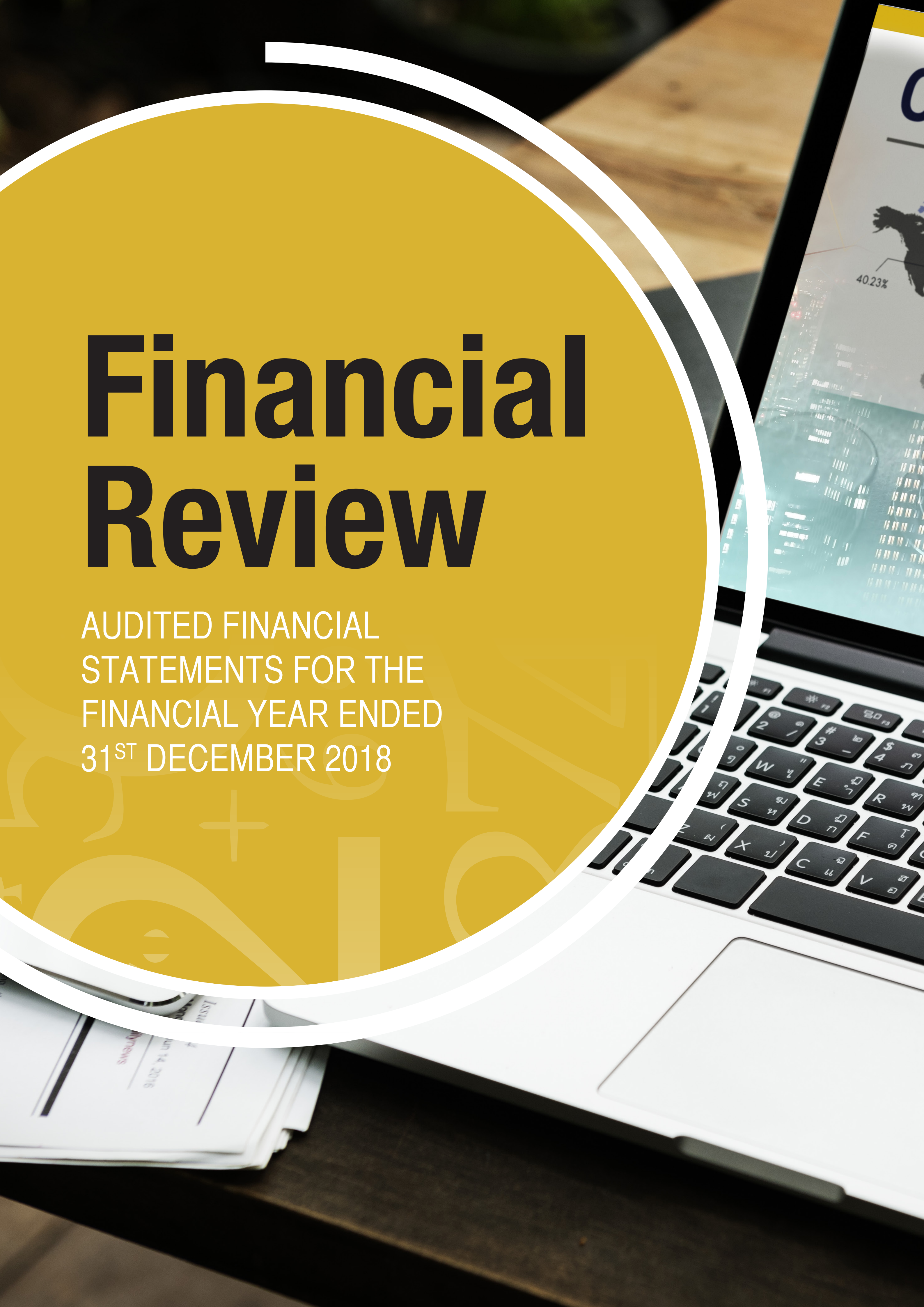
Financial Review

AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31ST DECEMBER 2018



ICPAK
Company's Growth
Home
About Us
Newsroom
Membership
Branches & Chapters
CPA Directory
Technical Resources
Practitioners Resources
MyICPAK
Subscription Renewal
Blog
Login
Join Us
16.09%
35.00%
58.90%
27.98%
22.39%

Table of contents

Page

Institute Information	1-2
Report of the Council	3-4
Statement of Council's Responsibilities	5
Report of the Independent Auditor	6-9

Financial statements:

Income Statement	10
Statement of Financial Position	11
Statement of Changes in Equity	12
Statement of Cash Flows	13
Notes	14-41

Institute Information For the Year Ended 31 December 2018

Members of the Council

Chairman	:	FCPA Julius Mwatu	- Elected June 2017
Vice- Chairman	:	CPA Denish Osodo	- Elected June 2017
		CPA Rose Mwaura	- Re-elected June 2017
Members	:	CPA Obare Nyaega	- Re-elected June 2016
		CPA Anne Wangeci	- Elected June 2018
		CPA Susan Oyatsi	- Re-elected June 2017
		CPA June Kivinda	- Retired June 2018
		CPA Samuel Okello	- Re-elected June 2018
		Ms Damaris Kimosop	- Representing other profession
		CPA Geoffrey Malombe	- Representing National Treasury
		FCPA Pius Nduatih	- Representing kasneb
		FCPA Wycliffe Shamiah	- Representing CMA
Chief Executive Officer & Secretary to the Council	:	CPA Edwin Makori	

Council Committees

Committee:	*Chairperson/Convenor:*	
Audit Risk and Compliance	CPA Denish Osodo	
Disciplinary	FCPA Charity Muya	
Finance and Strategy	CPA June Kivinda	- Retired June 2018
	CPA Anne Wangeci	
	CPA Obare Nyaega	
	FCPA Pius Nduatih	- Retired December 2018
Member Services	CPA Samuel Okello	
Practitioners Development	CPA Rose Mwaura	
Professional Standards	FCPA Michael Mugasa	
Public Policy and Governance	FCPA Julius Mwatu	
Registration and Quality Assurance	FCPA Dr. Jim McFie	
Research and Development	CPA Obare Nyaega	
CPFT Board	FCPA Rajesh Shah	

KCA University Representatives

Board of Trustees	FCPA Michael Waweru	- Chairman
	FCPA Julius Mwatu	- Member
	FCPA Shabir Issak	- Member
	FCPA Winnie Nyamute	- Member
	CPA Edwin Makori	- Secretary
Governing Council		
Finance Committee	CPA Everlyne Muriuki	- Member
Audit Risk and Governance Committee	CPA Charles Ringera	- Member

Institute Information For the Year Ended 31 December 2018 (Continued)

Registered Office and Principal Place of Business

CPA Centre
Ruaraka, Thika Road
P.O. Box 59963 - 00200
NAIROBI

Telephone	:	+254 719 074 000 / +254 719 074 307
E-mail	:	icpak@icpak.com
Website	:	www.icpak.com

Independent Auditor

Parker Randall Eastern Africa
Certified Public Accountants
Galleria Business Park Block 2 (A)
P.O Box 25426-00100
NAIROBI

Principal Bankers

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

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

Legal Advisors

Hamilton Harrison & Mathews
4th floor, ICEA Building
Kenyatta Avenue
P.O. Box 30333 – 00100
NAIROBI

Report of the Council For The Year Ended 31 December 2018

The Council submits its report and the audited financial statements for the year ended 31 December 2018, which show the state of the Institute's financial affairs.

1. Incorporation

The Institute of Certified Public Accountants of Kenya is a body corporate established in 1978 under the provisions of the Accountants Act, Chapter 531 of the Laws of Kenya (re-enacted as the Accountants Act No. 15 of 2008) and is domiciled in Kenya. The address of the registered office is set out on page 2.

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 brand; advise the Kenya Accountants and Secretaries National Examination Board (kasneb) on matters relating to examinations standard and policies; and to advise the Minister responsible for finance on matters relating to financial accountability in all sectors of the economy.

3. Membership

		2018 No.	2017 No.
Active members at end of year		20,610	19,153
Active members at beginning of year			
Practicing		1,048	1,070
Non practicing		15,232	15,126
Overseas		403	457
Retired		760	543
Associates		1,710	1,416
		19,153	18,612
New members in the year		2,891	1,642
Deceased and change of status		(24)	(87)
		22,020	20,167
Members in default	- written off	(1,587)	(1,135)
	- recovered	177	121
Active members at end of year		20,610	19,153
Full members		18,780	17,443
Associate members		1,830	1,710
Active members at end of year		20,610	19,153

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

Report of the Council For The Year Ended 31 December 2018 (Continued)

4. Results for the Year

	2018 Kshs. '000'	2017 Kshs. '000'
Surplus for the year	28,253	18,345

5. Members of the Council

The council members who held office during the year and to the date of this report are listed on page 1.

6. 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.

7. Auditor

Parker Randall Eastern Africa has expressed its willingness to continue in office.

By Order of the Council

CPA Edwin Makori
Secretary to the Council

Nairobi, 29th April 2019

Statement of the Council Responsibilities on the Financial Statements
For the year ended 31 December 2018

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 judgments' 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 2018 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.

The Council acknowledges that the independent audit of the financial statements does not relieve it of its responsibility.

Approved by the Council on 29th April 2019 and signed on its behalf by:

FCPA Julius Mwatu
Chairman

CPA Obare Nyaega
Convenor Finance and Strategy Committee

CPA Edwin Makori
Secretary to the Council

Report of the Independent Auditor
To the members of the Institute of Certified Public Accountants of Kenya
For the year ended 31 December 2018

Opinion

We have audited the accompanying financial statements of the Institute of Certified Public Accountants (ICPAK/the Institute), as set out on pages 10 to 41, which comprise the statement of financial position as at 31 December 2018, the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, which include a summary of significant accounting policies.

In our opinion the accompanying financial statements, in all material respects, give a true and fair view of the financial position of the Institute as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Institute in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period.

These matters were addressed in the context of our audit of the financial statements as a whole, in forming our opinion thereon and we do not provide a separate opinion on these matters.

Report of the Independent Auditor
To the members of the Institute of Certified Public Accountants of Kenya
For the year ended 31 December 2018 (Continued)

Key Audit Matters (Continued)

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed</th></tr>
<tr><td>Information Technology (IT) systems and control

We identified the Institute’s IT environment in which the Institute’s billing systems reside, including interface controls between different IT applications.

The IT system environment introduces risks related to system access, data transfer from one system to another and change management which is the Institute’s process of managing changes to its software applications and IT infrastructure and therefore represent a key audit matter.</td><td>Our audit procedures in this area included, among others:
Evaluating the design and testing the operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial reporting.
Examining the framework of governance over the Institute’s IT organization and the controls over access to programs and data, program changes, IT operations and program development.
Where necessary, carrying out direct tests of certain aspects of the security of the Institute’s IT systems including logical access management and segregation of duties.</td></tr>
<tr><td>Revenue Cycles (Income, Collections, Banking & Accounts Receivables)

The revenue cycle continues to be the primary area of fraud and abuse globally therefore requiring strong, comprehensive internal controls.

Due to the multitude and variety of contractual terms across the Institute, the estimation of discounts, incentives, credit terms, write offs and rebates recognized based on invoices made during the year is considered to be complex.

We focused on the assessment of the inherent risk associated with the revenue cycle and performed tests to determine the cycle is relatively free of error or fraud.</td><td>Our audit procedures in this area included, among others:
Understanding of the Institute and its environment to consider inherent risk, including fraud risks, related to receivables and revenues.
We obtained an understanding of internal control over receivables and revenues and assessed the risks of material misstatement and designed tests of controls and substantive procedures to confirm the existence and completeness of receivables and revenue transactions.
We also assessed sales transactions taking place before and after year-end to ensure that revenue was recognized in the correct period and assessed the accuracy of the sales recorded, based amongst others, inspection invoices.</td></tr>
</table>

Report of the Independent Auditor
To the members of the Institute of Certified Public Accountants of Kenya
For the year ended 31 December 2018 (Continued)

Other information

The Council is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is material misstatement of this other information we are required to report that fact. We have nothing to report in this regard.

Council's responsibilities for the financial statements

The Council is responsible for the preparation and fair presentation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) and for such internal control as the Council determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, the Council is responsible for assessing the institute's ability to continue as a going concern, disclosing as applicable, matters related to the going concern and using the going concern basis of accounting unless the council either intend to liquidate the firm or to cease operations or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material, if individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Report of the Independent Auditor
To the members of the Institute of Certified Public Accountants of Kenya
For the year ended 31 December 2018 (Continued)

Auditor's responsibilities for the audit of the financial statements - (Continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the institute's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast a significant doubt on the Institute's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures or in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence up to the date of the auditor's report. However, future events or conditions may cause the firm to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

We communicate with the Council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Parker Randall Eastern Africa

Certified Public Accountants (Kenya)
Nairobi.

29th April 2019

The signing partner responsible for the independent audit was CPA Victor Majani Practising certificate No. 1546.

Financial Statements for the year ended 31 December 2018

Income Statement for the year ended 31 December 2018

	Note	2018 Kshs. '000'	2017 Kshs. '000'
Income			
Subscriptions	4	231,780	218,437
Members' services	5 (a)	548,033	410,072
CPA Centre rental income	6 (a)	8,987	49,474
Social responsibility activities	7 (a)	2,909	1,921
		791,709	679,904
Expenses			
Member services	5 (b)	271,718	211,096
Social responsibility	7 (b)	1,299	2,004
Operating expenses	8	446,945	399,888
		719,962	612,988
Operating surplus		**71,747**	**66,916**
CPA Centre finance cost	6 (b)	(65,264)	(64,964)
Operating surplus after finance cost		**6,483**	**1,952**
Net grant income	9 (a)	-	2
Other income	10	306	5,670
Fair value gain on investment property	12	19,383	15,316
Surplus before tax		**26,172**	**22,940**
Deferred tax	26	2,081	(4,595)
Surplus for the year		**28,253**	**18,345**

The notes set out on pages 14 to 41 form an integral part of the financial statements.

Financial Statements for the year ended 31 December 2018 (Continued)

Statement of Financial Position as at 31 December 2018

	Note	2018 Kshs. '000'	2017 Kshs. '000'	1st January 2017 Kshs. '000'
ASSETS				
Non-current assets				
Property plant and equipment	11	83,739	78,188	98,941
Investment property	12	1,620,000	1,600,000	1,550,000
Intangible assets	13	2,340	3,033	1,695
Other receivables	14	105,501	111,257	111,257
Due from related party	24	27,322	45,193	-
Investment in CPA Centre Limited	15	50	50	50
		1,838,952	1,837,721	1,761,943
Current assets				
Inventories	16	29,033	4,321	4,665
Grant Fund Balance	9 (b)	-	48	-
Trade and other receivables	17	90,588	121,008	148,857
Cash and bank balance	18	41,267	29,445	42,419
		160,888	154,822	195,941
TOTAL ASSETS		**1,999,840**	**1,992,543**	**1,957,884**
EQUITY AND LIABILITIES				
Equity				
General fund		1,052,203	1,051,942	1,032,198
Revaluation reserve		108,963	109,080	109,197
Designated funds	19	8,427	6,817	6,919
		1,169,593	1,167,839	1,148,314
Non-current liabilities				
Deferred tax	26	1,579	3,660	-
Due to CPA Centre Limited	24	50	50	50
Borrowings	21	424,495	369,338	413,490
		426,124	373,048	413,540
Current liabilities				
Grant Fund Balance	9 (b)	5,135	-	4,475
Borrowings	21	64,430	74,930	61,784
Trade and other payables	22	290,677	242,894	182,142
Deferred subscriptions		43,881	53,037	66,834
Retention on construction	20	-	80,795	80,795
		404,123	451,656	396,030
LIABILITIES		**1,999,840**	**1,992,543**	**1,957,884**

The financial statements on pages 10 to 41 were approved by the Council on

29th April 2019 and signed on its behalf by:

FCPA Julius Mwatu
Chairman

CPA Obare Nyaega
Convenor Finance and Strategy Committee

CPA Edwin Makori
Secretary to the Council

Financial Statements for the year ended 31 December 2018 (Continued)

Statement of Changes in Equity for the year ended 31 December 2018

	Note	General Fund Kshs. '000'	Revaluation Reserve Kshs. '000'	Designated Fund Kshs. '000'	Total Kshs. '000'
At 1 January 2018		1,051,942	109,080	6,817	1,167,839
Prior period adjustment (as per IFRS 9)	29(a)	(26,499)	-	-	(26,499)
Total surplus for the year		28,253	-	-	28,253
Surplus from social responsibility	7	(1,610)	-	1,610	-
Transfer of excess depreciation	11	117	(117)	-	-
As at 31 December 2018		**1,052,203**	**108,963**	**8,427**	**1,169,593**
At 1 January 2017		1,033,398	100,842	6,919	1,141,159
Total surplus for the year	29(b)	18,344	-	-	18,344
Prior Year Adjustment		-	8,355	-	8,355
Contributions		-	-	(19)	(19)
Transfer of excess depreciation		117	(117)	-	-
Deficit from social responsibility		83	-	(83)	-
As at 31 December 2017		**1,051,942**	**109,080**	**6,817**	**1,167,839**

The notes set out on pages 14 to 41 form an integral part of the financial statements.

Financial Statements for the year ended 31 December 2018 (Continued)

Statement of Cash Flows for the year ended 31 December 2018

	Note	2018 Kshs. '000'	2017 Kshs. '000'
CASH FLOWS FROM OPERATING ACTIVITIES:			
Total surplus for the year		28,253	18,345
Adjustments for:			
Fair value adjustment of investment property	12	(19,383)	(15,316)
Depreciation and amortization	11 & 13	15,026	12,301
Prior year adjustment on Revaluation reserve		-	8,355
Prior year adjustment on Expected Credit Losses		(26,498)	-
Prior year Adjustment		-	578
Deferred Tax	26	(2,081)	4,595
CSR net income	7	(1,610)	83
Loss on disposal of equipment	10	48	111
Interest income	10	(377)	-
Interest expenses	6 (b)	65,264	64,964
Surplus before working capital changes		**58,642**	**94,016**
(Increase) / Decrease in inventories	16	(24,712)	343
Decrease in trade and other receivables	17	54,047	31,906
Decrease /(Increase) Grant Fund Balance Asset	9 (b)	48	(48)
Increase / (Decrease) Grant Fund Balance Liability	9 (b)	5,135	(4,475)
Increase in trade and other payables	22	47,782	3,145
Decrease in advance subscriptions		(9,157)	(13,795)
Decrease in retention on construction	20	(80,795)	-
Interest income	10	377	-
Interest expenses	6 (b)	(65,264)	(64,964)
Net cash generated from operating activities		**(13,897)**	**46,128**
CASH FLOWS FROM INVESTING ACTIVITIES:		-	
Purchase of property and equipment	11	(18,818)	(4,206)
Purchase of intangible asset	13	(1,111)	(2,500)
Disposal of property and equipment	11	(3)	641
Additions to investment property	12	(617)	(21,929)
Net cash used in investing activities		**(20,549)**	**(27,994)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash received from CSR activities	7 (a)	2,909	1,921
CSR Cash payments	7 (b)	(1,299)	(2,004)
Direct contribution to designated funds	19	-	(19)
Loan Taken	21	100,502	12,679
Loan paid	21	(55,844)	(43,685)
Net cash from financing activities		**46,268**	**(31,108)**
Decrease in cash and cash equivalents		11,822	(12,974)
As at 1 January		29,445	42,419
As at 31 December	18	**41,267**	**29,445**

The notes set out on pages 14 to 41 form an integral part of the financial statements

Financial Statements for the year ended 31 December 2018 (Continued)

Notes

1. 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.

a) Basis of preparation

The financial statements are prepared on a going concern basis in compliance with International Financial Reporting Standards (IFRS). They are presented in Kenya Shillings (Kshs) which is also the functional currency (see (c) below), rounded to the nearest thousand (Kshs. '000').

The financial statements comprise a Income statement, statement of Financial Position, statement of Changes in Equity, statement of Cash Flows, and Notes.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions. It also requires management to exercise its 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.

Measurement basis

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below. For those assets and liabilities measured at fair value, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the Institute uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Institute using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset/liability that market participants would take into account. Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

1. Summary of Significant Accounting Policies (Continued)

Measurement basis (Continued)

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Institute at the end of the reporting period during which the change occurred.

b) New and revised standards

i) New standards that are effective

The following new and revised standards and interpretation have become effective for the first time in the financial year beginning 1 January 2018 and have been adopted by the institute where relevant to operations.

Amendments to IFRS 1, IFRS 12 AND IAS 28 titled Annual improvement to IFRS standards (issued on December 2016) - The amendments, applicable for the annual period beginning on or after 1 January 2018, make the following changes:-

a. Delete the short term exemption paragraphs, E3-E7, of IFRS 1 because they have served their purpose
b. Clarify the scope of IFRS 12. According to these amendments, disclosure requirements in the standard, except those in paragraph B10-B16 applies to entities listed in paragraph 5 of IFRS 5.
c. Clarify that the election, contained therein IAS 28, to measure at fair value through profit or loss an investment in associate, joint venture that is held by an entity as venture capital organisation, or other qualifying entity is available on investment by investment basis upon initial recognition.

Conceptual Framework for financial reporting 2018 (Issued in March 2018) - The new conceptual framework, effective from date of issue since no effective date has been stated, covers significant issues that had not been covered in the previous one. It also provides guidance to those issues that were not clear in the previous standard and those that were outdated.

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

1. Summary of significant accounting policies (Continued)

b) New and revised standards (Continued)

i) New standards that are effective (Continued)

IFRS 15; Revenue from Contracts with Customers (issued in May 2014) -The new standard, effective for annual periods beginning on or after 1 January 2018, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition applied consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance.

IFRS 9; Financial Instruments (issued in July 2014) -This standard replaces IAS 39 (and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

IFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics. For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, IFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognized. For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures. The derecognition provisions are carried over almost unchanged from IAS 39.

To comply with the standard, provisions have been made for either 12-months or life time expected credit losses (ECLs) for all financial assets measured at amortised cost. The Council has opted to apply the simplified approach on receivables whereby lifetime ECL are provided from inception. However, the comparatives have not been restated in respect to ECL. Instead, additional provisions of Kshs 26.5 million have been recognised with a corresponding decrease in retained earnings at 1st January 2018 in line with the transitional provisions of IFRS 9. Further details of the restatement are set out in Note 29.

Amendments to IFRS 2 titled Classification and Measurement of Share-based (SBP) Payment Transactions (issued in June 2016) - The amendments, applicable to annual periods beginning on or after 1 January 2018, clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments (SBP), the accounting for SBP transactions with a net settlement feature for withholding tax obligations, and the effect of a modification to the terms and conditions of a SBP that changes the classification of the transaction from cash-settled to equity settled.

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

1. Summary of significant accounting policies (Continued)

b) New and revised standards (Continued)

i) New standards that are effective (continued)

Amendment to IFRS 4 and IFRS 9 titled interaction of IFRS 4 and IFRS 9 (issued in September 2016) - The amendment, effective for annual periods beginning on or after 1 January 2018, address issues arising from the application of IFRS 9. It requires that an entity applying overlay approach to do so retrospectively to qualifying assets when first applying IFRS 9. For the entities choosing deferral method, it applies for annual periods beginning on or after 1 January 2018.

Amendment to IAS 40 titled transfer of investment property (issued in December 2016) - The amendment, applies to annual periods beginning on or after 1 January 2018, provides clarifications on the transfer of property to and from investment property.

Based on assessment of the council, the adoption of the above standards, except for IFRS 9, have no significant impact on the on the Institute's financial statements.

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

Amendments to IAS 28 regarding long-term interests in associates and joint ventures (issued in October 2017) -The amendments, applicable to annual period beginning on or after 1 January 2019, clarify that an entity need to apply IFRS 9 on long-term interests in an associate or joint venture that are part of investments.

Amendments to IAS 19 (issued in February 2018)-The amendments, effective for the annual period beginning on or after 1 January 2019, clarify the impact of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. It also requires a mandatory evaluation of current service cost and interest rates based on assumption used for remeasurement.

Amendment to IAS 8 (issued in October 2018)-The amendment, applicable for the annual period beginning on or after 1 January 2020, clarifies the definition of material.

Amendments to IFRS 9 regarding prepayment features with negative compensation and modifications of financial liabilities (issued in October 2017)-The amendments, applicable for annual period beginning on or after 1 January 2019, enable entities to measure at amortized cost some prepayable financial assets with negative compensation.They also provide clarification on accounting for financial liabilities following modifications.

Amendment to IFRS 3 titled definition of a business (issued in October 2018)-The amendment, effective for the annual period beginning on or after 1 January 2020, clarifies the definition of a business.

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

1. Summary of significant accounting policies (Continued)

b) New and revised standards (Continued)

ii) New and revised standards and interpretations in issue but not yet effective (Continued)

Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 titled annual improvements to IFRS standards 2015-2017 cycle (issued in December 2017)- The improvements, applicable for annual periods beginning on or after 1 January 2019, makes the following clarifications:-

a. when an entity acquires control of a business that is a joint operation, under IFRS 3, it should remeasure previously held interest in that business. However, under IFRS 11, an entity does not need to remeasure previously held interest in the joint operation.
b. Requirements in the former 52 (B) apply to all income tax consequences of dividends.
c. Any specific borrowing remaining outstanding after the related assets is ready for intended use or sale, under IAS 23, that borrowing becomes part of the fund the entity borrows generally in calculating capitalisation rate.

Amendments to IFRS 10 and IAS 28 titled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014) – The amendments, applicable from a date yet to be determined, address a current conflict between the two standards and clarify that gain or loss should be recognised fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

IFRS 16 Leases (issued in January 2016) - The new standard, effective for annual periods beginning on or after 1 January 2019, introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments."

The council does not plan to apply any of the above until they become effective. Further, based on their assessment of the potential impact of application of the above, they do not expect that there will be significant impact on the institute's financial statements.

c) Foreign currency transactions

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the Institute operates), which is Kenya Shillings (KSh).

Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilities at the reporting date denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing as at that date. The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognised on a net basis in profit or loss in the year in which they arise.

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

1. Summary of significant accounting policies (Continued)

d) Revenue recognition

The recognition of revenue from contracts with customers is based on the performance obligations identified in the contracts. Revenue is recognized when (or as) the Institute satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer who obtains the control of the asset:

i) Annual subscription fees are recognized over time on a straight-line basis over the subscription period as the customers simultaneously receive and consume the benefits of goods or services provided by the Institute.
ii) First registration fees are recognized at a point in time on completion of application services by granting the member's status to the applicants.
iii) Income from seminars and workshops, member and associate activities is recognized over time as the services are rendered.
iv) Rental income is recognised on a straight-line basis over the period of the lease.
v) Interest income is recognised on a time proportion basis using the effective interest method.

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.

The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial year in which they are incurred.

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 its estimated useful life using the following rates:

Equipment	4 year
Computers	4 years
Furniture and fittings	10 years

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.

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

1. Summary of significant accounting policies (Continued)

f) Investment property

Investment property is property held to earn rentals or for capital appreciation or both. It is a long-term investment in buildings for which an insignificant portion is occupied for own use. Investment property is initially recognised at cost and subsequently carried at fair market value, based on periodic but at least triennial valuations carried out by external independent valuers. Gains or losses arising from changes in fair value are recorded in profit or loss.

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.

g) 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.

h) Impairment of non-financial 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 its fair value less costs to sell and value in use. An impairment loss is recognised in the Income statement 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 Income statement in the year in which the reversals are recognised.

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

1. Summary of significant accounting policies (Continued)

i) 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.

j) Financial instruments

The Institute recognises a loss allowance for expected credit losses on debt instruments that are measured at amortised cost or at fair value through other comprehensive income. The loss allowance is measured at an amount equal to the lifetime expected credit losses for trade receivables and for financial instruments for which: (a) the credit risk has increased significantly since initial recognition; or (b) there is observable evidence of impairment (a credit-impaired financial asset). If, at the reporting date, the credit risk on a financial asset other than a trade receivable has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowance are recognised in profit or loss as impairment gains or losses.

Classification

The Institute classifies its financial instruments into the following categories:

i. **Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows,** and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are classified and measured at amortised cost. These were mainly:-

   Loan and Receivables: which comprise non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. Loan and receivables are held for their contractual cash flows and hence are initially recognised at fair value. Subsequently, they are recognised at amortised cost using effective interest rate method, less allowance for expected credit losses.

   Demand and term deposits with banking institutions

ii. **Financial assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets,** and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are classified and measured at fair value through other comprehensive income.

iii. **All other financial assets** are classified and measured at fair value through profit or loss.

iv. **Financial liabilities:** mainly made up of trade and other payables are initially recognised at fair value and are subsequently measured at amortised cost, using effective interest rate method.

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

1. Summary of significant accounting policies (Continued)

k) Impairment of Financial Assets

Impairment of financial assets the Institute recognizes loss allowances for expected credit loss on the financial instruments that are not measured at fair value through profit or loss. The Institute puts into consideration the probability of default upon initial recognition of financial assets and evaluates whether there has been a significant increase in credit risk on an ongoing basis.

The Institute determines the credit risk on a financial instrument to be low if the financial instrument has a low risk of default, the debtor has a considerable capacity to meet its contractual cash flow obligations in the near future and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the debtor to fulfil its contractual cash flow obligations.

The carrying amount of the receivables are reduced through the use of the receivable impairment charges account. Variations in the carrying amount of the receivable impairment charges account are recognized in profit or loss. The receivable is written off against the receivable impairment charges account when the Institute has no reasonable expectations of recovering the receivable. If, in a subsequent period, the amount of expected credit losses (ECL) reduces, the subsequent reversal would be adjusted to the receivable impairment charges account at the reporting date. The amount of any reversal is recognized in profit or loss.

k) Cash and cash equivalents

Cash and cash equivalents include cash in hand and demand and term deposits, with maturities of three 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 performance, bank overdrafts are included as borrowings under current liabilities.

l) Employee benefits

Post-employment benefit obligations

The Institute operates a defined contribution staff retirement benefit scheme for its employees. The scheme is administered by Insurance Company of East Africa Limited 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 Income statement 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 Income statement in the year to which they relate.

Employees' entitlements

The estimated monetary liability for employees accrued annual leave entitlement and gratuity payment at the reporting date is recognised as an expense accrual. Only senior staffs under contract are entitled to gratuity.

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

1. Summary of significant accounting policies (Continued)

m) Grants

Grants are not recognised until there is reasonable assurance that the Institute will comply with conditions attaching to them and that grants will be received.

Grants are recognised in the Income statement on a systematic basis over the periods in which the institute recognises as expenses the related costs for which the grants are intended to compensate. Specifically, grants whose primary condition is that the Institute should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the institute with no future related costs are recognised in profit or loss in the period in which they become receivable.

n) Borrowing costs

Borrowing costs, net of any temporary investment income on those borrowings that are attributable to acquisition, construction of a qualifying assets are capitalised as part of the asset. The net borrowing cost capitalised is either the actual borrowing cost incurred on the amount borrowed specifically to finance the asset; or in the case of general borrowings, the borrowing cost is determined using the overall weighted average cost of the borrowings on all outstanding borrowings during the year less any specific borrowing directly attributable to the asset and applying this rate to the borrowing attributable to the asset.

Capitalisation of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are complete. All other borrowing costs are recognised in the profit or loss in the year in which they are incurred.

o) Advance subscriptions

Advance 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.

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 amounts recognised in the financial statements. 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. However, actual results may differ from those estimates. The judgements and estimates are reviewed at each financial reporting date to ensure that they are still reasonable under the prevailing circumstances based on the information available, and any revisions to such judgements and estimates are recognised in the year in which the revision is made.

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 there has been a significant increase in credit risk since the initial recognition of financial assets
- Whether assets are impaired
- Whether the investment property valuation fairly reflects current market value.

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

1. Summary of significant accounting policies (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 Audit, Risk and Compliance and Finance and Strategy committees 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 has not hedged against any risks in the current year.

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 an 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.

As at 31 December 2018	**Expected Credit Losses KSh"000"**
Trade and other receivables	83,875
Subscription Debtors	57,142
Due from related party	46,176
Cash at bank	41,267
Gross carrying amount	228,460
Expected Credit Loss - Subscription	(11,596)
Expected Credit Loss - Related Party	(3,036)
Subscriptions written off	(28,152)
Prior year adjustment on Expected Credit Loss - Subscription	(10,681)
Prior year adjustment on Expected Credit Loss - Related Party	(15,818)
Net carrying amount	**159,177**

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

3. Risk management objectives and policies (continued)

i) Credit risk (continued)

As at 31 December 2017	Impairment KSh"000"
Trade and other receivables	190,173
Subscription Debtors	48,317
Due from related party	45,193
Cash at bank	29,445
Gross carrying amount	313,128
Subscriptions written off	(21,615)
Net carrying amount	**291,513**

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 0.38:1 (2017: 0.6:1). The liquidity position is impacted by the prolonged electioneering period in 2018 and mortgage repayment on CPA Centre.

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

As at 31 December 2018	Between 1 - 3 months Kshs. '000'	Between 3 - 12 months Kshs. '000'	Over 12 months Kshs. '000'	Total Kshs. '000'
Trade and other payables	245,698	32,343	12,636	290,677
Borrowings	-	70,712	479,679	550,391
	245,698	**103,055**	**492,315**	**841,068**

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

3. Risk management objectives and policies (continued)

a) Financial risk management (Continued)

ii) Liquidity risk (Continued)

	Between 1 - 3 months Kshs. '000'	Between 3 - 12 months Kshs. '000'	Over 12 months Kshs. '000'	Total Kshs. '000'
As at 31 December 2017				
Trade and other payables	83,389	152,469	-	235,858
Borrowings	-	82,798	421,045	503,843
Retention on construction	-	80,795	-	80,795
	83,389	**316,062**	**421,045**	**820,496**

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 and mortgage loans 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 percentage points, with all other factors remaining constant, the surplus for the year would be lower/higher by Kshs. 510,000 (2017: nil).

If the interest rates on the Institute's borrowings at the year-end were to increase/decrease by 5 percentage points, all other factors remaining constant, interest expense would be lower/higher by Kshs 13,076,147 (2017: Kshs 11,881,854) respectively.

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) Capital management

The Institute's objective in managing its equity is to ensure that is 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 2018 (Continued)

Notes (Continued)

4. Subscriptions Income

	2018 Kshs. '000'	2017 Kshs. '000'
Practising	20,960	21,400
Non practising	153,218	151,661
Overseas	3,123	3,542
Retired	2,850	2,832
Associate members	3,420	2,036
Subscription debtors recovered (Note 10)	3,703	2,780
New members in the year	44,506	34,186
	231,780	**218,437**

5. Member Services

	2018 Kshs. '000'	2017 Kshs. '000'
(a) Income		
Monthly seminars/video sessions	295,998	211,580
Annual seminar	203,235	146,909
Executive retreat	12,115	12,751
Managerial seminar	12,362	12,845
Internal audit conference	13,924	13,840
Economic symposium	9,953	11,635
Sale of publications	446	512
	548,033	410,072
(b) Expenses		
Monthly seminars/video sessions	171,693	111,789
Annual seminar	72,525	66,029
Executive retreat	11,297	17,091
Managerial seminar	4,970	5,870
Internal audit conference	4,861	5,371
Economic symposium	6,372	4,946
	271,718	211,096
Surplus from member services	**276,315**	**198,976**

The expenses exclude related staff costs

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

6. CPA Centre Rental Income

		2018 Kshs. '000'	2017 Kshs. '000'
a)	Gross rental Income	31,328	61,768
	Service Charge	(11,462)	-
	Letting Commission	(2,089)	(3,508)
	Management Cost	(8,790)	(8,786)
	Net Rental Income before finance cost	8,987	49,474
b)	Interest on mortgage	(65,264)	(64,964)
	Net loss on rent	**(56,277)**	**(15,490)**

7. Corporate Social Responsibility activities

		2018 Kshs. '000'	2017 Kshs. '000'
(a)	**Income**		
	CSR activities	2,909	1,921
(b)	**Expenses**		
	CSR activities	(1,299)	(2,004)
	Surplus from social responsibility activities	**1,610**	**(83)**

Social responsibility income 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.

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

8. Operating Expenses

	2018 Kshs. '000'	2017 Kshs. '000'
Employee benefits (Note 25)	197,824	190,715
Advocacy and International relations	45,937	36,394
Governance	47,700	38,696
Staff meetings and welfare	15,241	10,277
Depreciation and amortization	15,026	12,300
Professional development	14,342	10,211
IT costs	10,537	12,618
Marketing costs	10,395	8,694
Publication	7,871	21,134
Service Charge	6,127	9,476
Telephone, postage, printing and stationery	6,907	4,151
Impairment of trade and other receivables	6,290	754
Expected Credit Loss (note 29)	14,632	-
Subscriptions written off	28,152	21,615
Legal fees	4,580	4,228
Bank charges	4,246	4,007
Shared services	3,368	7,032
FiRe Award	2,000	2,000
Rent and Utilities	2,000	837
Insurance	1,592	1,319
Audit fees	1,122	1,392
Internal Audit Costs	1,056	1,399
Research and development	-	639
	446,945	**399,888**

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

9. Grants

The Institute signed agreements with the following organisations:-

Business Advocacy Fund (BAF) Grant

The Institute received a grant of KSh 12,337,500 from BAF to support development of Income Tax Act Policy. The Institute has utilised most of the funds with a balance of KSh 5,465,000 which is intended for the completion of the income tax policy.

UNCTAD:

This was to support hosting of the Regional Conference on Financial Inclusion in August 2017.

World Bank IDF Grant

The Institute signed an Institutional Development Fund (IDF) grant on 27 January 2014 for 18 months period, amounting to US$ 698,000 to contribute to enhancing financial transparency, accountability and governance in Kenya. The grant period came to an end in January 2017 after fully utilisation of the fund.

	2018 Kshs. '000'	2017 Kshs. '000'
(a) Income and Expenses		
Grant income		
Grant funds utilized during the year	-	2,602
Grant expenses		
Program expenses	-	(2600)
	-	**2**
(b) Grant Fund Balance		
As at 1 January	(48)	4,475
Receipts	5,465	7,800
Operating expenses	(282)	(12,323)
As at 31 December	**5,135**	**(48)**

10. Other incomes

	2018 Kshs. '000'	2017 Kshs. '000'
Interest from investment	377	-
Sale of publications and other miscellaneous income	(71)	5,670
	306	**5,670**

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

11. Property and equipment

a) For the year ended 31 December 2018

	Motor vehicle Kshs. '000'	Equipment Kshs. '000'	Computers Kshs. '000'	Furniture and fittings Kshs. '000'	Total Kshs. '000'
Cost / valuation					
As at 1 January 2018	-	11,207	14,537	83,415	109,159
Additions	9,237	1,278	3,665	4,638	18,818
Disposal	-	-	(172)	-	(172)
At 31 December 2018	9,237	12,485	18,030	88,053	127,805
Accumulated depreciation					
As at 1 January 2018	-	10,415	9,376	11,180	30,971
Disposal	-	-	(126)	-	(126)
Charge for the year	1,237	544	3,099	8,341	13,221
As at 31 December 2018	1,237	10,959	12,349	19,521	44,066
Net carrying amount					
As at 31 December 2018	**8,000**	**1,526**	**5,681**	**68,532**	**83,739**

b) For the year ended 31 December 2017

	Motor vehicle Kshs. '000'	Equipment Kshs. '000'	Computers Kshs. '000'	Furniture and fittings Kshs. '000'	Total Kshs. '000'
Cost/valuation					
At 1 January 2017	-	10,744	13,219	82,689	106,652
Additions	-	463	1,675	2,068	4,206
Disposal	-	-	(357)	(1,342)	(1,699)
At 31 December 2017	-	11,207	14,537	83,415	109,159
Accumulated depreciation					
At 1 January 2017	-	10,025	6,935	3,819	20,779
Disposal	-	-	(152)	(795)	(947)
Charge for the year	-	390	2,593	8,156	11,139
At 31 December 2017	-	10,415	9,376	11,180	30,971
Net carrying amount					
As at 31 December 2017	**-**	**792**	**5,161**	**72,235**	**78,188**

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

11. Property and equipment (continued)

In the period, there were no property and equipments restricted on title pledged as security for liabilities.

Furniture and fittings were revalued in the year 2014, the revaluation surplus was included in the components of equity. Each year some revaluation surplus is transferred to the general fund as the asset is used. The amount transferred is the difference between depreciation based on the revalued carrying amount and depreciation base on the original cost of the asset. The table below shows the amount of surplus transferred in the year.

	Furniture, fittings and equipment Kshs. '000'
At 1 January 2018	583
Transfer of excess depreciation	(117)
At 31 December 2018	**466**
At 1 January 2017	700
Transfer of excess depreciation	(117)
At 31 December 2017	**583**

If the furniture and fittings were stated on the historical cost basis, the carrying values would be as follows

	Furniture and fittings Kshs. '000'
Net book value	
As at 31 December 2018	**680**
As at 31 December 2017	**1,280**

12. Investment property

	2018 Kshs. '000'	2017 Kshs. '000'
As at 1 January	1,600,000	1,562,755
Addition	617	21,929
Fair Value adjustments	19,383	15,316
As at 31 December	**1,620,000**	**1,600,000**

The amount recognised in profit or loss for rental income from investment property and direct operating expenses (including repairs and maintenance) that generated the rental income during the period have been disclosed under note 6.

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

12. Investment property (continued)

Buildings were revalued on 24th October 2018 by Acumen Valuers Limited (an independent registered valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of building being valued). In council's opinion there has been no material change in the fair value between 24th October 2018 and 31st December 2018.

Details of the institute's investment property and information about the fair value hierarchy as at 31st December 2018 are as follows.

Non-financial asset	Fair value as at 31st December	Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable inputs	Relationships of unobservable inputs to fair value
Investment property	**1,620,000,000**	**level II**	**Open market value basis highest and best use model**	**Not applicable**	**Not applicable**

There were no transfers between level II and level III during the two years ended 31st December 2018 and 31st December 2017. The Institute assumes that the lease will be renewed at minimal cost.

13. Intangible assets

	2018 Kshs. '000'	2017 Kshs. '000'
Cost		
As at January	11,171	8,671
Additions	1,111	2,500
As at December	12,282	11,171
Amortization		
At January	8,138	6,976
Charge for the year	1,804	1,162
As at December	9,942	8,138
Net Carrying amount	**2,340**	**3,033**

The life of the intagible assets held is finite.

14. Other receivables

VAT recoverable on construction	**105,501**	**111,257**

The input VAT on construction of the investment property shall be recovered from the output VAT on rental income.

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

15. Investment in CPA Centre Limited

	2018 Kshs. '000'	2017 Kshs. '000'
Investment in CPA Centre limited	**50**	**50**

16. Inventories

	2018 Kshs. '000'	2017 Kshs. '000'
Seminar materials	**29,033**	**4,321**

The amount of inventories recognised as expense during the period is KSh 25,966,000 (2017: 22,827,000). In addition, there were no reversals of any write-downs and inventories pledged as security.

17. Trade and other receivables

	2018 Kshs. '000'	2017 Kshs. '000'
Subscription receivables	57,142	48,317
Prior year adjustment on Expected Credit Loss (Note 29)	(10,681)	-
Expected Credit loss for current year (Note 29)	(11,596)	-
Subscription Write-off	(28,152)	(21,615)
Net subscription receivables	6,713	26,702
VAT recoverable on construction	24,886	15,612
Other receivables	40,832	60,180
Deposits and prepayments	10,755	10,482
Staff receivables	7,402	8,032
	90,588	**121,008**

18. Cash and bank balances

	2018 Kshs. '000'	2017 Kshs. '000'
Cash at bank and in hand	31,067	29,445
Short term bank deposits	10,200	-
	41,267	**29,445**

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

19. Designated fund

	Bursary funds Kshs '000'	Charity funds Kshs '000'	Total funds Kshs '000'
For the Year ended 31 December 2018			
As at 1 January 2018	2,858	3,959	6,817
Transfer from general fund	1,610	-	1,610
As at 31 December 2018	**4,468**	**3,959**	**8,427**
For the Year ended 31 December 2017			
As at 1 January 2017	3,790	3,129	6,919
Contributions to fund	-	(19)	(19)
Transfer from general fund	(932)	849	(83)
As at 31 December 2017	**2,858**	**3,959**	**6,817**

20. Retention on construction

	2018 Kshs. '000'	2017 Kshs. '000'
Retention in construction on work certified	**-**	**80,795**

21. Borrowings

	2018 Kshs. '000'	2017 Kshs. '000'
Net Borrowing	**488,925**	**444,268**
The borrowings are analysed as follows:		
Current portion	64,430	74,930
Non-current portion	424,495	369,338
	488,925	**444,268**
Loan balance as at January	444,267	475,274
Loan drawdown	100,502	12,679
Loan repayment	(55,844)	(43,685)
Loan Balance as at December	**488,925**	**444,268**

Borrowings relate to a construction loan facility from Standard Chartered Bank amounting to Kenya shillings 625 million for part financing of construction of the CPA Centre. The loan is secured by a fixed charge over the CPA Centre with tenure of 10 years on a floating interest rate. The facility is repayable monthly.

As at 31st December 2018, a total of Kenya Shillings 616.2 million had been drawn down. The interest rate for the loan was revised downwards to 13% in 2018 (14% in 2017) in line with interest rate cap through an Act of Parliament of 2016.

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

22. Trade and other payables

		2018 Kshs. '000'	2017 Kshs. '000'
a)	Trade and other payables	102,840	124,352
	Other accruals	15,478	9,063
	Gratuity	7,420	6,803
	Advance receipts	76,128	55,332
	Rental deposit	5,216	3,267
	Rent and service charge liability	35,281	9,423
	Pan African Federation of Accountants	1,075	8,424
	FiRe award fund	1,952	4,051
		245,390	220,715
b)	**Special fund-Benevolent fund**		
	Balance as at 1st January	22,179	-
	Benevolent income	20,965	18,758
	Benevolent claims	(1,665)	(870)
	Benevolent receivables	3,808	4,291
		45,287	22,179
	Net trade and other payables	**290,677**	**242,894**

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

23. Financial assets and liabilities

The table below shows analysis of financial instruments recorded at the carrying amount which are the reasonable approximation of fair value.

	Level 1 Kshs. '000'	Level 2 Kshs. '000'
As at 31 December 2018		
Financial assets		
Subscription receivables	-	6,713
Other receivables	-	83,875
Cash at bank	41,267	-
Gross financial assets	**41,267**	**90,588**
Financial Liabilities		
Borrowings	-	488,925
Total payables	360,241	-
Advance subscriptions	43,881	-
Gross financial liabilities	**404,122**	**488,925**
At 31 December 2017		
Financial assets		
Subscription receivables	-	26,702
Other receivables	-	94,306
Cash at bank	29,445	-
Gross financial assets	**29,445**	**121,008**
Financial Liabilities		
Borrowings	-	444,267
Total payables	391,583	-
Advance subscriptions	53,037	-
Gross financial liabilities	**444,620**	**444,267**

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

24. Related party balances and transactions

	2018 Kshs. '000'	2017 Kshs. '000'
a) Due from related parties		
Due from KCA university	46,176	45,193
Expected Credit loss 2017	(15,818)	-
Expected credit losses (Current period)	(3,036)	-
	27,322	**45,193**
b) Due to related parties		
Due to KCA University (Note 22)	(524)	524
Due to CPA Centre Limited	50	50
	(474)	**574**

No interest has been charged against any related party balances (2017: Nil). Further KSh 3,036,000 (2017: 15,818,000) was provided on amounts due from related parties.

	2018 Kshs. '000'	2017 Kshs. '000'
c) Key management compensation		
Salaries and other short term benefits	35,713	32,644
Post-employment benefits	14,207	6,848
	49,920	**39,492**
iv) Council remuneration	**4,096**	**5,056**
v) Committee remuneration	**5,828**	**4,186**

vi) ICPAK-KCAU-Maarifa partnership

At the Special General Meeting of ICPAK held on 11 March 2015, ICPAK members approved ICPAK-KCAU-Maarifa partnership. The partnership allows KCA University (KCAU) to enter into a long-term strategic partnership with Emerging Capital Partners (ECP) and Maarifa Education Holdings (Maarifa).

ICPAK and its members are not required to make any financial investment or commitment to KCAU or KCA Education (KCAE). KCAE is the new service company that was created to provide ongoing services to KCAU. ICPAK negotiated to own 25% of the ordinary share capital of KCAE in recognition of its role as Sponsor and its expected ongoing strategic support and input.

ICPAK and Maarifa will control KCAE jointly with a ratio of 25%:75% shareholding respectively. The principal role of KCAE is to undertake all non-academic (non-degree-focused) operations and financial services for KCAU. KCAE will manage non-academic functions such as enrolment management, marketing, accounting and financial management.

ICPAK and KCA University were to facilitate the completion of the transaction hence agreed to share the transaction costs of the financial advisor and the transactional lawyers. During the year no additional costs were incurred or settled.

The transaction completion is under review by KCAU BoT in consultation with National Treasury upon review of all the transaction documentation.

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

25. Employee benefits

	2018 Kshs. '000'	2017 Kshs. '000'
Salaries and wages	159,045	149,955
Medical expenses	14,619	11,146
Pension costs (Defined contribution)	6,666	6,623
Group life	1,034	2,440
Staff gratuity	7,420	6,549
Leave allowances	1,013	2,369
Other staff costs	1,773	1,263
Subscriptions	853	626
Recruitment costs	2,040	1,318
Staff training	3,361	8,426
	197,824	**190,715**

26. Income 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. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

	Percentage rate %
Applicable tax rate capital gain tax	5.00

Deferred tax liability movement	Kshs. '000'
At 1 January 2018	3,660
Prior year adjustment on Deferred tax due to change in tax rate	(3,050)
Deferred tax expense for the year	969
Deferred tax credit charged to P/L	(2,081)
As at 31 December 2018	**1,579**
As at 1 January 2017	
Deferred tax expense	4,595
Prior year adjustment-charged to equity	(935)
As at 31 December 2017	**3,660**

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

27. Commitment

	2018 Kshs. '000'	2017 Kshs. '000'
Total commitment	1,164,095	1,162,628
Paid towards the construction	(1,162,628)	(1,062,118)
	1,467	**100,510**

28. Comparatives

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

29. i) Prior year adjustments

a) Expected credit loss

As explained in Note 1(b)(i), IFRS 9 requires impairment provisions to be made based on expected credit losses instead of incurred credit losses. The effect of this has been applied retrospectively, with the opening balance for 2018 being adjusted. The comparative amounts have not been restated in respect of ECL.

	Carrying amount under IAS 39	Carrying amount under IFRS 9	Expected credit losses		
	1st January 2018	1st January 2018	On transition 1st January 2018	For the year 2018	As at 31st December 2018
Trade and other receivables	121,008	110,327	10,681	11,596	22,277
Cash and bank balance	29,445	29,445	-	-	-
Due from related party	45,193	29,375	15,818	3,036	18,854
	195,646	**169,147**	**26,499**	**14,632**	**41,131**

b) Revaluation Reserve

During the year, the Institute settled all retention on construction, upon expiry of defect liability period. While analyzing the total costs, an overstatement of KShs 8,355,000 accruals were noted, which in effect had understated the revaluation reserve. This was adjusted in the opening balances of 2017, as shown in the statement of financial position and statement of changes in Equity.

ii) Reclassification

In thetatement of financial Position as at December 2017, VAT of KSh 5,968,000 and Service Charge of KSh 9,422,000 were reclassified from trade and other payables to trade and other receivables. Further, the outstanding balance on related party transactions was reclassified from trade and other receivables to non-current assets.

Financial Statements for the year ended 31 December 2018 (Continued)

Notes (Continued)

30. Events after the reporting period

There were no events, favourable or unfavourable, that occured between the end of the reporting period and the date when the financial statements were authorised for issue.

31. Nature and purpose of Reserves

a) **General Reserve -** Comprises accumulated surplus from operations and other comprehensive income.
b) **Revaluation Reserve -** Constitutes accumulated amounts arising from fair value adjustments of property and equipments.
c) **Designated funds -** This is a special fund for CSR related activities.