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## Institute information for the year ended 31 December 2019

### Members of the Council

Chairman	FCPA Rose Mwaura, MBS	Elected June 2019
	FCPA Julius Mwatu	Retired June 2019
Vice- Chairman	FCPA George Mokua	Elected June 2019
	CPA Denish Osodo	Retired June 2019
Member	CPA Risper Olick	Elected June 2019
	CPA Dr. Elizabeth Kalunda	Elected June 2019
	FCPA Obare Nyaega	Retired June 2019
	CPA Anne Wangeci	Elected June 2018
	CPA Susan Oyatsi	Re-elected June 2017
	FCPA Samuel Okello	Re-elected June 2018
	Ms. Damaris Kimosop	Representing other professions
	CPA Jona Wala	Representing the National Treasury (Appointed in December 2019)
	CPA Geoffrey Malombe	Representing the National Treasury (Retired in November 2019)
	FCPA Dr. Nicholas Letting	Representing kasneb (Appointed in May 2019)
CEO & Secretary to the Council	FCPA Wycliffe Shamiah	Representing Capital Markets Authority
	CPA Edwin Makori	

### Council Committees

#### Committee:

Audit Risk and Compliance

Disciplinary

Finance and Strategy

Member Services

Practitioners Development

Professional Standards

Public Policy and Governance

Registration and Quality Assurance

Research and Development

Centre for Public Finance and Taxation Board (CPFT)

#### Convener

FCPA Dr. Nicholas Letting'

CPA Geoffrey Malombe

CPA Denish Osodo

FCPA Charity Muya

FCPA Samuel Okello

FCPA Obare Nyaega

CPA Susan Oyatsi

FCPA Samuel Okello

FCPA George Mokua

FCPA Rose Mwaura, MBS

FCPA Michael Mugasa

FCPA Rose Mwaura

FCPA Julius Mwatu

FCPA Dr. Jim McFie

CPA Dr. Elizabeth Kalunda

FCPA Obare Nyaega

FCPA Rajesh Shah

#### Date Appointed/Retired

Appointed in November 2019

Retired in November 2019

Retired in June 2019

Appointed in June 2018

Appointed in June 2019

Retired June 2019

Appointed in June 2019

Served up to June 2019

Appointed in June 2019

Served up to June 2019

Appointed in August 2013

Appointed in June 2019

Retired in June 2019

Appointed in June 2014

Appointed in June 2019

Retired in June 2019

Appointed in May 2018

## KCA University Board of Trustees

FCPA Michael Waweru - Chairman  
FCPA Rose Mwaura - Member  
CPA Edwin Makori - Secretary  
FCPA Shabir Issak - Member  
CPA Dr. Winnie Nyamute - Member  
CPA David Abwoga - Member  
Mr. Andrew Mulei - Member  
Mr. Joseph Kosgei - Member  
CS Happi Kilongozi - Member

## KCAU Governing Council - ICPAK Representatives

Finance Committee  
Audit, Risk and Governance Committee

CPA Evelyn Muriuki - Member  
CPA Charles Ringera - Member

## Registered Office and Principal Place of Business

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

Telephone	:	+254 (020) 2304226, 2304227
Mobile	:	+254 727 531006/0733 856262/0721 469796 /0 721 469169
E-mail	:	<a href="mailto:icpak@icpak.com">icpak@icpak.com</a>
Website	:	<a href="http://www.icpak.com">www.icpak.com</a>

## 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 Kenya Limited  
Ruaraka Branch  
P.O. Box 32886 - 00600  
NAIROBI

ABSA Bank Kenya PLC (formerly Barclays Bank of Kenya Limited)  
Moi Avenue Branch  
P.O. Box 30116 - 00100  
NAIROBI

## Legal Advisors

Hamilton Harrison & Mathews  
1st floor, Delta Suite  
Waiyaki way  
P.O. Box 30333 - 00100  
NAIROBI

## Report of the Council for the year ended 31 December 2019

The Council submits its report together with the audited financial statements for the year ended 31 December 2019, 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 (K) brand; advise Kasneb on matters relating to examinations standard and policies; and to advise the Cabinet Secretary responsible for finance on matters relating to financial accountability in all sectors of the economy.

### 3. Membership

	2019 No.	2018 No.
Active members at end of year	<b>21,691</b>	<b>20,610</b>
Active members at beginning of year		
Practicing	1,097	1,048
Non practicing	16,605	15,232
Overseas	374	403
Retired	704	760
Associates	1,830	1,710
	20,610	19,153
New members in the year	2,142	2,891
Deceased and change of status	(27)	(24)
	22,725	22,020
Members in default		
- written off	(1,355)	(1,587)
- recovered	321	177
Active members at end of year	<b>21,691</b>	<b>20,610</b>
Full members	19,758	18,780
Associate members	1,933	1,830
Active members at end of year	<b>21,691</b>	<b>20,610</b>

Active members are those that have fully paid their subscriptions and those with less than two years of outstanding subscriptions as at the year-end.

## Report of the Council for the year ended 31 December 2019

### 4. Results for the year

(Deficit)/surplus after deferred tax

2019	2018
Kshs '000'	Kshs '000'
(47,246)	27,757

### 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 and liabilities in the financial statements misleading.

### 7. Statement as to disclosure to the Institute's auditor

With respect to each council member at the time this report was approved:

- There is, so far as each Council member is aware, no relevant audit information of which the Institute's auditor is unaware; and
- that each Council member has taken all the steps that the council ought to have taken as a council member so as to be aware of any relevant audit information and to establish that the Institute's auditor is aware of that information.

### 8. Auditor

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

By Order of the Council



CPA Edwin Makori  
CEO & Secretary to the Council  
Nairobi 4th May 2020

## Statement of Council's responsibilities on the financial statements

### For the year ended 31 December 2019

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 2019 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Having assessed the Institute's ability to continue as a going concern, the council is not aware of any material uncertainties related to events or conditions that may cast doubt upon the Institute's ability to continue as a going concern.

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

Approved by the Council on 4th May 2020 and signed on its behalf by:



**FCPA Rose Mwaura, MBS**  
Chairman



**FCPA Samuel Okello**  
Convenor, Finance and Strategy Committee



**CPA Edwin Makori**  
CEO & 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 31st December 2019

### Opinion

We have audited the accompanying financial statements of the Institute of Certified Public Accountants of Kenya (ICPAK/the Institute), as set out on pages 8 to 38, which comprise the Statement of Financial Position as at 31st December 2019, the Income Statement of Changes in Equity and Statement of Cash flows for the year then ended, and Notes, 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 31st December 2019 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. We have determined that there are no key audit matters to communicate in our report.

### 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 identified above 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 on the other information we have received prior to the date of this auditor's report we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the rest of the other information in the Annual Report and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance

### 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 controls 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 intends to liquidate the Institute or to cease its operations or have no realistic alternative but to do so.

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Partners: Coutts Otolu | Victor Majani | Michelle Okonji



**Report of the independent auditor**  
**To the members of the Institute of Certified Public Accountants of Kenya**  
**For the year ended 31st December 2019**

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

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.

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

**Auditor's responsibilities for the audit of the financial statements**

- 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 firm'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.

*Parker Randall Eastern Africa*

Certified Public Accountants (Kenya)

Nairobi 4th May 2020

The signing partner responsible for the independent audit was CPA Michelle Okonji Practicing Certificate No. 2324.

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Partners: Coutts Otolu | Victor Majani | Michelle Okonji

## Income Statement for the year ended 31 December 2019

	Note	2019 Kshs '000'	2018 (Restated*) Kshs '000'
<b>Income</b>			
Subscriptions	4 (a)	262,615	231,781
Member services	5 (a)	615,115	548,032
CPA Centre rental income before finance cost	6	40,178	31,328
Social responsibility activities	8(a)	2,868	2,909
		<u>920,776</u>	<u>814,050</u>
<b>Expenses</b>			
Subscription expenses	4(b)	95,106	85,182
Member services	5(b)	470,008	422,632
CPA Centre direct expenses	6	19,501	22,341
Social responsibility	8(b)	1,536	1,299
Operating expenses	9	171,961	167,693
Impairment loss on financial assets	4(c)	27,897	42,784
		<u>786,009</u>	<u>741,931</u>
<b>Operating surplus</b>		<b>134,767</b>	<b>72,119</b>
Finance cost	7	<u>(60,652)</u>	<u>(66,132)</u>
<b>Operating surplus after finance cost</b>		<b>74,115</b>	<b>5,987</b>
Other income	11	3,089	306
Fair value (loss)/gain on investment property	13	<u>(131,000)</u>	<u>19,383</u>
<b>(Deficit)/surplus before taxation</b>		<b>(53,796)</b>	<b>25,676</b>
Deferred tax credit for the year	30	6,550	2,081
<b>(Deficit)/surplus after deferred tax</b>		<b><u>(47,246)</u></b>	<b><u>27,757</u></b>

\*Some amounts shown herein have been adjusted in the 2018 financial statements to enhance disclosure. Refer to Notes 4, 5 and 9.

The notes set out on pages 12 to 38 form an integral part of the financial statements.

## Statement of Financial Position as at 31 December 2019

		2019	2018	1 January 2018
	Note	Kshs '000'	Restated* Kshs '000'	Restated* Kshs '000'
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property and equipment	12	77,198	83,739	78,188
Investment property	13	1,489,000	1,620,000	1,600,000
Intangible assets	14	4,116	2,340	3,033
Right of use assets	15	9,854	8,755	1,042
Deferred tax	30	4,971	-	-
Other receivables	16	115,501	105,501	111,257
Due from related party	28(a)	-	27,387	45,193
Investment in CPA Centre Limited	17	50	50	50
		<u>1,700,690</u>	<u>1,847,772</u>	<u>1,838,763</u>
<b>Current assets</b>				
Inventories	18	15,688	29,033	4,321
Grant fund balance		-	-	48
Trade and other receivables	19	94,849	91,573	121,008
Fixed deposits	20	58,200	10,200	-
Cash and bank balances	21	64,023	31,067	29,445
		<u>232,760</u>	<u>161,873</u>	<u>154,822</u>
<b>TOTAL ASSETS</b>		<b>1,933,450</b>	<b>2,009,645</b>	<b>1,993,585</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
General fund		1,002,912	1,051,372	1,051,607
Revaluation reserve		108,846	108,963	109,080
Designated funds	22	9,755	8,424	6,814
		<u>1,121,513</u>	<u>1,168,759</u>	<u>1,167,501</u>
<b>Non-current liabilities</b>				
Deferred tax	30	-	1,579	3,660
Due to CPA centre limited	28(b)	50	50	50
Lease liability	26	8,384	6,964	1,014
Borrowings	23	360,248	424,495	369,338
		<u>368,682</u>	<u>433,088</u>	<u>374,062</u>
<b>Current liabilities</b>				
Deferred grant income	10	4,293	5,135	-
Borrowings	23	57,894	64,430	74,930
Trade and other payables	24(a)	311,449	291,725	242,894
Lease liability	26	2,916	2,624	364
Deferred subscriptions	25	66,703	43,884	53,039
Retention on construction		-	-	80,795
		<u>443,255</u>	<u>407,798</u>	<u>452,022</u>
<b>Total equity and liabilities</b>		<b>1,933,450</b>	<b>2,009,645</b>	<b>1,993,585</b>

\*Some amounts shown herein have been adjusted in the 2018 financial statements in line with implementation of IFRS 16. Refer to Notes 15,26, 33 and 35.

The financial statements on pages 8 to 38 were authorised and approved for issue by the Council on 4th May 2020 and signed on its behalf by:



FCPA Rose Mwaura, MBS  
Chairman



CPA Edwin Makori



FCPA Samuel Okello  
Convener, Finance and Strategy Committee

## Statement of Changes in Equity for the year ended 31 December 2019

	Note	General fund Kshs '000'	Revaluation reserve Kshs '000'	Designated fund Kshs '000'	Total Kshs '000'
<b>At 1 January 2019</b>		<b>1,051,372</b>	<b>108,963</b>	<b>8,424</b>	<b>1,168,759</b>
Surplus after deferred tax		(47,246)	-	-	(47,246)
Transfer of excess depreciation	12	117	(117)	-	-
Surplus from social responsibility	8	(1,331)	-	1,331	-
<b>At 31 December 2019</b>		<b>1,002,912</b>	<b>108,846</b>	<b>9,755</b>	<b>1,121,513</b>
<b>At 1 January 2018 Restated*</b>		<b>1,051,607*</b>	<b>109,080</b>	<b>6,814</b>	<b>1,167,501</b>
Prior period adjustment for expected credit losses		(26,499)	-	-	(26,499)
Surplus after deferred tax		27,757	-	-	27,757
Transfer of excess depreciation (furniture)	12	117	(117)	-	-
Surplus from social responsibility	8	(1,610)	-	1,610	-
<b>At 31 December 2018</b>		<b>1,051,372</b>	<b>108,963</b>	<b>8,424</b>	<b>1,168,759</b>

\*General fund balance in 2018 financial statements have been adjusted in line with implementation of IFRS 16. Refer to Note 33(a).

The notes set out on pages 12 to 38 form an integral part of the financial statements.

## Statement of Cash Flows for the year ended 31 December 2019

	Note	2019 Kshs '000'	2018 Kshs '000'
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Surplus before tax and interest		6,856	91,808
<b>Adjustments for:</b>			
Fair value adjustment of investment property	13	131,000	(19,383)
Prior year adjustment-interest on lease liability		-	827
Depreciation and amortisation		19,180	17,781
Prior year adjustment		-	(26,836)
Expected credit losses		27,387	17,806
Subscription written off		22,443	28,152
CSR net income	8	(1,331)	(1,610)
Loss /gain) on disposal of equipment		369	(48)
Interest income	11	-	(377)
<b>Surplus before working capital changes</b>		<b>205,904</b>	<b>108,120</b>
Decrease /(increase) in inventories	18	13,345	(24,712)
(Increase)/decrease in trade and other receivables		(35,719)	7,040
Increase fixed deposits		(48,000)	(10,200)
Decrease deferred grant expense		-	48
(Decrease) / increase in deferred grant income		(842)	5,135
Increase in trade and other payables	24	19,725	48,832
Increase/(decrease) in advance subscriptions	25	22,818	(9,157)
Increase/(decrease) in retention on construction		-	(80,795)
Interest income	11		377
Interest on mortgage	7	(59,154)	(65,264)
<b>Net cash generated from/ (used in) operating activities</b>		<b>118,077</b>	<b>(20,576)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property and equipment	12	(8,293)	(18,818)
Additions on investment property	13	-	(617)
Purchase of intangible asset	14	(3,784)	(1,111)
Disposal of property and equipment		116	94
<b>Net cash used in investing activities</b>		<b>(11,961)</b>	<b>(20,452)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Cash received from-CSR activities	8(a)	2,868	2,909
CSR cash payments	8(b)	(1,536)	(1,299)
Interest on lease liability	26	(1,498)	(1,695)
Lease payment	26	(2,211)	(1,923)
Loan taken	23	-	100,502
Loan paid	23	(70,783)	(55,844)
<b>Net cash (used in) / generated from financing activities</b>		<b>(73,160)</b>	<b>42,650</b>
Increase in cash and cash equivalents		32,956	1,622
As at 1 January		31,067	29,445
<b>As at 31 December</b>	<b>21</b>	<b>64,023</b>	<b>31,067</b>

## 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.

#### 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 note 1(c) below, rounded to the nearest thousand (Kshs '000'). The financial statements comprise the Income Statement, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and Notes thereon. Income and expenses are recognised in the Income Statement.

Preparation of financial statements in conformity with International Financial Reporting Standards requires use of estimates and assumptions. It also requires management to exercise judgment in applying accounting policies adopted by the Institute. Although such estimates and assumptions are based on Council's best knowledge and information available, actual results may differ from 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. Areas involving judgments most significant to the financial statements, and sources of estimation that may have a significant risk 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 maximize 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 categorized 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:

- 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 and revised standards that are effective

One new Standard, one new Interpretation and a number of Amendments to standards became effective for the first time in the financial year beginning 1 January 2019 and have been adopted by the Institute. Neither the Amendments nor the Interpretation has had an effect on the Institute's financial statements, but the new Standard has had an impact, as follows:

##### IFRS 16 leases

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, and requires 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 is 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 Institute adopted the standard on 1 January 2019. To comply with the standard, the Institute now recognises lease liabilities relating to leases under which the Institute is the lessee. These leases had previously been classified as operating leases. Such liabilities have been measured at 1 January 2019 using the Institute's incremental borrowing rate as at 1 January 2019.

Corresponding right-of-use assets have been recognised and measured as if the Institute's new accounting policy (see Note 1 (q)) had been applied since the commencement of each lease but discounted using the Institute's incremental borrowing rate of 13%.

## NOTES (Continued)

### 1. Summary of Significant Accounting Policies (continued)

#### i) New and revised standards that are effective (Continued)

##### IFRS 16 Leases (Continued)

The Institute adopted full retrospective approach in the application of IFRS 16. Further details on the impact of the standard to the Institute are set out in Note 35.

**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. It also provides clarification on accounting for financial liabilities following modifications.

**Amendments to References to the Conceptual Framework in IFRS Standards (issued in March 2018)** - The amendment, effective for annual periods beginning 1 January 2019, aligns various standards to the new conceptual framework.

**IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017)** - The Interpretation, applicable to annual periods beginning on or after 1st January 2019, clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty over income tax treatments.

##### **Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017).**

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

##### **Amendments to IFRS 3 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017**

The amendments, applicable to annual periods beginning on or after 1st January 2019, provide additional guidance on applying the acquisition method to particular types of business combination.

##### **Amendments to IFRS 11 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017**

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure its previously held interests.

##### **Amendments to IAS 12 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017**

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in the income statement, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked.

##### **Amendments to IAS 23 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017**

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

##### **Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2018)**

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2019, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset) in the manner specified in the amended standard.

Based on assessment of the council, the adoption of the above standards, other than IFRS 16, will not have a significant impact on the Institute's financial statements.

#### ii) New and revised standards that have been issued but are not yet effective

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

**Amendments 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.

## NOTES (Continued)

### 1. Summary of Significant Accounting Policies (continued)

#### ii) New and revised standards that have been issued but are not yet effective (Continued)

**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 17 Insurance Contracts (issued in May 2017)** - The new standard, effective for annual periods beginning on or after 1 January 2023, provides a uniform measurement and presentation approach for all insurance contracts. The new standard also requires insurance-liabilities to be measured at current fulfilment value.

**Amendment to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform (Issued in September 2019)** - The amendment, effective for annual period beginning 1 January 2020, is designed to support the provision of useful financial information by organizations during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs).

**The Institute has not applied any of the new or revised Standards and Interpretations that have been published but are not yet effective for the year beginning 1 January 2019, and the Council does not plan to apply any of them until they become effective.**

**None of the above is expected to have a significant impact on the Institute's financial statements in the period of initial application.**

#### c) Translation of foreign currencies

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.

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 the income statement in the year in which they arise.

#### 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 and firm licence fee are recognized on a straight-line basis over the subscription period as members receive and consume the benefits of goods or services provided by the Institute.
- (ii) First registration fees are recognized as income 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 as the services are rendered.
- (iv) Rental income is recognised on a straight-line basis over the period of the lease.
- (iv) Interest income is recognised on a time proportion basis using the effective interest method.
- (v) Audit software license income is recognised as the services are rendered.

#### e) Property, equipment and depreciation

All property and equipment are 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.

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 Income Statement 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:

## NOTES (Continued)

### 1. Summary of Significant Accounting Policies (continued)

#### e) Property, equipment and depreciation (Continued)

Equipment	4 years
Computers	4 years
Furniture and fittings	10 years
Motor Vehicles	4 years

The residual value and useful lives of Property and Equipment are usually reviewed at the end of each financial year. Where expectations differ from the previous estimates, any changes are accounted for prospectively as changes in estimates.

Assets are de-recognised from the Statement of Financial Position on disposal or when it is withdrawn from use and no future economic benefits are expected from it. Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are considered in determining the surplus for the year.

#### 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 value, based on annual valuations carried out by external independent valuers. Gains or losses arising from changes in fair value are reported in the Income Statement.

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 considered in determining operating surplus.

#### g) Intangible assets - Computer Software

Computer software licences are capitalised based on the costs incurred to acquire and bring to use the specific software. These costs are amortised over the assets' 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 of disposal 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.

#### 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 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).

## NOTES (Continued)

### 1. Summary of Significant Accounting Policies (continued)

#### j) Financial instruments (continued)

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 the Income statement as impairment losses or reversal of impairment 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 amortized cost using effective interest rate method, less allowance for expected credit losses.
- 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 income.
- iii All other financial assets are classified and measured at fair value through the Income statement.
- 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.

#### k) 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 the income statement. 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 amounts 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 the income statement.

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 the income statement.

#### l) 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 position, bank overdrafts are included as borrowings under current liabilities.

#### m) Employee benefits

##### Post-employment benefit obligations

The Institute operates a defined contribution staff retirement benefit scheme for its employees. The scheme is administered by ICEA Lion Kenya and is funded by contributions from both the Institute and the employees. The Institute's contributions to the defined contribution retirement benefit scheme are recognised as expense in the income statement in the year in which they relate.

#### m) Employee benefits (Continued)

The Institute and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme

## NOTES (Continued)

### 1. Summary of Significant Accounting Policies (continued)

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 on accrued annual leave and gratuity are recognized as an expense in the income statement and as a liability in the statement of financial position. Changes to these estimates are recognised as an income or expense in the period in which they arise.

#### n) Grants

Grants are recognized as income when the Institute complies with the conditions attached to the them and there is an assurance of funds being 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 the income statement 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 the income statement in the period in which they become receivable.

#### o) Borrowing costs

Borrowing costs, net of any temporary investment income on those borrowings that are attributable to acquisition, construction of a qualifying asset is 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 income statement in the year in which they are incurred.

#### p) 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.

#### q) Leases

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of below Kshs.500,000) the Institute recognises a right-of-use asset and a lease liability.

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees and the exercise price of a purchase option if the Institute is reasonably certain to exercise that option. The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the Institute's incremental borrowing rate is used.

For leases that contain non-lease components, the Institute allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components.

The right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability, any lease payments made on or before the commencement date, any initial direct costs incurred, and an estimate of the costs of restoring the underlying asset to the condition required under the terms of the lease.

Subsequently, the lease liability is measured at amortised cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments. On the other hand, right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability.

Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life. If ownership of the underlying asset is not expected to pass to the Institute at the end of the lease term, the estimated useful life would not exceed the lease term.

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity

## NOTES (Continued)

### 1. Summary of Significant Accounting Policies (continued)

#### q) Leases (Continued)

under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are charged to the income statement. Annually, the difference between the depreciation charge based on their valued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost (excess depreciation) is transferred from the revaluation surplus reserve to retained earnings.

For leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value, the total lease payments are recognised in the income statement on a straight – line basis over the lease period.

### 2. Significant Judgments 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,
- whether the lease of the property will be renewed or not,
- how to determine the incremental borrowing rate used in the discounting of lease liabilities.

### 3. Risk Management Objectives and Policies

#### a) Financial risk management

The Institute's activities expose it to three main financial risks: 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.

The maximum credit risk exposure at the end of reporting period is the carrying amounts of each class of financial asset.

## NOTES (Continued)

### 3. Risk Management Objectives and Policies

#### a) Financial risk management (continued)

##### i) Credit risk (Continued)

As at 31 December 2019

	Kshs '000'
Trade and other receivables	91,783
Subscription debtors net of write off	30,797
Due to related party	46,241
Cash at bank	122,223
<b>Gross carrying amount</b>	<b>291,044</b>
Expected credit loss	(27,731)
Expected credit loss-related party	(46,241)
<b>Net carrying amount</b>	<b>217,072</b>

As at 31 December 2018

	Expected Credit Losses Kshs '000'
Trade and other receivables	84,858
Subscription debtors	28,990
Due to related party	46,241
Cash at bank	41,267
<b>Gross carrying amount</b>	<b>201,356</b>
Expected credit loss	(22,277)
Expected credit loss-related party	(18,854)
<b>Net carrying amount</b>	<b>160,225</b>

#### Credit risk exposure on the trade receivables and contract assets

31 December 2019	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total Kshs '000'
Expected Loss Rate	(34%)	(13%)	(30%)	(47%)	
Gross carrying amount-trade and other receivables	16,371	3,442	12,911	59,059	91,783
Gross carrying amounts-subscription debtors	-	-	-	30,797	30,797
Gross carrying amount-related party receivables	-	-	-	46,241	46,241
Expected credit loss	(5,550)	(447)	(3,873)	(64,102)	(73,972)
<b>Net carrying amount</b>	<b>10,821</b>	<b>2,995</b>	<b>9,038</b>	<b>71,995</b>	<b>94,849</b>

## NOTES (Continued)

### 3. Risk Management Objectives and Policies

#### a) Financial risk management (continued)

31 December 2018

	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total Kshs'000'
Expected loss rate	(15%)	(42%)	(36%)	(46%)	-
Gross carrying amount - trade and other receivables	14,612	2,461	7,007	60,778	84,858
Gross carrying amounts - subscription receivables	-	-	-	28,990	28,990
Gross carrying amount-related party debtors	-	-	-	46,241	46,241
Expected credit loss	(2,192)	(1,034)	(2,523)	(62,382)	(68,131)
<b>Net carrying amount</b>	<b>12,420</b>	<b>1,427</b>	<b>4,484</b>	<b>73,627</b>	<b>91,573</b>

The Institute accounts for its credit risk by providing for expected credit losses on a timely basis. Receivables are grouped based on shared credit risk characteristics and days past due. In calculating the expected credit loss rate, the Institute considers historical loss rate for each group of receivables and adjusts for forward-looking macroeconomic data.

#### ii) Liquidity risk

Prudent liquidity risk management implies maintaining enough 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 0.53:1 (2018: 0.39:1).

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

	Between 1-3 months Kshs '000'	Between 3-12 months Kshs '000'	Over 12 months Kshs '000'	Total Kshs '000'
<b>31 December 2019</b>				
Trade and other payables	239,169	51,997	20,283	311,449
Borrowings	-	84,718	407,380	492,098
Deferred subscription	66,703	-	-	66,703
Deferred grant income	-	-	4,293	4,293
Lease liabilities	-	2,916	8,384	11,300
	<b>305,872</b>	<b>139,631</b>	<b>440,340</b>	<b>885,543</b>

31 December 2019

Trade and other payables	245,698	33,391	12,636	291,725
Borrowings	-	70,712	479,679	550,391
Deferred subscription	43,884	-	-	43,884
Deferred grant income	-	-	5,135	5,135
Lease liabilities	-	2,624	6,964	9,588
	<b>289,582</b>	<b>106,727</b>	<b>501,903</b>	<b>900,723</b>

**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 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.2,910,000 (2018: Kshs.510,000).

If the interest rates on the Institute's borrowings 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.20,907,099 (2018: Kshs.24,446,240).

**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 it supports the development of its business and can continue as a going concern. The Institute is not subject to any external equity or capital requirements.

## NOTES (continued)

### 4. Subscription income and expenses

	2019 Kshs '000'	2018 Kshs '000'
<b>(a) Income</b>		
Practising	22,550	20,960
Non practising	165,747	153,218
Overseas	2,899	3,124
Retired	2,640	2,850
Associate members	3,660	3,420
Subscription debtors recovered	7,268	3,703
Firm licence fees	14,931	-
New members' registration fee	42,920	44,506
	<u>262,615</u>	<u>231,781</u>
<b>(b) Expenses</b>		
Employees' benefit	44,835	39,565
Advocacy and international relations	12,622	13,672
Marketing	8,241	6,244
Telephone, postage, printing and stationery	1,384	1,381
ICT costs	2,353	2,107
Professional development	15,420	14,342
Publications	10,251	7,871
	<u>95,106</u>	<u>85,182</u>
<b>(c) Impairment loss on financial assets</b>		
Expected credit losses	5,454	14,632
Subscriptions written off	22,443	28,152
	<u>27,897</u>	<u>42,784</u>
<b>Net subscription income</b>	<u>139,613</u>	<u>103,815</u>

**NOTES (continued)**

In the year 2019, the Institute reclassified its costs to closely match incomes with their associated costs. This was done to enhance disclosure on each revenue stream.

In this regard, prior year subscription income has been adjusted to conform with changes in presentation, in the current year. These costs were reclassified from operating expenses to subscription expenses.

**5. Member services****(a) Income**

	2019 Kshs '000'	2018 Kshs '000'
Monthly seminars/video sessions	316,500	262,039
Annual seminar	207,481	203,235
In house training	33,566	33,959
Executive retreat	18,329	12,115
Managerial seminar	12,856	12,361
Internal audit conference	13,149	13,924
Economic symposium	13,230	9,953
Sale of publications	4	446
	<b>615,115</b>	<b>548,032</b>

**(b) Direct expenses**

Monthly seminars/video sessions	260,548	256,311
Annual seminar	160,765	112,807
In house training	7,971	10,741
Executive retreat	15,141	17,571
Managerial seminar	8,287	7,730
Internal audit conference	8,770	7,561
Economic symposium	8,526	9,911
	<b>470,008</b>	<b>422,632</b>
<b>Income net of direct expenses</b>	<b>145,107</b>	<b>125,400</b>

## NOTES (continued)

Prior year member services expenses have been adjusted to conform with the presentation adopted in the current year. The new presentation enhances disclosure on each revenue stream by matching it to corresponding expenses. The table below outlines items reclassified from operating expenses.

### Member services expenses in the financial statements for the year ended 31 December 2018

	Kshs '000'
	<b>271,718</b>
<b>Items reclassified from operating expenses</b>	
Employee benefit	138,477
Advocacy and international relations	5,130
Telephone, postage, printing and stationery	4,144
IT costs	2,107
Audit expenses	1,056
	<b>150,914</b>
<b>Member services expenses reported</b>	<b>422,632</b>

### 6. CPA Centre rental income

	2019 Kshs '000'	2018 Kshs '000'
<b>(a) Gross rental income</b>	<b>40,178</b>	<b>31,328</b>
Rental expenses		
Service charge for unoccupied space	(8,260)	(11,462)
Gross letting commission	(1,366)	(2,089)
Salary	(9,875)	(8,790)
<b>Total rental expense</b>	<b>(19,501)</b>	<b>(22,341)</b>
<b>(b) Interest on mortgage (Note 7)</b>	<b>(59,154)</b>	<b>(65,264)</b>
<b>Net rental loss after finance cost</b>	<b>(38,476)</b>	<b>(56,277)</b>

### 7. Finance cost

Interest on mortgage	59,154	65,264
Interest on lease liability (Note 26)	1,498	868
	<b>60,652</b>	<b>66,132</b>

Prior year finance cost figures were restated to include Interest on Lease Liability. This was in line with the new IFRS 16 adopted by ICPAK on 1 January 2019. The detailed impact of adoption of IFRS 16 has been outlined in Note 35.

### 8. Social responsibility activities

	2019 Kshs '000'	2018 Kshs '000'
<b>a) Income</b>		
Golf tournament	2,868	2,909
<b>b) Expenses</b>		
CSR activities	(1,536)	(1,299)
<b>Surplus from social responsibility activities</b>	<b>1,331</b>	<b>1,610</b>

**NOTES (continued)**

Social responsibility income is the net proceeds from annual charity golf tournament and other CSR activities. These proceeds are utilised in funding various corporate social responsibility activities including educating needy students.

	2019 Kshs '000'	2018 Kshs '000'
<b>9. Operating expenses</b>		
Employee benefits (Note 29)	22,417	19,782
Advocacy and international relations	25,778	27,135
Governance	52,348	47,700
Marketing	4,104	4,150
Legal fees	8,443	4,580
Telephone, postage, printing and stationery	1,384	1,381
Shared services	3,471	3,368
Staff meetings and welfare	7,665	15,241
IT costs	7,059	6,322
Depreciation and amortisation	19,180	16,479
Impairment of receivables	221	6,290
Bank charges	3,837	4,248
FiRe award	2,000	2,000
Insurance	2,859	1,592
External audit fees	1,122	1,122
Utilities	3,946	175
Service charge	6,127	6,127
	<b>171,961</b>	<b>167,693</b>

Other than the reclassifications outlined in notes 4(b) and 5(b), the retrospective adoption of IFRS 16 also had an impact on prior year operating expenses. The following table provides a reconciliation of prior year operating expenses. The impact of IFRS 16 has been detailed in Note 35.

	Note	Kshs '000'
<b>Operating expenses in the financial statements for the year ended 31 December 2018</b>		<b>446,945</b>
<b>Items reclassified to: -</b>		
Subscriptions	4(b)	(127,966)
Member services expenses	5(b)	(150,914)
<b>Impact of IFRS 16 on: -</b>		
Depreciation and amortization		1,453
Utilities		(1,825)
<b>Operating expenses after reclassification</b>		<b>(279,252)</b>
		<b>167,693</b>

## NOTES (continued)

### 10. Grants

#### Business advocacy fund (BAF) grant

ICPAK received a grant of Kshs.12,337,500 from BAF to support development of Income Tax Act Policy. Most of the activities envisioned in the grant have already been implemented. The Institute is still on course to finalize remaining program objectives.

	2019 Kshs '000'	2018 Kshs '000'
At 1 January	5,135	(48)
Receipts	-	5,465
Operating expenses	(842)	(282)
At 31 December	<b>4,293</b>	<b>5,135</b>

### 11. Other income

(Loss)/gain on disposal on property and equipment

Investment Income

Sale of publications and other miscellaneous income

Software subscriptions

	2019 Kshs '000'	2018 Kshs '000'
(Loss)/gain on disposal on property and equipment	(369)	48
Investment Income	-	377
Sale of publications and other miscellaneous income	1,547	(119)
Software subscriptions	1,911	-
	<b>3,089</b>	<b>306</b>

In the year 2019, there was no interest income arising from the Institute's general operations. The funds invested were from benevolent and investment income arising therefrom is disclosed under benevolent funds in Note 24 (c).

### 12. Property and equipment

#### (a) For the year ended 31 December 2019

	Motor vehicle Kshs '000'	Equipment Kshs '000'	Computer Kshs '000'	Furniture and fittings Kshs '000'	Total Kshs '000'
<b>Cost/valuation</b>					
At 1 January 2019	9,237	12,485	18,030	88,053	127,805
Additions	-	1,784	3,733	2,776	8,293
Disposals	-	-	(776)	-	(776)
At 31 December 2019	9,237	14,269	20,987	90,829	135,322
<b>Accumulated depreciation</b>					
At 1 January 2019	1,237	10,959	12,349	19,521	44,066
Disposals	-	-	(290)	-	(290)
Charge for the year	1,847	794	2,975	8,732	14,348
At 31 December 2019	3,084	11,753	15,034	28,253	58,124
<b>Net carrying amount</b>					
At 31 December 2019	<b>6,153</b>	<b>2,516</b>	<b>5,953</b>	<b>62,576</b>	<b>77,198</b>

**NOTES (continued)****12. Property and equipment (continued)****(b) For the year ended 31 December 2018**

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

In the year ended 31 December 2019, there was no property and equipment pledged as security for liabilities or restricted for use. Further, the Carrying Amounts were not materially different from their Fair Values and no funds were received from third parties, as compensation for Property and Equipment impaired, lost or given up.

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

	<b>Furniture, fittings and equipment</b> <b>Kshs '000'</b>
At 1 January 2019	466
Transfer of excess depreciation	(117)
At 31 December 2019	349
At 1 January 2018	583
Transfer of excess depreciation	(117)
At 31 December 2018	466

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

	<b>Furniture and fittings</b> <b>Kshs '000'</b>
<b>Net carrying amount</b>	
At 31 December 2019	80
At 31 December 2018	680

## NOTES (continued)

### 13. Investment property

As at 1 January  
Addition  
Fair value adjustments  
**As at 31 December**

2019	2018
Kshs '000'	Kshs '000'
1,620,000	1,600,000
-	617
(131,000)	19,383
<b>1,489,000</b>	<b>1,620,000</b>

Rental income net of direct expenses such as repairs and maintenance from investment property is recognised in the Income statement. These are disclosed under note 6.

The fair value of the investment property as at 31 December 2019 has been arrived at on the basis of valuation carried out on 18 December 2019 by Joe Consultants Ltd, an independent registered valuer. In the Council's opinion there were no material changes in the fair value between 18 December 2019 and 31 December 2019.

The valuation conforms to international valuation standards. The fair value was determined based on the market value approach that reflects recent transaction prices of similar properties. In estimating the fair value of the property, prevailing market conditions in the commercial property industry were considered and it was assumed that the lease of the land will be renewed at minimal cost.

Details of the Institute's investment property and information about the fair value hierarchy as at 31 December 2019 are as follows.

Non-financial asset	Fair value as at 31 December 2019	Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable inputs	Relationships of unobservable inputs to fair value
Investment property	1,489,000,000	level II	Open market value basis-highest and best use model	Not applicable	Not applicable

There were no transfers between level I, II and III during the year ended 31 December 2019 and 31 December 2018.

### 14. Intangible assets (Computer Software)

Cost

At 1 January  
Additions  
At 31 December

**Amortization**

As at 1 January  
Charge for the year  
At 31 December

**Net carrying amount**

2019	2018
Kshs '000'	Kshs '000'
12,282	11,171
3,784	1,111
<b>16,066</b>	<b>12,282</b>
9,942	8,138
2,008	1,804
<b>11,950</b>	<b>9,942</b>
<b>4,116</b>	<b>2,340</b>

The life of intangible assets held by the Institute is finite.

**NOTES (continued)****15. Right of use assets**

	2019 Kshs '000'	2018 Kshs '000'
<b>Cost</b>		
At 1 January	11,510	2,344
Additions	3,923	9,166
At 31 December	15,433	11,510
<b>Amortization</b>		
At 1 January	2,756	1,302
Charge for the year	2,823	1,453
At 31 December	5,579	2,755
<b>Net carrying amount</b>	<b>9,854</b>	<b>8,755</b>

The Institute leases various offices that house ICPAK branches. The leases for these branch offices are typically for periods of between two and six years, with options to renew. None of the leases contains any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

The right of use assets was recognised on adoption of IFRS 16 whose impact has been outlined under Note 35.

**16. Other receivables**

	2019 Kshs '000'	2018 Kshs '000'
VAT recoverable on construction	115,501	105,501

VAT Recoverable arose during the construction of CPA Centre Building. Recovery is continuously done from VAT arising from rental income.

**17. Investment in CPA Centre Limited**

	2019 Kshs '000'	2018 Kshs '000'
Investment in CPA Centre Limited	50	50

**18. Inventories**

	2019 Kshs '000'	2018 Kshs '000'
Seminar materials	15,688	29,033

## NOTES (continued)

### 19. Trade and other receivables

Subscription receivables

Expect credit loss

Subscription write-off

**Net subscription receivables**

VAT recoverable on construction

Other receivables

Deposits and prepayments

Staff receivables

2019 Kshs '000'	2018 Kshs '000'
53,240	57,144
(27,731)	(22,277)
(22,443)	(28,152)
<b>3,066</b>	<b>6,715</b>
12,654	24,886
59,716	41,815
11,169	10,755
8,244	7,402
<b>94,849</b>	<b>91,573</b>

### 20. Fixed deposits

Fixed deposits

2019 Kshs '000'	2018 Kshs '000'
<b>58,200</b>	<b>10,200</b>

The fixed deposit amounts relate to benevolent funds that were invested during the year. The investment income arising therefrom has been disclosed under Benevolent Funds Note 24 (b). These fixed deposits have a maturity term of three -months rolling over with an average interest rate of 8.37% per annum.

### 21. Cash and bank balances

Cash at bank

2019 Kshs '000'	2018 Kshs '000'
<b>64,023</b>	<b>31,067</b>

For purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks. As at 31 December 2019, there were no cash and cash equivalents that were subject to restrictions, thus not available for use.

### 22. Designated funds

At 1 January 2019

Transfer to general fund

At 31 December 2019

At 1 January 2018

Transfer to general fund

At 31 December 2018

Bursary fund Kshs '000'	Charity fund Kshs '000'	Total Kshs '000'
4,468	3,959	8,424
1,331	-	1,331
<b>5,799</b>	<b>3,959</b>	<b>9,755</b>
2,858	3,959	6,814
1,610	-	1,610
<b>4,468</b>	<b>3,959</b>	<b>8,424</b>

**NOTES (continued)****23. Borrowings**

Net borrowings

**The borrowings are analysed as follows:**

Current portion

Non-current portion

Loan balance as at 1 January

Loan drawdown

Loan repayment

**Loan balance as at 31 December**

	2019 Kshs '000'	2018 Kshs '000'
Net borrowings	418,142	488,925
The borrowings are analysed as follows:		
Current portion	57,894	64,430
Non-current portion	360,248	424,495
	<b>418,142</b>	<b>488,925</b>
Loan balance as at 1 January	488,925	444,267
Loan drawdown	-	100,502
Loan repayment	(70,783)	(55,844)
<b>Loan balance as at 31 December</b>	<b>418,142</b>	<b>488,925</b>

Borrowings relate to a construction loan facility from Standard Chartered Bank Kenya Limited amounting to KShs.625 million for part financing of construction of the ICPAK Complex in September 2014. The loan is secured by a fixed charge over the CPA Centre building with a tenure of 10 years and interest at 13% on amounts drawn down as per the contractor's certificates. Principal and interest are payable monthly.

As at 31 December 2019, a total of Kshs 616.2 million had been drawn down and the interest rate charged in 2019 was 13%.

**24. Trade and other payables****a) Trade payables and accruals**

Payroll liabilities

Advance receipts

Rent deposits

Deferred rent

Service charge

Gratuity

Benevolent fund (24 b)

FiRe award fund

Related party

	2019 Kshs '000'	2018 Kshs '000'
Trade payables and accruals	98,843	133,696
Payroll liabilities	11,700	8,190
Advance receipts	84,895	70,076
Rent deposits	6,446	6,053
Deferred rent	3,607	5,216
Service charge	13,360	10,416
Gratuity	20,318	11,661
Benevolent fund (24 b)	69,050	43,941
FiRe award fund	2,706	1,952
Related party	524	524
	<b>311,449</b>	<b>291,725</b>

## NOTES (continued)

### b) Special fund-benevolent fund

	2019 Kshs '000'	2018 Kshs '000'
Balance at 1 January	43,941	22,423
Interest income	2,393	-
Members contributions	27,932	27,018
Benevolent claims	(1,795)	(1,655)
Benevolent write offs	(3,421)	(3,845)
Balance at 31 December	<b>69,050</b>	<b>43,941</b>

### c) Represented by: -

Fixed deposits	58,200	10,200
Cash and cash equivalent	6,266	30,825
Contributions receivables	4,584	2,916
	<b>69,050</b>	<b>43,941</b>

The benevolent fund was established pursuant to a members' resolution at the 38th Annual General Meeting and in congruence with Section 5 Part II of the Accountants Act. No. 15 of 2008. The fund supports members and members' families:

- In the event of loss of the member
- In the event of loss of the member's spouse
- In the event of loss of any of the four enrolled minor primary dependents of a member

The interest income is attributed to benevolent funds invested in fixed deposits, for a one-year term at an average interest rate of 8.37 percent per annum.

### 25. Deferred subscriptions

Deferred subscriptions

2019 Kshs '000'	2018 Kshs '000'
<b>66,703</b>	<b>43,884</b>

Deferred subscriptions relate to subscription income for the succeeding year received in advance in the current year.

### 26. Lease liability

#### a) Lease movement

	2019 Kshs '000'	2018 Kshs '000'
Lease taken	3,923	11,510
Lease payments	(3,709)	(3,617)
Interest on lease (Note 26(b))	1,498	1,695
<b>Net lease movement</b>	<b>1,712</b>	<b>9,588</b>

#### b) Interest on lease

Adjustments to opening general funds	-	827
Charge for the year (Note 7)	1,498	868
	<b>1,498</b>	<b>1,695</b>

#### c) Lease liability

Opening balances - 1 January	9,588	-
Net lease movement (Note 26(a))	1,712	9,588
<b>Closing balances at 31 December</b>	<b>11,300</b>	<b>9,588</b>

**NOTES (continued)**

The lease liability is one of the impacts of IFRS 16 adoption as detailed under Note 35. The operating lease rentals recognized in the income statement under IAS 17 were reversed and converted to lease payments in line with IFRS 16.

	2019 Kshs '000'	2018 Kshs '000'
The Lease Liability is analysed as follows		
Current portion	2,916	2,624
Non-current portion	8,384	6,964
	<b>11,300</b>	<b>9,588</b>
The lease liability payment is analysed as follows		
Payments of principal portion of the lease liability	2,211	1,922
Payments of interest portion of the lease liability	1,498	1,695
	<b>3,709</b>	<b>3,617</b>

**27. Financial assets and liabilities**

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

	Level I Kshs '000'	Level III Kshs '000'
<b>At 31 December 2019</b>		
Financial assets		
Subscription receivables	-	3,066
Other receivables	-	91,783
Fixed deposits	58,200	
Cash at bank	64,023	-
<b>Gross financial assets</b>	<b>122,223</b>	<b>94,849</b>
Financial liabilities		
Borrowings	-	418,142
Total payables	311,449	-
Lease liability	11,300	
Deferred grant income	4,293	
Deferred subscriptions	66,703	-
<b>Gross financial liabilities</b>	<b>393,745</b>	<b>418,142</b>
	<b>Level I Kshs '000'</b>	<b>Level III Kshs '000'</b>
<b>At 31 December 2018</b>		
Financial assets		
Subscription receivables	-	6,715
Other receivables	-	84,858
Cash at bank	41,267	-
<b>Gross financial assets</b>	<b>41,267</b>	<b>91,573</b>

## NOTES (continued)

### Financial liabilities

Borrowings

Total payables

Lease liability

Deferred grant income

Deferred subscriptions

**Gross financial liabilities**

Level I Kshs '000'	Level III Kshs '000'
-	488,925
291,725	-
9,588	-
5,135	-
43,884	-
<b>350,332</b>	<b>488,925</b>

## 28. Related party balances and transactions

The Institute is the sponsor/founder of KCA University. In accordance with the Universities Act, the assets and liabilities are held through a Board of Trustees for the benefit of University Education.

In the year ended 31 December 2019, there were no transactions that took place between the Institute and KCA University; there were no guarantees given or received.

The following are the outstanding related party balances as at 31 December 2019.

### a) Due from related parties

Due from KCA University

Expected credit loss (28(c))

2019 Kshs '000'	2018 Kshs '000'
46,241	46,241
(46,241)	(18,854)
<b>-</b>	<b>27,387</b>

### b) Due to related parties

Due to KCA University

Due to CPA Centre Limited

2019 Kshs '000'	2018 Kshs '000'
524	524
50	50
<b>574</b>	<b>574</b>

No interest has been charged against any related party balances in the year ended 31 December 2019 (2018: Nil). Further Kshs.27,387,000 (2018: Kshs.3,036,000) was provided, in the year under review, as expected credit loss on amount due from related party.

### c) Movement in expected credit loss for related party

Opening balance as at 1 January

Expected credit loss for the year

Balance as at 31 December

18,854	15,818
27,387	3,036
<b>46,241</b>	<b>18,854</b>

### d) Key management compensation

Salaries and other short-term benefits

Post-employment benefits

34,173	35,713
7,558	14,207
<b>41,731</b>	<b>49,920</b>

### e) Council remuneration

### f) Committee remuneration

5,301	4,096
<b>4,032</b>	<b>5,828</b>

**NOTES (continued)****g) 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 Institute 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.

National Treasury reviewed the transaction documents and gave direction on the partnership. The KCA Board of Trustees and ICPAK Council have reviewed the direction from National Treasury and the decision to explore alternative options has been approved.

**29. Employee benefits**

	2019 Kshs '000'	2018 Kshs '000'
Salaries and wages	17,329	15,905
Medical expenses	1,560	1,462
Pension costs	670	667
Group life	103	103
Staff gratuity	756	742
Leave allowances	104	101
Other staff costs	255	177
Subscriptions	57	85
Recruitment costs	358	204
Staff training	1,225	336
	<b>22,417</b>	<b>19,782</b>

The prior year employee benefits were realigned to conform with the presentation adopted in the current year. Details of the adjustments made have been outlined in Notes 4, 5 (b) and 9.

**30. Income tax**

The Institute's membership and subscription income are exempt from Income tax under section 13(2) of the Income Tax Act (Cap. 470) and legal notice No. 168 of 22 October 1980. However, the Institute's rental income is taxable at a rate of 30% and the fair value gains on the Investment Property are subject to Capital Gain Tax (5%).

Tax expense for rentals, therefore, is the aggregate amount of current and deferred taxation. Current and deferred taxes are recognised as income or expense in the income statement except to the extent that the taxes relate to items recognised outside the income statement, either in other comprehensive income or directly in equity. Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period.

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the carrying amounts of assets and liabilities in the financial statements and the amounts attributed to those assets and liabilities for taxation purpose.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences and unabsorbed tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the assets can be utilised.

## NOTES (continued)

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. The deferred tax only relates to the investment property.

### Deferred tax asset movement

	Percentage rate %
Applicable tax rate	5
Deferred tax (asset)/liability movement	
At 1 January 2019	
Deferred tax credit for the year	
<b>At 31 December 2019</b>	
At 1 January 2018	
Prior year adjustment on deferred tax due to change in tax rate	
Deferred tax expense for the year	
Deferred tax credit charged to the income statement	
<b>At 31 December 2018</b>	

#### Kshs '000'

1,579

(6,550)

**(4,971)**

3,660

(3,050)

969

(2,081)

**1,579**

## 31 Capital commitment

	2019 Kshs '000'	2018 Kshs '000'
Total commitment	1,164,095	1,164,095
Paid towards the construction	(1,164,095)	(1,162,628)
	-	<b>1,467</b>

Commitment balance in the previous year related to retention on construction of Investment property recognized under note 13. These commitments were fully settled after expiry of defect liability period.

## 32. Comparative's

Where necessary comparative figures have been adjusted to conform to changes in presentation in the current year. The change was adopted to enhance disclosure as detailed in notes 4, 5, 9 and 29.

## a) 33. Nature and purpose of reserves

General reserve - Comprises accumulated surplus from operations and other comprehensive income (when available). In the year under review, the Institute applied full retrospective approach in the implementation of the new IFRS 16. This had an impact on the balances presented in the 2018 financial statement. The following is the reconciliation between the Reported and Adjusted opening balance for the year ended 31 December 2018.

### Impact of IFRS on opening general fund

	2018 Kshs '000'
Opening balance	1,051,943
Opening balance adjustments	
Depreciation	(1,302)
Interest on lease liability	(826)
Lease rentals reversed	1792
Adjusted opening balance	<b>1,051,607</b>

b) Revaluation reserve - Constitute accumulated amounts arising from fair value adjustments of property and equipment

## NOTES (continued)

### 34. Events after balance sheet

An outbreak of a Coronavirus which causes COVID19 has spread throughout the world, leading to the World Health Organization (WHO) declaring it a pandemic. Various countries in Africa have introduced measures in an attempt to prevent the spread of the virus, these measures continue to negatively affect operations of all sectors of the economies in general. In Kenya, the government has also implemented various measures aimed at mitigating spread of the disease. ICPAK is closely monitoring the impact of these measures to its operations, even as we adhere to them including the Secretariat working from home and conducting meetings remotely.

#### Going concern

ICPAK being a professional membership organization will adversely be affected by the raft of measures being implemented by the Kenya government to control the spread of COVID19. Largely, all these measures will affect the Institute's operations, but those with greater impact include banning of all public gatherings, including trainings and conferences and suspension of local and international travels. These will significantly affect Institute's CPD events revenues that accounts for over 60% of its annual incomes. In addition, the negative effects that COVID19 poses to all sectors of the economy is expected to affect collection of year 2020 subscription from members. Considering subscriptions income contributes to about 30% of ICPAK's total revenues per year, this will have a negative financial impact. To mitigate these, ICPAK has instituted a virtual learning curriculum, consisting of webinars, online trainings and video sessions. In addition, the Institute is also implementing cost cutting measures that will ensure that only critical services are retained and paid for. At this stage we do not see the current situation affecting the going concern of ICPAK for the year ending 31 December 2020, but the situation is being closely monitored. The impact of this pandemic is however expected to last a few years.

### 35. Impact on implementation of IFRS 16

This note explains the impact of the adoption of IFRS 16 Leases on the Institute's financial statements.

The Institute leases various offices that houses ICPAK branches. The leases for these branch offices are typically for periods of between two and six years, with options to renew. None of the leases contains any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

ICPAK adopted IFRS 16 retrospectively from 1 January 2019 and restated comparatives for the year ended 2018. The classifications and the adjustments for prior-year were recognised in the opening balance sheet on 1 January 2018.

The new accounting policies are disclosed in note 1(b). On adoption of IFRS 16, the Institute recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the lease payments, discounted using the lessee's incremental borrowing rate. The lessee's incremental borrowing rate applied to the lease liabilities was 13%.

#### Adjustments recognized in the balance sheet

	2019 Kshs '000'	2018 Kshs '000'
Right of use	9,854	8,755
Lease liability	11,300	9,588
Operating lease rental expenses transformed to lease payments	-	3,617

The associated right-of-use assets for operating leases were measured on a retrospective basis as if the new rules were in place on inception of the leases. Further, the operating lease rentals (previously charged to the Income Statement) were reversed and used to reduce the lease liability in line with IFRS 16. Out of the Kshs.3,617,000 lease payments, Kshs.1,825,000 related to 2018 while the rest was adjusted in the opening retained earnings of 2018 as it related to prior years.

## NOTES (Continued)

### 35. Impact on implementation of IFRS 16 (continued)

#### Adjustments recognized in the balance sheet

	2019	2018
	Kshs '000'	Kshs '000'
Increase in finance cost	1,498	868
Increase in depreciation and amortisation expenses	2,824	1,453
Reversed previous operating lease rentals	-	1,825

In compliance with IFRS 16, the Institute recognized interest on Lease Liability, Depreciation on Right-of-use Assets. Further, the operating lease rentals recognized in the Income Statement under IAS 17 were reversed and were converted to lease payments in line with IFRS 16.

## NOTES





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