from members owing more than two years that remain unpaid at the reporting date. This is in accordance with the accounting policyon revenue recognition (set out in policy 1 (d) above).

5.Member services

	2011 Kshs.	2010 Kshs.
(a) Income		
Annual seminar	45,021,302	37,546,434
Economic symposium	3,533,659	3,627,270
Monthly seminars/video sessions	23,037,116	28,609,282
Managerial seminar	8,759,550	4,798,173
Internal audit conference	10,426,385	9,696,429
Executive retreat	5,589,350	5,777,430
Sale of publications	1,177,650	1,420,810
E-Connect advertising	383,132	410,028
ACOA Conference (net income)	2,413,119	-
	100,341,263	91,885,856
(b) Expenses		
Annual seminar	21,940,967	23,116,449
Economic symposium	2,747,316	2,673,429
Monthly seminars/video sessions	19,095,778	18,735,934
Managerial seminar	4,208,717	2,730,296
Internal audit conference	4,585,288	4,616,027
Executive retreat	3,923,915	5,346,963
Sale of publications	781,293	1,109,962
	57,283,274	58,329,060
Surplus from member services	43,057,989	33,556,796

The expenses exclude direct staff salaries and other related expenses.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

6. CPA Centre

	2011 Kshs.	2010 Kshs.
(a) Income		
Rent	4,933,114	4,933,114
Hostel occupancy	13,407,677	14,317,359
	18,340,791	19,250,473
(b) Expenses		
CPA Centre operating expenses (Note 8)	-	2,753,940
Hostel occupancy	7,039,138	2,578,968
	7,039,138	5,332,908
Surplus from CPA Centre	11,301,653	13,917,565

(c) Discontinued operations

The following net income will form part of discontinued operations upon the finalisation of the sale of part of the CPA Centre:

	2011 Kshs.	2010 Kshs.
Income		
Rent	12,096,001	24,353,288
Hire of grounds	-	29,029
Food and beverage	-	12,216,108
	12,096,001	36,598,425
Expenses		
CPA Centre operating expenses (Note 8)	-	24,785,460
Food and beverage	-	9,746,509
	-	34,531,969
Net income forgone from discontinued operations	12,096,001	2,066,456

Discontinued operations exclude operating expenses in respect of services offered to both ICPAK and KCA University on a cost sharing basis. The staff offering the services were laid off and the services transferred to KCA University.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

7. Social responsibility

	2011 Kshs.	2010 Kshs.
(a) Income		
Golf tournament	1,326,950	1,141,334
(b) Expenses		
Golf tournament	1,346,366	1,011,227
(Loss)/surplus from social responsibilty activities	(19,416)	130,107

Charity fund is the net proceeds from an annual charity golf tournament. These proceeds are utilised in funding various corporate social responsibility activities other than educating needy students.

8. Operating expenses

	2011 Kshs.	2010 Kshs.
Institute expenses	155,700,774	122,622,840
CPA Centre expenses - continued operations (note 6)	-	2,753,940
- discontinued operations (note 6)	-	24,785,460
	155,700,774	150,162,240

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

8 . Operating expenses

	Institute		CPA Centre		Total expenses	
	2011 Kshs.	2010 Kshs.	2011 Kshs.	2010 Kshs.	2010 Kshs.	2010 Kshs.
Salaries and other related (Note 27)	87,171,818	67,239,105	-	8,807,550	87,171,818	76,046,655
Staff meetings and welfare	2,654,089	2,975,082	-	7,717	2,654,089	2,982,799
Staff training	2,158,615	1,270,691	-	-	2,158,615	1,270,691
Council and committee	8,352,843	7,269,002	-	-	8,352,843	7,269,002
Stakeholder management	17,703,482	14,399,032	-	-	17,703,482	14,399,032
Journal (net of cost recoveries)	6,035,223	5,054,583	-	-	6,035,223	5,054,583
Depreciation on property and equipment	4,995,949	613,821	-	3,862,481	4,995,949	4,476,302
Printing and stationery	4,726,546	4,185,591	-	31,961	4,726,546	4,217,552
Electricity and water	2,320,992	-	-	8,347,802	2,320,992	8,347,802
Telephones and postages	2,269,733	3,309,861	-	76,274	2,269,733	3,386,135
Marketing and corporate communication	2,902,655	2,997,494	-	-	2,902,655	2,997,494
Practitioners development	2,139,588	1,020,766	-	-	2,139,588	1,020,766
Shared services	2,533,178	3,439,839	-	373,622	2,533,178	3,813,461
FiRe Award	1,500,000	1,000,000	-	-	1,500,000	1,000,000
Audit quality review (net of cost recoveries)	1,374,792	922,108	-	-	1,374,792	922,108
Computer and website	2,017,179	3,507,974	-	-	2,017,179	3,507,974
Governance and advocacy	1,074,039	-	-	-	1,074,039	-
Bank charges	975,004	769,558	-	59,351	975,004	828,909
Disciplinary measures	932,521	737,286	-	-	932,521	737,286
Audit fees	931,540	762,833	-	-	931,540	762,833
Equipment maintenance	638,154	80,007	-	1,502,608	638,154	1,582,615
Amortisation of prepaid operating lease rental	130,421	-	-	130,421	130,421	130,421
Insurance	87,329	181,012	-	563,743	87,329	744,755
Loss on disposal of property and equipment	53,084	7,246	-	-	53,084	7,246
Allowance for credit losses	22,000	-	-	-	22,000	-
Cleaning and refuse services	-	-	-	2,155,730	-	2,155,730
Security	-	-	-	1,620,140	-	1,620,140
Amortisation of intangible assets	-	879,949	-	-	-	879,949
	155,700,774	122,622,840	-	27,539,400	155,700,774	150,162,240

CPA Centre expenses were costs incurred before discontinued operations under CPA Centre which was a trading division of the Institute.

The former trading division of the Institute(CPA Centre) is not related to CPA Centre Limited referred to in Note 16.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

9 .Other income

	2011 Kshs.	2010 Kshs.
Interest	7,291,696	7,980,363
Fair value gain on investment property	-	7,400,000
Sale of e-voting system	700,000	-
	7,991,696	15,380,363

Interest Income: Income received from short term bank deposits held in various banks.
Fair value gain on investment property (Note 14).

10 .Corporate branding

This related to development, advertisement and launch of the new ICPAK logo.

11 .CPA Centre redundancy costs

These were costs incurred following discontinued operations under CPA centre which resulted in redundancy.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

12. Property and equipment

	Buildings Kshs.	Equipment Kshs.	Computers Kshs.	Furniture and fittings Kshs.	Total Kshs.
Cost and valuation					
At 1 January 2010	54,900,000	10,294,041	5,741,349	9,894,004	80,829,394
Depreciation write back	(3,921,429)	-	-	-	(3,921,429)
	50,978,571	10,294,041	5,741,349	9,894,004	76,907,965
Additions	-	160,800	1,321,200	520,833	2,002,833
Work in progress	3,240,068	-	-	-	3,240,068
Revaluation surplus	29,021,429	-	-	-	29,021,429
Impairment	-	(315,478)	-	(4,123,428)	(4,438,906)
Disposals	-	-	(442,519)	-	(442,519)
At 31 December 2010	83,240,068	10,139,363	6,620,030	6,291,409	106,290,870
At 1 January 2011	83,240,068	10,139,363	6,620,030	6,291,409	106,290,870
Additions	-	939,100	842,587	364,213	2,145,900
Work in progress	19,685,047	-	-	-	19,685,047
Disposals	-	(202,641)	(201,568)	(43,500)	(447,709)
At 31 December 2011	102,925,115	10,875,822	7,261,049	6,612,122	127,674,108
Depreciation					
At 1 January 2010	2,614,286	8,135,016	3,266,078	2,354,098	16,369,478
Disposals	-	-	(263,998)	-	(263,998)
Impairment	-	(295,841)	-	(824,686)	(1,120,527)
Charge for the year	1,307,143	1,614,802	940,536	613,821	4,476,302
Depreciation write back	(3,921,429)	-	-	-	(3,921,429)
At 31 December 2010 - Restated	-	9,453,977	3,942,616	2,143,233	15,539,826
At 1 January 2011	3,921,429	9,453,977	3,942,616	2,143,233	19,461,255
Prior year adjustment (Note 32)					
- Depreciation write back	(3,921,429)	-	-	-	(3,921,429)
As restated	-	9,453,977	3,942,616	2,143,233	15,539,826
Disposals	-	(190,192)	(36,973)	(20,610)	(247,775)
Charge for the year	2,666,667	464,794	1,212,838	651,650	4,995,949
At 31 December 2011	2,666,667	9,728,579	5,118,481	2,774,273	20,288,000
Net book value					
At 31 December 2011					
- Cost and valuation	100,258,448	1,147,243	2,142,568	3,837,849	107,386,108
- Cost	44,787,973	1,147,243	2,142,568	2,669,885	50,747,669
At 31 December 2010 - Restated					
- Cost and valuation	83,240,068	685,386	2,677,414	4,148,176	90,751,044
- Cost	25,705,577	685,386	2,677,414	2,980,212	32,048,589

2010: Impairement and revaluation- In the opinion of the Council the recoverable amount of certain capital items in the class of equipment and furniture & fittings were found to be lower than the carrying amounts and were impaired.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

13. Surplus for the year

	2011 Kshs.	2010 Kshs.
The surplus for the year is stated after charging:		
Staff costs	87,171,818	76,046,655
Depreciation on property and equipment	4,995,949	4,476,302
FiRe Award	1,500,000	1,000,000
Audit fees	931,540	762,833
Amortisation of prepaid operating lease rental	130,421	130,421
Loss on disposal of property and equipment	53,084	7,246
Allowance for credit losses	22,000	-
Amortisation of intangible assets	-	879,949
Corporate branding	-	6,535,363
CPA Centre redundancy costs	-	9,246,573
And after crediting:		
Interest income	7,291,696	7,980,363
Fair value gain on investment property	-	7,400,000
Revaluation surplus	-	29,021,429

14. Investment property

	2011	2010
At January	16,000,000	8,600,000
Fair value gain	-	7,400,000
At December	16,000,000	16,000,000
Rental income from investment property	4,897,114	4,897,114

Investment property generated a rental income of Kshs. 4,933,114 (2010: Kshs. 4,933,114). There were no direct operating expenses (2010:Nil).

There was no valuation of investment property carried out during the year. The Council was of the view that there was no significant change in property value from previous year. (2010: Value of investment property is per valuation carried out during the year by Realmast Limited - an independent registered valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of investment property being valued, based on an open market value on 17 December 2010).

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

15. Prepaid operating lease rental

		2011 Kshs.	2010 Kshs.
Leasehold land:			
Cost	At January	5,477,689	5,477,689
	At December	5,477,689	5,477,689
Amortization At January		1,434,870	1,304,449
Charge for the year		130,421	130,421
At December		1,565,291	1,434,870
Net book value		3,912,398	4,042,819

The fair value of the assets classified as prepaid operating lease rentals is Kshs. 105,000,000 based on an open market valuation carried out on 17 December 2010 by Realmast Limited (an independent registered valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of investment property being valued).

The prepaid operating lease rental are amortised over the 42 year term of the leasehold land.

16. Investment in CPA Centre Limited

	2011 Kshs.	2010 Kshs.
Investment in CPA Centre Limited	50,020	50,020

The Institute is a beneficial owner of CPA Centre Limited with a direct shareholding of 50.02% of the issued share capital. The investment comprises of 10,004 shares of KShs. 5 each. This company did not trade during the year.

17. Inventories

	2011 Kshs.	2010 Kshs.
Food items	-	13,833
Beverage	-	9,948
Cleaning and other materials	-	333,477
Other inventories	-	556,132
Books	827,400	228,150
	827,400	1,141,540

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

18 .Trade and other receivables

	2011 Kshs.	2010 Kshs.
Subscription receivables	14,355,985	20,314,959
Less: Transfer to non-active category	(8,442,297)	(13,690,384)
Net subscription receivables	5,913,688	6,624,575
Other Institute receivables	17,757,349	21,894,891
Deposits and prepayments	290,748	1,511,240
Staff receivables	18,402	-
Related party receivables (Note 26)	53,447,524	35,573,410
FiRe Award fund	2,655,886	796,531
African Congress of Accountants fund	-	4,655,874
	80,083,597	71,056,521

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Institute does not hold any collateral as security.The age analysis of trade and other receivables is as follows:

	0 - 3 months Kshs.	3 - 12 months Kshs.	over 12 months Kshs.	Total Kshs.
Net subscription receivables	-	5,913,688	-	5,913,688
Other Institute receivables	8,068,529	8,492,900	1,195,920	17,757,349
Deposits and prepayments	58,248	-	232,500	290,748
Staff receivables	18,402	-	-	18,402
Related party receivables	4,548,569	13,325,545	35,573,410	53,447,524
FiRe Award fund	1,859,355	-	796,531	2,655,886
	14,553,103	27,732,133	37,798,361	80,083,597

19. Cash and cash equivalents

	2011 Kshs.	2010 Kshs.
Cash at bank and in hand	7,640,493	8,299,954
Short term bank deposits	113,408,971	106,122,475
	121,049,464	114,422,429

The weighted average effective interest rate on short term bank deposits at the year-end was 7.0%(2010: 6.2%).
For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks, net of bank overdrafts. The year-end cash and cash equivalents comprise the following:

	2011 Kshs.	2010 Kshs.
Cash and bank balances as above	121,049,464	114,422,429

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

20. Non current assets held for sale

	2011 Kshs.	2010 Kshs.
Property and equipment	15,515,159	15,515,159
Investment property	32,784,870	32,784,870
Prepaid operating lease rentals	28,070,655	26,220,655
Value of property disposed (temporary structures)	9,135,670	9,135,670
	85,506,354	83,656,354

During the year ended 31 December 2010 assets amounting to KShs. 83,656,354 were presented as Non Current Assets Held for Sale based on a purchase commitment received from the KCA University. The increase of KShs. 1,850,000 under prepaid operating lease rentals in the year 2011 relates to legal costs incurred in respect of conveyance fees for necessary processing of the land title. On 18 February 2010 the Institute entered into a sale agreement with KCA University for sale of part of CPA Centre. As at the statement of financial position date the sale had not been concluded by way of excision and transfer of the sold land. The sale agreement provided the completion date to be conditional to presentation of the title for the property and duly executed transfer documents in favour of KCA University. This required subdivision, change of user and issue of two new titles. The Council had anticipated that this transaction would have concluded by June 2011.

However, this process took longer than envisaged. IFRS 5, Non current assets held for sale and discontinued operations, gives a one year timeline for an entity to conclude on the disposal of non current assets held for sale. However, circumstances and events beyond the control of management of the Institute have necessitated the extension of the period required to complete the sale of these assets. This being the case, assets amounting to KShs. 85,506,354 have again been classified as Non Current Assets Held for Sale as at 31 December 2011.

Sale completion

Subsequent to the reporting date, the sale has been finalised and the sale price of Kenya shillings 340million received in full

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

21. Revaluation reserve

	2011 Kshs.	2010 Kshs.
Property and equipment		
Buildings	64,190,203	66,254,219
Land improvements	464,521	464,521
Furniture, fittings and equipment	1,167,964	1,167,964
	65,822,688	67,886,704

The movement of the reserve is as follows:

	Buildings Kshs.	Land improvements Kshs.	Furniture, fittings and equipment Kshs.	Total Kshs.
At 1 January 2011	63,741,774	464,52	1,167,964	65,374,259
Prior year adjustment (Note 32)				
- Depreciation write back	3,921,429	-	-	3,921,429
- Excess depreciation	(1,408,984)	-	-	(1,408,984)
As restated	66,254,219	464,521	1,167,964	67,886,704
Excess depreciation	(2,064,016)	-	-	(2,064,016)
At 31 December 2011	64,190,203	464,521	1,167,964	65,822,688

The last valuation was carried out on 17 December 2010 by Realmast Limited (an independent registered valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of investment property being valued) based on an open market value.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

22. Designated fund

	Bursary funds Kshs.	Charity funds Kshs.	Total funds Kshs.
Year 2011:			
At start of year	5,000,000	332,024	5,332,024
Transfer from the general fund	-	(19,416)	(19,416)
At end of year	5,000,000	312,608	5,312,608
Year 2010:			
At start of year	5,000,000	201,917	5,201,917
Transfers from the general fund	-	130,107	130,107
At end of year	5,000,000	332,024	5,332,024

The bursary fund was set up by the Institute from the general fund to support education of needy students.Charity fund is the net proceeds from an annual charity golf tournament. These proceeds are utilised in funding various corporate social responsibility activities other than educating needy students.

23. Trade and other payables

	2011 Kshs.	2010 Kshs.
Institute payables	17,664,767	11,480,563
CPA Centre payables	-	416,171
Rental deposit	600,000	600,000
Accrual for leave pay	-	1,877,243
Advance payments by client	5,621,891	1,232,811
Other accruals	4,431,205	3,510,359
Related party payable (Note 25)	458,790	458,790
	28,776,653	19,575,937

In the opinion of the Council, the carrying amounts of payables approximate to their fair value.The maturity analysis of trade and other payables is as follows:

	0 to 3 months Kshs.	3 to 12 months Kshs.	Total Kshs.
Institute payables	12,591,403	5,073,364	17,664,767
Rental deposit	-	600,000	600,000
Advance payments by clients	1,581,331	4,040,560	5,621,891
Other accruals	1,168,587	3,262,618	4,431,205
Payable to related party	-	458,790	458,790
	15,341,321	13,435,332	28,776,653

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

24. CPA Centre sale deposits

	2011 Kshs.	2010 Kshs.
CPA Centre sale deposit	34,000,000	34,000,000

Sale deposit obtained from KCA University towards the sale of part of the CPA Centre.

25. Deferred subscriptions

	2011 Kshs.	2010 Kshs.
Deferred subscriptions	24,882,076	18,511,814

Deferred subscriptions represent amounts received in the current year for the subscriptions of the following year.

26. Related party transactions

The Institute is a beneficial owner of CPA Centre Limited with a direct shareholding of 50.02% of the issued share capital. The balance is held indirectly through KCA University. This company did not trade during the year. The investment comprises 10,004 shares of KShs. 5 each.

	2011 Kshs.	2010 Kshs.
i) Amount due from related parties		
Receivable from KCA University (Note 18)	53,447,524	35,573,410
ii) Amount due to related parties		
Payable to KCA University (Note 23)	458,790	458,790
Due to CPA Centre Limited	50,020	50,020
	508,810	508,810
iii) Key management compensation		
Salaries and other short term benefits	12,579,009	16,403,180
Post employment benefits	814,290	996,754
	13,393,299	17,399,934

No provision is necessary in 2011 and 2010 in respect of related party balances.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

27. Staff costs

		2011 Kshs.	2010 Kshs.
Salaries and wages		75,226,325	66,725,484
Group life		1,262,905	-
Medical expenses		4,027,322	3,597,381
Pension costs		4,497,897	3,256,060
Leave allowances		570,725	691,975
Recruitment costs		-	233,071
Staff travelling allowance		-	653,000
Subscriptions		389,565	605,460
Other staff costs		1,197,079	2 84,224
		87,171,818	76,046,655

28. Intangible assets

		2011 Kshs.	2010 Kshs.
Software costs:			
Cost	At January	3,519,793	3,519,793
	At December	3,519,793	3,519,793
Amortisation	At January	3,519,793	2,639,844
Charge for the year		-	879,949
At December		3,519,793	3,519,793
Net book value		-	-

29. Tax

The Institute is exempt from income tax under Section 13(2) of the Income Tax Act (Cap. 470) and Legal Notice No. 168 of 22 October 1980.

30.International relations

The Institute is affiliated to the Pan African Federation of Accountants (PAFA) and International Federation of Accountants (IFAC).

PAFA was formally inaugurated in May 2011 in Dakar, Senegal, following resolution by the then existing regional federations in Africa, among them East, Central and Southern Africa Federation of Accountants (ECSAFA), to dissolve and form a united front under PAFA. This ensures that the accountancy profession in Africa is able to take a common stand on issues at the international arena.

ICPAK being one of the founding members holds a permanent seat in the board of PAFA.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

NOTES (CONTINUED)

31. Contingencies

The Institute has guaranteed facilities with Barclays Bank of Kenya Limited for use by the KCA University comprising: a loan facility secured under a first legal charge over LR No. 8874 in the name of ICPAK, registered and stamped to cover KShs. 126,000,000 (outstanding amount as at 31 December 2011 = KShs. 101,317,750); and an overdraft facility upto KShs. 40,000,000 unsecured (outstanding amount as at 31 December 2011 = KShs.30,586,869).

32. Prior year adjustment

The prior year adjustments that resulted in restatements of the financial statements for the year ended 31 December 2010 relate to:

This is to restate revaluation reserve with write back of accumulated depreciation on buildings as at date of valuation. Valuation of buildings was carried out in year 2010 by Realmast Limited based on open market value on 17 December 2010.

i) Depreciation write back:
This is to restate revaluation reserve with write back of accumulated depreciation on buildings as at date of valuation. Valuation of buildings was carried out in year 2010 by Realmast Limited based on open market value on 17 December 2010.

ii) Excess depreciation:
This is to recognise excess depreciation on buildings not accounted for earlier.

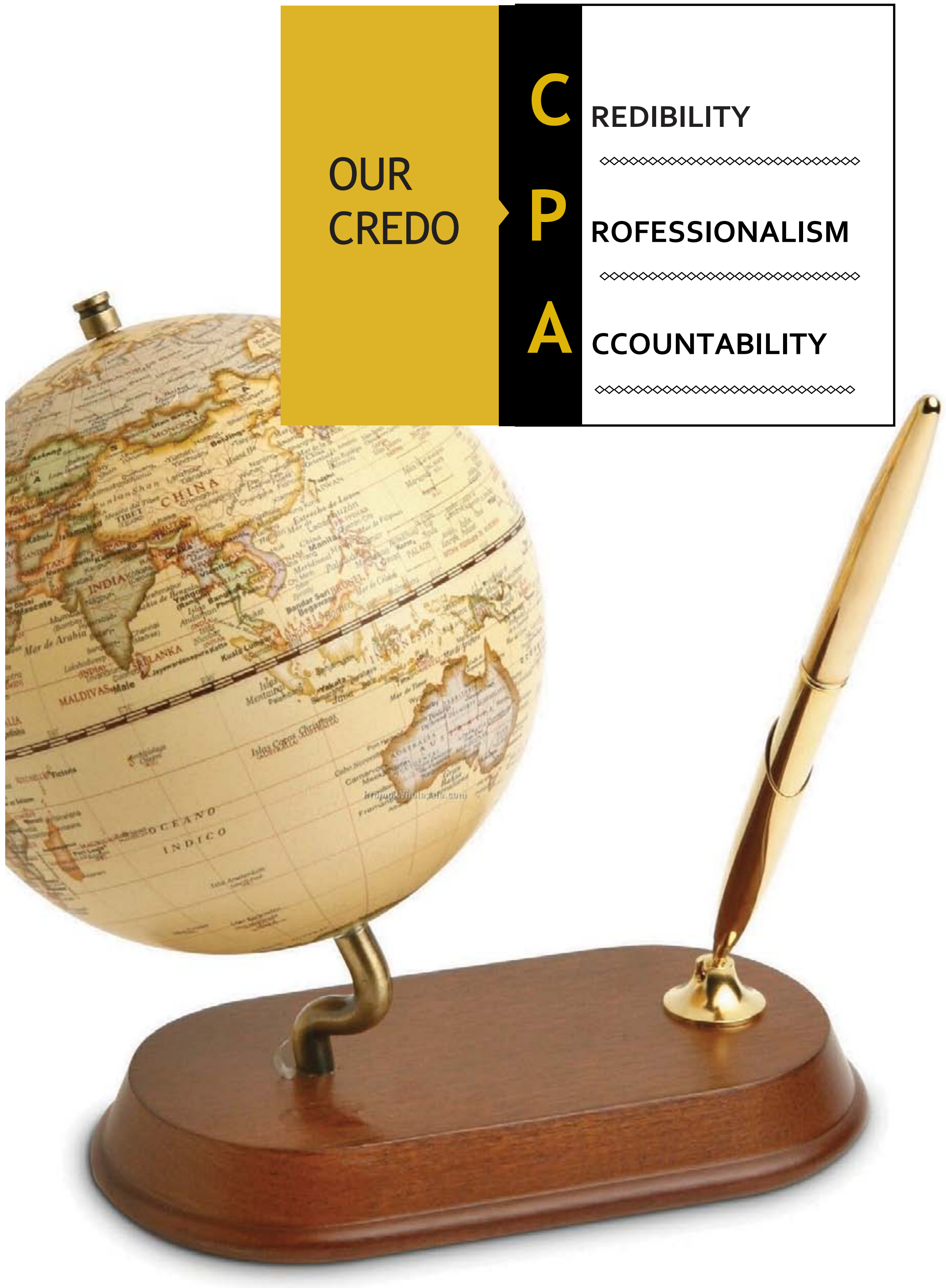
iii) Social responsibility; and impairment in property and equipment:
The funds received and utilised during the year for social responsibility activities are now accounted for through the statement of comprehensive income and thereafter, the surplus or deficit is transferred to the designated fund from the general fund. Previously, the surplus/(deficit) during the year was accounted for through the statement of changes in equity.

Impairment in property and equipment is now accounted for through the statement of comprehensive income and thereafter, the impaired amount transferred to the revaluation reserve. This was previously accounted for through the statement of changes in equity.

iv) Effect of the restatement on surplus for the year ended 31 December 2010	Kshs.
Surplus for the year - As previously reported	43,108,050
Adjustments: Social responsibility (net surplus)	130,107
Revaluation surplus	3,921,429
Impairment of property and equipment	(3,318,379)
Surplus for the year - As restated	43,841,207

33. Comparatives

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



ICPAK

Credibility . Professionalism . AccountAbility

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Principal place of business

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