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# Transparency International Kenya
## (A Company Limited by Guarantee)
### Annual Financial Statements
### for the year ended September 30, 2017

## Corporate Information

| | |
|---|---|
| **Country of incorporation and domicile** | Kenya |
| **Date of incorporation** | February 14, 1999 |
| **Directors** | Samuel Kimeu<br>Bernadette Musundi<br>Richard Leakey (Resigned w.e.f 26/05/2017)<br>Rachel Mbai (Resigned w.e.f. 26/05/2017)<br>John Juma (Appointed w.e.f. 26.05.2017)<br>Linda Musumba<br>Marion Barriskell<br>Luis Franceschi |
| **Bankers** | Standard Chartered Bank Limited<br>Yaya Centre<br>Nairobi<br><br>NIC Bank Limited<br>NIC House, Masaba Road<br>Upperhill, Nairobi |
| **Registered office** | L.R. No. 1/713<br>Kindaruma Road<br>Off Ngong Road<br>P.O. Box 198-00200<br>Nairobi |
| **Independent auditor** | Grant Thornton<br>Certified Public Accountants (K)<br>5th Floor, Avocado Towers<br>Muthithi Road, Westlands<br>P.O. Box 46986-00100<br>Nairobi |
| **Tax reference number** | P 051136411K |
| **Company registration number** | C. 84486 |

## Index

The reports and statements set out below comprise the annual financial statements presented to the shareholders:

## Directors' Report

The directors have pleasure in submitting their report on the annual financial statements of Transparency International Kenya for the year ended September 30, 2017.

### 1. Principal activity

The company aims to curb international and national corruption through research, public awareness and advocacy and operates principally in Kenya.

There have been no material changes to the nature of the company's business from the prior year.

### 2. Review of financial results and activities

The annual financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015. The accounting policies have been applied consistently compared to the prior year.

The operating results and state of affairs of the company are fully set out in the attached annual report and financial statements and do not in our opinion require any further comment

The surplus of the company after taxation was K Sh 16,581,470 (2016: K Sh 4,474,753 deficit)

### 3. Dividends

The company is limited by guarantee and is a not-for-profit organization that does not pay dividends.

### 4. Directors

The directors in office at the date of this report are as follows:

Samuel Kimeu
Bernadette Musundi
Richard Leakey (Resigned w.e.f 26/05/2017)
Rachel Mbai (Resigned w.e.f. 26/05/2017)
John Juma (Appointed w.e.f. 26.05.2017)
Linda Musumba
Marion Barriskell
Luis Franceschi

In accordance with the company's Articles of Association no director is due for retirement by rotation.

### 5. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

### 6. Independent auditor

The company's Auditor, Messrs Grant Thornton, continue in office in accordance with Section 719(2) of the Kenyan Companies Act, 2015.

## Directors' Report

### 7. Relevant audit information

The directors in office at the date of this report confirm that;

a) There is no relevant audit information of which the company's auditor is unaware; and

b) Each of the directors has taken all the steps that they ought to taken as a director so as to be aware of any relevant information and to establish that the company's auditor is aware of that information.

### 8. Approval of financial statements

The annual financial statements set out on page s 9 to 31 were approved at a meeting by the board on January 24, 2018, and were signed on its behalf by:

MBarrskell

**Name:** MARION BARRSKELL

**(Director)**

## Statement of Directors' Responsibilities on the Financial Statements

The directors are required in terms of the Kenyan Companies Act, 2015 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards. They are also responsible for safeguarding the assets of the company. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, appropriate standards for internal control aimed at reducing the risk of error or loss in a cost effective manner have been set. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion that the system of internal control provides reasonable assurance that the financial records may be relied upon for the preparation of the annual financial statements. They are, also, of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results as at September 30, 2017. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the year to September 30, 2018 and, in the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external independent auditors is responsible for independently reviewing and reporting on the company's annual financial statements. The annual financial statements have been examined by the company's external independent auditors and their report is presented on pages 6 to 8.The annual financial statements set out on pages 9 to 31, which have been prepared on the going concern basis, were approved by the board on 23rd Jan 2018 and were signed on its behalf by:

MBarrskell

**Name:** MARION BARRISKELL

**(Director)**

Bwanyonyi

**Name:** BERNADETTE MUSUNDI

**(Director)**

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## Independent Auditor's Report

**To the members of Transparency International Kenya**

**Report on the Audit of the Annual Financial Statements**

**Opinion**

We have audited the Annual Financial Statements of Transparency International Kenya set out on pages 9 to 31, which comprise the Statement of Financial Position as at September 30, 2017, and the Statement of Surplus or Deficit and Other Comprehensive Income, Statement of Changes in Fund Balances and Statement of Cash Flows for the year then ended, and notes to the Annual Financial Statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the Annual Financial Statements present fairly, in all material respects, the financial position of Transparency International Kenya as at September 30, 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA code. We believe that the audit evidence have obtained is sufficient and appropriate to provide a basis for the opinion.

**Other information**

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Kenyan Companies Act, 2015 which we obtained prior to the date of this report.

Our opinion on the Annual Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Annual Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Annual 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 a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Independent Auditor's Report (continued)

### Responsibilities of the directors for the Annual Financial Statements

The directors are responsible for the preparation and fair presentation of the Annual Financial Statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of Annual Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Annual Financial Statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so. The directors are responsible for overseeing the company's financial reporting process.

### Auditor's responsibilities for the audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the Annual 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 International Standards on Auditing 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 Annual Financial Statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Annual 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 company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 significant doubt on the company'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 in the Annual Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Annual Financial Statements, including the disclosures, and whether the Annual Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

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## Independent Auditor's Report (continued)

We communicate with the directors 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.

**Report on other legal and regulatory requirements**

As required by the Kenyan Companies Act, 2015, we report to you, based on our audit, that:

a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
b) In our opinion proper books of accounts have been kept by the company, so far as appears from our examination of those books;
c) In our opinion, the financial information given in the directors' report for the year ended September 30, 2017 is consistent with the company's annual financial statements; and
d) The company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of accounts.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA A. K. Siele - P/No 1690.

Grant Thornton

Grant Thornton
Certified Public Accountants

**Grant Thornton**
**Certified Public Accountants (K)**
**Nairobi**
31 JANUARY 2018

**T/101/0917/001/0118/AUD**

## Statement of Surplus or Deficit and Other Comprehensive Income

| Figures in Kenyan Shillings | Notes | 2017 | 2016 |
|---|---|---|---|
| Income | 3 | 144,872,005 | 149,645,355 |
| Program expenses | 4 | (97,817,332) | (121,616,625) |
| **Gross surplus** | | **47,054,673** | **28,028,730** |
| Other income | 5 | 1,237,429 | 1,425,334 |
| Operating expenses | 6 | (32,121,490) | (33,667,517) |
| **Operating surplus / (deficit)** | | **16,170,612** | **(4,213,453)** |
| **Surplus / (deficit) before taxation** | | **16,170,612** | **(4,213,453)** |
| Tax charge | 8 | (39,142) | (261,300) |
| **Deficit for the year** | | **16,131,470** | **(4,474,753)** |
| **Other comprehensive income:** | | | |
| Gains on revaluation | | 450,000 | - |
| **Total comprehensive income (loss)** | | **16,581,470** | **(4,474,753)** |

The accounting policies on pages 13 to 17 and the notes on pages 18 to 31 form an integral part of the annual financial statements.

## Statement of Financial Position

| Figures in Kenyan Shillings | Notes | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | | |
| **Non-Current Assets** | | | |
| Plant and equipment | 10 | 2,849,902 | 1,467,610 |
| **Current Assets** | | | |
| Current tax receivable | 9 | 248,290 | - |
| Trade and other receivables | 11 | 11,274,415 | 10,511,373 |
| Cash and cash equivalents | 12 | 62,312,780 | 56,554,649 |
| | | **73,835,485** | **67,066,022** |
| **Total Assets** | | **76,685,387** | **68,533,632** |
| **Fund balances and Liabilities** | | | |
| **Fund balances** | | | |
| Revaluation reserve (Statement of Changes in Equity) | | 450,000 | - |
| General fund | | 12,581,849 | (3,549,621) |
| | | **13,031,849** | **(3,549,621)** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Current tax payable | 9 | - | 102,357 |
| Trade and other payables | 13 | 9,260,656 | 17,073,782 |
| Deferred income | 14 | 54,392,882 | 54,907,114 |
| | | **63,653,538** | **72,083,253** |
| **Total Fund and Liabilities** | | **76,685,387** | **68,533,632** |

The annual report, financial statements and the notes on pages 3 to 31, were approved by the board on the 23rd Jan 2018 and were signed on its behalf by:

MBarriskell

**Name:** MARION BARRISKELL

**(Director)**

BMusundi

**Name:** BERNADETTE MUSUNDI

**(Director)**

The accounting policies on pages 13 to 17 and the notes on pages 18 to 31 form an integral part of the annual financial statements.

## Statement of Changes in Fund Balances

| Figures in Kenyan Shillings | Revaluation reserve | General fund |
|---|---|---|
| **Balance at October 01, 2015** | **-** | **925,132** |
| Changes in fund balances | | |
| Deficit for the year | - | (4,474,753) |
| Total changes | - | (4,474,753) |
| **Balance at September 30, 2016** | **-** | **(3,549,621)** |
| **Balance at October 01, 2016** | **-** | **(3,549,621)** |
| Changes in fund balances | | |
| Surplus for the year | 450,000 | 16,131,470 |
| Total changes | 450,000 | 16,131,470 |
| **Balance at September 30, 2017** | **450,000** | **12,581,849** |

## Statement of Cash Flows

| Figures in Kenyan Shillings | Notes | 2017 | 2016 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 16 | 8,960,853 | (8,324,544) |
| Tax paid | 9 | (389,789) | (303,438) |
| **Net cash from operating activities** | | **8,571,064** | **(8,627,982)** |
| **Cash flows from investing activities** | | | |
| Purchase of plant and equipment | 10 | (2,298,701) | (703,378) |
| **Cash flows from financing activities** | | | |
| Movement in deferred income | 14 | (514,232) | 6,314,045 |
| **Total cash movement for the year** | | **5,758,131** | **(3,017,315)** |
| Cash at the beginning of the year | 12 | 56,554,649 | 59,571,964 |
| **Total cash at end of the year** | 12 | **62,312,780** | **56,554,649** |

The accounting policies on pages 13 to 17 and the notes on pages 18 to 31 form an integral part of the annual financial statements.

## Accounting Policies

### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with International Financial Reporting Standards, and the Kenyan Companies Act, 2015. For Kenyan Companies Act, 2015 reporting purposes in these financial statements, the balance sheet is represented by the statement of financial position and the profit and loss account is represented by the statement of profit or loss and other comprehensive income.

The annual report and financial statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below. They are presented in Kenyan Shillings and rounded off to the nearest Shilling.

These accounting policies are consistent with the previous period.

### 1.1 Plant and equipment

The cost of an item of plant and equipment is recognised as an asset when:
- it is probable that future economic benefits associated with the item will flow to the company; and
- the cost of the item can be measured reliably.

Plant and equipment is initially measured at cost.

Costs include costs incurred initially to acquire or construct an item of plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of plant and equipment, the carrying amount of the replaced part is derecognised.

Plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The depreciation chart of items of plant and equipment have been assessed as follows:

| Asset class | Rate per annum(%) |
|---|---|
| Furniture and fixtures | 12.5 |
| Motor vehicles | 25 |
| Equipment | 25 |

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

### 1.2 Financial instruments

**Classification**
- Held-to-maturity investment
- Loans and receivables
- Financial liabilities measured at amortised cost

# Accounting Policies

## 1.2 Financial instruments (continued)

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

### Trade and other receivables

Trade receivables are carried at anticipated realisable value. An estimate is made for the doubtful receivables on a review of all outstanding amounts at the period-end. Bad debts are written off in the period in which they are identified.

### Trade and other payables

Trade payables are stated at their nominal value.

### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

## 1.3 Taxation

### Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities /(assets) for the current and prior periods are measured at the amount expected to be paid to /(recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

### Taxation expenses

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:
- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

## 1.4 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

## Accounting Policies

### 1.5 Employee benefits

#### Retirement benefits costs

The company contributes to the statutory National Social Security Fund. This fund is a defined contribution scheme registered under the National Social Security Fund Act. The company's obligations under this scheme are limited to specific contributions legislated from time to time and are currently limited to a maximum of K Sh 200 per employee per month. In addition to this the company also contributes to a defined scheme administered by an insurance company.

The company's obligations to the schemes are recognized in the statement of surplus or deficit and other comprehensive income.

### 1.6 Provisions and contingencies

Provisions are recognised when:
- the company has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

### 1.7 Income

Grant income is recognised when the monetary value of the grant can be measured with sufficient reliability, there is reasonable assurance of receipt and conditions for receipt, if any, have been met. Donations in kind whose monetary value can not be quantified are not recognized as income.

Grant income is deferred where it has been received to fund specific future expenditure.

Interest income is accrued by reference to time in relation to the principal outstanding and the effective inteerest rate applicable.

### 1.8 Deferred income

Deferred income represents the unused portion of designated / specific grants and is taken into income when the related expenditure is incurred. Any unexpended grants are carried forward as liabilities at the year end.

### 1.9 Translation of foreign currencies

#### Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Kenyan Shillings, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

## Accounting Policies

### 1.9 Translation of foreign currencies (continued)

At the end of the reporting period:
- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual report and financial statements are recognised in profit or loss in the period in which they arise.

### 1.10 Financial and Business Risk Management

The company risk limits are regularly assessed to ensure alignment with the company's objectives and prevalent market conditions. The directors are closely involved in ensuring that a variety of techniques are used to assess and manage said risks.

- **Currency risk:-**
  The company is exposed to risk through transactions in foreign currencies. The company's exposures give rise to foreign currency gains and losses that are recognized in the Statement of Profit or Loss and Other Comprehensive Income. The company ensures that its net exposure is kept to an acceptable level by careful monitoring of exchange rates and currency hedging.

### 1.11 Critical accounting estimates and judgements

In the process of applying the company's accounting policies, the management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

- **Critical judgment's in applying the company's accounting policies:**
  The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year as when identified.

## Accounting Policies

### 1.11 Critical accounting estimates and judgements (continued)

- **Key sources of estimation uncertainty:**
  The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date that has a significant risk of causing material adjustment to the carrying amounts of the assets and liabilities within the next financial year:

  **Plant and equipment:**
  Critical estimates are made by the directors in determining the depreciation rates on plant and equipment.

## Notes to the Annual Financial Statements



### 2. New Standards and Interpretations

### 2.1 Standards and interpretations effective and adopted

In the current year, the company has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

**Amendment to IFRS 7: Financial Instruments: Disclosures: Annual Improvements project**

The amendment provides additional guidance regarding transfers with continuing involvement. Specifically, it provides that cash flows excludes cash collected which must be remitted to a transferee. It also provides that when an entity transfers a financial asset but retains the right to service the asset for a fee, that the entity should apply the existing guidance to consider whether it has continuing involvement in the asset.

The effective date of the amendment is for years beginning on or after January 01, 2016.

The company has adopted the amendment for the first time in the 2017 annual financial statements.

The impact of the amendment is not material.

**Amendment to IAS 19: Employee Benefits: Annual Improvements project**

The amendment clarifies that when a discount rate is determined for currencies where there is no deep market in high quality corporate bonds, then market yields on government bonds in that currency should be used.

The effective date of the amendment is for years beginning on or after January 01, 2016.

The company has adopted the amendment for the first time in the 2017 annual financial statements.

The impact of the amendment is not material.

**Disclosure Initiative: Amendment to IAS 1: Presentation of Financial Statements**

The amendment provides new requirements when an entity presents subtotals in addition to those required by IAS 1 in its annual financial statements. It also provides amended guidance concerning the order of presentation of the notes in the annual financial statements, as well as guidance for identifying which accounting policies should be included. It further clarifies that an entity's share of comprehensive income of an associate or joint venture under the equity method shall be presented separately into its share of items that a) will not be reclassified subsequently to surplus or deficit and b) that will be reclassified subsequently to surplus or deficit.

The effective date of the amendment is for years beginning on or after January 01, 2016.

The company has adopted the amendment for the first time in the 2017 annual financial statements.

The impact of the amendment is not material.

## Notes to the Annual Financial Statements

### 2. New Standards and Interpretations (continued)

**Amendments to IFRS 10, 12 and IAS 28: Investment Entities. Applying the consolidation exemption**

The amendment clarifies the consolidation exemption for investment entities. It further specifies that an investment entity which measures all of its subsidiaries at fair value is required to comply with the "investment entity" disclosures provided in IFRS 12. The amendment also specifies that if an entity is itself not an investment entity and it has an investment in an associate or joint venture which is an investment entity, then the entity may retain the fair value measurement applied by such associate or joint venture to any of their subsidiaries.

The effective date of the amendment is for years beginning on or after January 01, 2016.

The company has adopted the amendment for the first time in the 2017 annual financial statements.

The impact of the amendment is not material.

**Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendment clarifies that a depreciation or amortisation method that is based on revenue that is generated by an activity that includes the use of the asset is not an appropriate method. This requirement can be rebutted for intangible assets in very specific circumstances as set out in the amendments to IAS 38.

The effective date of the amendment is for years beginning on or after January 01, 2016.

The company has adopted the amendment for the first time in the 2017 annual financial statements.

The impact of the amendment is not material.

### 2.2 Standards and interpretations not yet effective

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after October 01, 2017 or later periods:

**IFRS 16 Leases**

IFRS 16 Leases is a new standard which replaces IAS 17 Leases, and introduces a single lessee accounting model. The main changes arising from the issue of IFRS 16 which are likely to impact the company are as follows:

Company as lessee:

- Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short term leases or leases where the underlying asset has a low value, which are expensed on a straight line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received; initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.

## Notes to the Annual Financial Statements

**2. New Standards and Interpretations (continued)**

- The lease liability takes into consideration, where appropriate, fixed and variable lease payments; residual value guarantees to be made by the lessee; exercise price of purchase options; and payments of penalties for terminating the lease.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any re-measurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property, plant and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and re-measured for reassessments or modifications.
- Re-measurements of lease liabilities are affected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in surplus or deficit.
- The lease liability is re-measured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.
- The lease liability is re-measured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.
- Certain lease modifications are accounted for as separate leases. When lease modifications which decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee re-measures the lease liability by decreasing the carrying amount of the right of lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in surplus or deficit. For all other lease modifications which are not required to be accounted for as separate leases, the lessee re-measures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property which must be presented within investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 leases.

Company as lessor:

- Accounting for leases by lessors remains similar to the provisions of IAS 17 in that leases are classified as either finance leases or operating leases. Lease classification is reassessed only if there has been a modification.
- A modification is required to be accounted for as a separate lease if it both increases the scope of the lease by adding the right to use one or more underlying assets; and the increase in consideration is commensurate to the stand alone price of the increase in scope.
- If a finance lease is modified, and the modification would not qualify as a separate lease, but the lease would have been an operating lease if the modification was in effect from inception, then the modification is accounted for as a separate lease. In addition, the carrying amount of the underlying asset shall be measured as the net investment in the lease immediately before the effective date of the modification. IFRS 9 is applied to all other modifications not required to be treated as a separate lease.
- Modifications to operating leases are required to be accounted for as new leases from the effective date of the modification. Changes have also been made to the disclosure requirements of leases in the lessor's financial statements.

## Notes to the Annual Financial Statements

**2. New Standards and Interpretations (continued)**

Sale and leaseback transactions:

- In the event of a sale and leaseback transaction, the requirements of IFRS 15 are applied to consider whether a performance obligation is satisfied to determine whether the transfer of the asset is accounted for as the sale of an asset.
- If the transfer meets the requirements to be recognised as a sale, the seller-lessee must measure the new right-of-use asset at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained. The buyer-lessor accounts for the purchase by applying applicable standards and for the lease by applying IFRS 16
- If the fair value of consideration for the sale is not equal to the fair value of the asset, then IFRS 16 requires adjustments to be made to the sale proceeds. When the transfer of the asset is not a sale, then the seller-lessee continues to recognise the transferred asset and recognises a financial liability equal to the transfer proceeds. The buyer-lessor recognises a financial asset equal to the transfer proceeds.

The effective date of the standard is for years beginning on or after January 01, 2019.

The company does not envisage the adoption of the standard until such time as it becomes applicable to the company's operations.

It is unlikely that the standard will have a material impact on the company's annual financial statements.

**Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers**

The amendment provides clarification and further guidance regarding certain issues in IFRS 15. These items include guidance in assessing whether promises to transfer goods or services are separately identifiable; guidance regarding agent versus principal considerations; and guidance regarding licenses and royalties.

The effective date of the amendment is for years beginning on or after January 01, 2018.

The company does not envisage the adoption of the amendment until such time as it becomes applicable to the company's operations.

The impact of this amendment is currently being assessed.

**IFRS 9 Financial Instruments**

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a)impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

## Notes to the Annual Financial Statements

**2. New Standards and Interpretations (continued)**

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in surplus or deficit.
- With regard to the measurement of financial liabilities designated as at fair value through surplus or deficit, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in surplus or deficit. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through surplus or deficit is presented in surplus or deficit.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The effective date of the standard is for years beginning on or after January 01, 2018.

The company does not envisage the adoption of the standard until such time as it becomes applicable to the company's operations.

The impact of this standard is currently being assessed.

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 supersedes IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services.

# Notes to the Annual Financial Statements

## 2. New Standards and Interpretations (continued)

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after January 01, 2018.

The company does not envisage the adoption of the standard until such time as it becomes applicable to the company's operations.

The impact of this standard is currently being assessed.

### Amendments to IAS 7: Disclosure initiative

The amendment requires entities to provide additional disclosures for changes in liabilities arising from financing activities. Specifically, entities are now required to provide disclosure of the following changes in liabilities arising from financing activities:

- changes from financing cash flows;
- changes arising from obtaining or losing control of subsidiaries or other businesses;
- the effect of changes in foreign exchanges;
- changes in fair values; and
- other changes.

The effective date of the amendment is for years beginning on or after January 01, 2017.

The company does not envisage the adoption of the amendment until such time as it becomes applicable to the company's operations.

The adoption of this amendment is not expected to impact on the results of the company, but may result in more disclosure than is currently provided in the annual financial statements.

### Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

In terms of IAS 12 Income Taxes, deferred tax assets are recognised only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. The following amendments have been made, which may have an impact on the company:

## Notes to the Annual Financial Statements

### 2. New Standards and Interpretations (continued)

If tax law restricts the utilisation of losses to deductions against income of a specific type, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type.

Additional guidelines were prescribed for evaluating whether the company will have sufficient taxable profit in future periods. The company is required to compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. This comparison shows the extent to which the future taxable profit is sufficient for the entity to deduct the amounts resulting from the reversal of those deductible temporary differences.

The amendment also provides that the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

The effective date of the amendment is for years beginning on or after January 01, 2017.

The company does not envisage the adoption of the amendment until such time as it becomes applicable to the company's operations.

The adoption of this amendment is not expected to impact on the results of the company, but may result in more disclosure than is currently provided in the annual financial statements.

## Notes to the Annual Financial Statements

### 3. Income

| | | |
|---|---|---|
| Grant income | 144,872,005 | 149,645,355 |

### 4. Program expenses

| | | |
|---|---|---|
| Workshops | 40,469,091 | 46,746,179 |
| Program officer's salaries | 38,482,148 | 45,085,612 |
| Research and consultancy fees | 7,132,707 | 20,601,069 |
| Publications | 6,118,967 | 2,981,946 |
| Publicity and external communication | 2,435,700 | 1,692,000 |
| Stationery and office supplies | 1,423,493 | 1,822,678 |
| International travel and forums | 597,023 | - |
| Internet and website cost | 465,179 | 1,215,847 |
| IT support services | 381,264 | 452,960 |
| Public relations | 249,980 | 318,500 |
| Domestic travel | 33,559 | 83,044 |
| Newspaper and periodicals | 28,221 | 36,540 |
| Monitoring and evaluation | - | 580,250 |
| | **97,817,332** | **121,616,625** |

### 5. Other income

| | | |
|---|---|---|
| Other income | 596,909 | 532,333 |
| Realised exchange differences | 439,447 | - |
| Interest income | 130,472 | 871,001 |
| Membership fee | 70,601 | 22,000 |
| | **1,237,429** | **1,425,334** |

### 6. Operating expenses

| | | |
|---|---|---|
| **The following items are included within operating expenses:** | | |
| Staff costs (Note 7) | 20,231,881 | 20,166,880 |
| Lease rentals on operating lease | 3,502,600 | 6,645,989 |
| Telephone and postage | 2,332,889 | 2,452,031 |
| Depreciation | 1,366,409 | 1,781,839 |
| Repairs and maintenance | 1,225,606 | 281,006 |
| Legal and professional fees | 1,188,746 | 273,825 |
| Security and data management | 890,519 | 310,015 |
| Auditors remuneration | 521,000 | 600,000 |
| Bank charges | 341,120 | 284,987 |
| Insurance | 205,296 | 73,823 |
| Capacity building and development | 196,420 | 196,070 |
| Office cleaning | 64,454 | 147,351 |
| Motor vehicle expenses | 54,550 | 50,120 |
| Realised exchange differences | - | 403,581 |
| | **32,121,490** | **33,667,517** |

## Notes to the Annual Financial Statements

### 7. Staff costs

| | | |
|---|---|---|
| **Total employee costs** | | |
| Indirect employee costs | 20,231,881 | 20,166,880 |

The following items are included within employee benefits expense:

| | | |
|---|---|---|
| **Indirect employee costs** | | |
| Salaries and wages | 16,930,851 | 14,024,940 |
| Staff medical | 4,577,754 | 5,102,435 |
| Leave pay provision | (1,276,724) | 448,202 |
| | **20,231,881** | **19,575,577** |

### 8. Taxation expense

**Major components of the tax expense**

| | | |
|---|---|---|
| **Current** | | |
| Taxation | 39,142 | 261,300 |

**Reconciliation of the tax expense**

Reconciliation between accounting surplus and tax expense.

| | | |
|---|---|---|
| Accounting surplus/(deficit) | 16,170,612 | (4,213,453) |
| Tax at the applicable tax rate of 30% (2016: 30%) | 4,851,184 | (1,264,036) |
| **Tax effect of adjustments on taxable income** | | |
| Expenses not deductible for tax purposes | - | 1,525,336 |
| Income not subject to tax | (4,812,042) | - |
| | **39,142** | **261,300** |

### 9. Tax paid

| | | |
|---|---|---|
| Balance at beginning of the year | (102,357) | (144,495) |
| Current tax charge | (39,142) | (261,300) |
| Balance at end of the year | (248,290) | 102,357 |
| | **(389,789)** | **(303,438)** |

## Notes to the Annual Financial Statements

### 10. Plant and equipment

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation | Carrying value | Cost / Valuation | Accumulated depreciation | Carrying value |
| Furniture and fixtures | 3,358,458 | (3,041,625) | 316,833 | 3,358,458 | (2,621,818) | 736,640 |
| Motor vehicles | 450,000 | - | 450,000 | 650,000 | (650,000) | - |
| Equipment | 14,415,743 | (12,332,674) | 2,083,069 | 12,117,043 | (11,386,073) | 730,970 |
| **Total** | **18,224,201** | **(15,374,299)** | **2,849,902** | **16,125,501** | **(14,657,891)** | **1,467,610** |

**Reconciliation of plant and equipment - 2017**

| | Opening balance | Additions | Revaluations | Depreciation | Total |
|---|---|---|---|---|---|
| Furniture and fixtures | 736,640 | - | - | (419,807) | 316,833 |
| Motor vehicles | - | - | 450,000 | - | 450,000 |
| Equipment | 730,970 | 2,298,701 | - | (946,602) | 2,083,069 |
| | **1,467,610** | **2,298,701** | **450,000** | **(1,366,409)** | **2,849,902** |

**Reconciliation of plant and equipment - 2016**

| | Opening balance | Additions | Depreciation | Total |
|---|---|---|---|---|
| Furniture and fixtures | 994,530 | - | (257,890) | 736,640 |
| Equipment | 1,551,541 | 703,378 | (1,523,949) | 730,970 |
| | **2,546,071** | **703,378** | **(1,781,839)** | **1,467,610** |

The vehicle owned by the company was revalued by Regent Automobile Valuers & Assessors Limited on 4th October 2017 for an assessed value of K Sh 450,000/-. This revaluation has been incorporated in these accounts.

### 11. Trade and other receivables

| | | |
|---|---|---|
| Due from donors | 4,256,187 | 6,805,743 |
| Other receivables | 1,591,520 | - |
| Sub-grantees | 14,252 | 960,165 |
| Deposits | 4,962,430 | 1,062,430 |
| Staff imprest | 450,026 | 1,683,035 |
| | **11,274,415** | **10,511,373** |

The deposits amount include K Sh 3,900,000 paid to lawyers as a settlement of a lawsuit pending an appeal filed in the court. This deposit is recoverable only subject to the outcome of the case.

## Notes to the Annual Financial Statements

### 12. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Cash on hand | 44,240 | 55,309 |
| Bank balances | 29,929,225 | 56,499,340 |
| Fixed deposits | 32,339,315 | - |
| | **62,312,780** | **56,554,649** |

### 13. Trade and other payables

| | | |
|---|---|---|
| Payables | 6,266,560 | 10,683,110 |
| Accruals and other payables | 1,008,323 | 3,128,175 |
| Staff leave days accrual | 1,985,773 | 3,262,497 |
| | **9,260,656** | **17,073,782** |

### 14. Deferred income

| | | |
|---|---|---|
| Transparency International UK - Health Action Fund | 340,842 | - |
| Embassy of Finland - EOF | 6,518,613 | 3,778,989 |
| Transparency International Secretariat - Beneficial Ownership | 54,718 | - |
| Diakonia- Strategic Review | 1,526,654 | - |
| Oxfam Lanina V | - | 7,193,053 |
| HIVOS - Drug Pharmaceutical Pricing Index | - | 906,133 |
| Oxfam - Lanina 7 Echo | 3,198,061 | - |
| Fojo Media Institute | 3,143,367 | 2,218,989 |
| National Drought Management Association | 10,676,319 | - |
| Transparency International Secretariat - Land & Corruption | - | 3,411,981 |
| Transparency International Secretariat - Business Integrity Country Agenda | 638,732 | - |
| Making All Voices Count | - | 1,914,368 |
| Porticus Africa | - | 6,135,477 |
| Transparency International Secretariat - Climate Governance | 2,794,544 | 3,706,769 |
| Diakonia- Democracy and Governace | 4,033,457 | 8,852,210 |
| Embassy of Netherlands | 21,003,540 | 15,996,406 |
| Transparency International - MSD | - | 792,739 |
| Transparency International Secretariat - CREATE | 464,035 | - |
| | **54,392,882** | **54,907,114** |

## Notes to the Annual Financial Statements

### 15. Related parties

#### Related party transactions

| | | |
|---|---|---|
| **Grants** | | |
| Transparency International | 23,298,262 | 20,947,124 |
| | **23,298,262** | **20,947,124** |

Transparency International Kenya is a chapter of the Transparency International Movement.

| | | |
|---|---|---|
| **Compensation to directors and other key management** | | |
| Short-term employee benefits | 18,982,681 | 17,017,445 |

Except for the executive director, all the other directors do not receive any remuneration from the company.

### 16. Cash generated from operations

| | | |
|---|---|---|
| Surplus / (Deficit) before taxation | 16,170,612 | (4,213,453) |
| **Adjustments for:** | | |
| Depreciation | 1,366,409 | 1,781,839 |
| **Changes in working capital:** | | |
| Trade and other receivables | (763,042) | (3,558,596) |
| Trade and other payables | (7,813,126) | (2,334,334) |
| | **8,960,853** | **(8,324,544)** |

### 17. Risk management

#### Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

There are no externally imposed capital requirements.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

## Notes to the Annual Financial Statements

### 17. Risk management (continued)

| At September 30, 2017 | Less than 1 year | Between 1 and 3 years | Over 3 years | Total |
|---|---|---|---|---|
| Trade and other payables | 9,260,656 | - | - | 9,260,656 |
| | 9,260,656 | - | - | 9,260,656 |

| At September 30, 2016 | Less than 1 year | Between 1 and 3 years | Over 3 years | Total |
|---|---|---|---|---|
| Trade and other payables | 17,073,782 | - | - | 17,073,782 |
| Taxation | 102,357 | - | - | 102,357 |
| | 17,176,139 | - | - | 17,176,139 |

#### Interest rate risk

As the company has no significant interest-bearing assets, the company's income and operating cash flows are substantially independent of changes in market interest rates.

#### Cash flow interest rate risk

The company has deposits bearing interest and any resulting variances in interest will not have any significant impact on the company's performance.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors.

Financial assets exposed to credit risk at year end were as follows:

| | | |
|---|---|---|
| Trade and other receivables | 11,274,415 | 10,511,373 |
| Taxation | 248,290 | - |
| Total | 11,522,705 | 10,511,373 |

#### Foreign exchange risk

The company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

### 18. Fair value

The directors consider that there is no material difference between the fair value and carrying value of the companys' financial assets and liabilities where fair value details have not been presented.

## Notes to the Annual Financial Statements

### 19. Comparatives

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

### 20. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.