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Accountants & business advisers

Africa Centre for Open Governance

Annual report and financial statements

For the year ended 31 December 2015

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Africa Centre for Open Governance

CONTENTS

COMPANY INFORMATION

BOARD OF DIRECTORS	: Ms. Gladwell Otieno : Ms. Stella Chege : Mr. Maina Kiai : Mr. John Githongo : Dr. Funmi Olonisakin : Mr. Donald Deya : Mr. Charles Kamau
REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS	: Kabasiran Avenue, : Off James Gichuru Road : Lavington : P.O. Box 18157, 00100 : NAIROBI : Telephone - (254) 20 4443707 : Mobile - (254) 737 463166 : Email - admin@africog.org : Website - www.africog.org
INDEPENDENT AUDITOR	: PKF Kenya : Certified Public Accountants : P.O. Box 47323, 00100 : NAIROBI
COMPANY SECRETARIES	: Equatorial Secretaries and Registrars : Certified Public Secretaries : P.O. Box 47323, 00100 : NAIROBI
LEGAL ADVISOR	: Mbugua Mureithi and Co. Advocates : NAIROBI
PRINCIPAL BANKER	: NIC Bank Limited : NAIROBI

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2015, which disclose the state of affairs of the company.

PRINCIPAL ACTIVITY

The principal activity of the company is that of providing cutting edge research on governance and public ethics issues and monitor governance fundamentals in both the government and private sector.

RESULTS	**2015**	**2014**
	Shs	**Shs**
Surplus for the year	-	-

DIRECTORS

The directors who held office during the year and to the date of this report are shown on page 1.

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

INDEPENDENT AUDITOR

The company's auditor, PKF Kenya, has indicated willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act (Cap. 486).

BY ORDER OF THE BOARD

Githongo

DIRECTOR
NAIROBI

10 May 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

i) Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
ii) Selecting and applying appropriate accounting policies; and
iii) Making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company as at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Kenyan Companies Act (Cap. 486).

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least twelve months from the date of this statement.

Approved by the board of directors on 10 May 2016 and signed on its behalf by:

DIRECTOR **DIRECTOR**

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF AFRICA CENTRE FOR OPEN GOVERNANCE (AfriCOG) (A COMPANY LIMITED BY GUARANTEE)

Report on the financial statements

We have audited the accompanying financial statements of Africa Centre for Open Governance (AfriCOG) set out on pages 6 to 15 which comprise the statement of financial position as at 31 December 2015, the statement of income and expenditure and general fund and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the Kenyan Companies Act (Cap. 486), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an independent opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial position of Africa Centre for Open Governance as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standard for Small and Medium-Sized Entities and the requirements of the Kenyan Companies Act (Cap. 486).

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**REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF AFRICA CENTRE FOR OPEN GOVERNANCE (AfriCOG) (A COMPANY LIMITED BY GUARANTEE) (CONTINUED)**

Report on other legal requirements

As required by the Kenyan Companies Act (Cap. 486) we report to you, based on our audit, that:

(i) 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;
(ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and
(iii) the company's statement of financial position and statement of income and expenditure and general fund are in agreement with the books of account.

Emphasis of matter

Without qualifying our opinion, we draw your attention to Note 7 of the financial statements which indicates that the company has not obtained a tax exemption certificate from the Kenya Revenue Authority. No provision for tax has been made in the financial statements as the directors are of the opinion that the company is deemed to be exempt from tax due to the nature of its activities.

PKF Kenya
Certified Public Accountants
NAIROBI

June 17, 2016

The engagement partner responsible for the audit resulting in this report of the independent auditor is CPA Patrick Kuria - P/No. 2045

407/16

STATEMENT OF INCOME AND EXPENDITURE AND GENERAL FUND

	Notes	2015 Shs	2014 Shs
Donor income	3	68,761,324	60,449,418
Other income	4	154,556	-
Programme expenses		(54,441,807)	(42,487,303)
Administrative expenses		(14,474,073)	(17,962,115)
Surplus before tax	5	-	-
Tax charge	7	-	-
Surplus for the year		-	-
General fund at start of year		351,512	351,512
General fund at end of year		351,512	351,512

The notes on pages 9 to 15 form an integral part of these financial statements.

Report of the independent auditor - pages 4 and 5.

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2015 Shs	2014 Shs
CAPITAL EMPLOYED			
General fund		351,512	351,512
Capital fund	8	2,119,506	2,450,408
		2,471,018	2,801,920
REPRESENTED BY			
Non-current assets			
Property and equipment	9	2,119,506	2,450,408
Current assets			
Receivables	10	1,674,446	696,776
Cash and cash equivalents	11	10,891,950	22,206,065
		12,566,396	22,902,841
Current liabilities			
Payables	12	1,263,517	3,641,774
Deferred income	13	10,951,367	18,909,555
		12,214,884	22,551,329
Net current assets		351,512	351,512
		2,471,018	2,801,920

The financial statements on pages 6 to 15 were approved and authorised for issue by the board of directors on 10 May 2016 and were signed on its behalf by:

Gathongo DIRECTOR   DIRECTOR

The notes on pages 9 to 15 form an integral part of these financial statements.

Report of the independent auditor - pages 4 and 5.

STATEMENT OF CASH FLOWS

	Notes	2015 Shs	2014 Shs
Cash (used in)/from operations			
Surplus for the year		-	-
Adjustments for non cash income and expenses:			
Depreciation on property and equipment		525,430	616,111
Changes in working capital:			
- capital fund		(330,902)	(78,078)
- receivables		(977,670)	(192,420)
- payables		(2,378,257)	308,691
- deferred income		(7,958,188)	5,061,111
Cash (used in)/from operations		(11,119,587)	5,715,415
Cash (used in)/from investing activities			
Purchase of property and equipment		(194,528)	(538,033)
Cash (used in) investing activities		(194,528)	(538,033)
(Decrease)/increase in cash and cash equivalents		(11,314,115)	5,177,382
Movement in cash and cash equivalents			
At start of year		22,206,065	17,028,683
(Decrease)/increase		(11,314,115)	5,177,382
At end of year	11	10,891,950	22,206,065

The notes on pages 9 to 15 form an integral part of these financial statements.

Report of the independent auditor - pages 4 and 5.

NOTES

1. **General information**

Africa Centre for Open Governance is incorporated in Kenya under the Kenyan Companies Act, (Cap. 486) as a private company limited by guarantee, and is domiciled in Kenya. The address of its registered office and principal place of business is Kabasiran Avenue, Off James Gichuru Road,Lavington, Nairobi. The principal activity of the company is that of providing cutting edge research on governance and public ethics issues and monitor governance fundamentals in both the government and private sector.

2. **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 to all the years presented, unless otherwise stated.

a) **Basis of preparation**

The financial statements of Africa Centre for Open Governance (AfriCOG) have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) and are presented in Kenya Shillings. They have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS for SMEs require the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company' s accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimations are significant to the financial statements, are disclosed in Note 2(b).

These financial statements comply with the requirements of the Kenyan Companies Act (Cap. 486). The statement of income and expenditure and general fund represent the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

Going concern

The financial performance of the company is set out in the director's report and in the statement of income and expenditure and general fund. The financial position of the company is set out in the statement of financial position.

Based on the financial performance and position of the company and its risk management policies, the directors are of the opinion that the company is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

b) **Key sources of estimation uncertainty**

In the application of the accounting policies, the directors are required to make the judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The directors have made the following assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NOTES (CONTINUED)

2. **Significant accounting policies (continued)**

b) **Key sources of estimation uncertainty (continued)**

- **Useful lives of property and equipment -** management reviews the useful lives and residual values of the items of property and equipment on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values.

c) **Revenue recognition**

The organisation recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for the organisations activity as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved.

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

Donor 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 recognised as income.

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

d) **Translation of foreign currencies**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Kenya Shillings at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in statement of income and expenditure and general fund in the year to which they relate.

e) **Property and equipment**

All property and equipment are initially recorded at cost and thereafter stated at historical cost less depreciation. 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 company and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to statement of income and expenditure and general fund during the financial period in which they are incurred.

Depreciation on assets is calculated on a reducing balance basis to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

	Rate
Computers	30%
Office equipment	12.5%
Furniture and fittings	12.5%

NOTES (CONTINUED)

2. **Significant accounting policies (continued)**

e) **Property and equipment (continued)**

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining surplus for the year.

f) **Cash and cash equivalents**

Cash and cash equivalents includes cash on hand and other short-term highly liquid investments with original maturities of three months or less.

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

g) **Receivables**

Receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the organisation will not be able to collect all amounts due according to the original terms of the receivables

h) **Payables**

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

i) **The company as a lessee**

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to income and expenditure and general fund on a straight-line basis over the period of the lease.

j) **Retirement benefits**

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

The organisation operates a defined contribution staff retirement benefit scheme for its employees. The scheme is administered by an insurance company. The organisation's contributions to the defined contribution retirement benefit scheme are charged to the statement of income and expenditure and general fund in the year to which they relate. The organisation has no further payment obligations once the contributions have been paid.

2. **Significant accounting policies (continued)**

k) **Capital fund**

Assets donated to the organisation are recognised in the capital fund in the period in which they have been received. Each year an equivalent amount equal to the depreciation charge of the donated assets is recognised in the statement of income and expenditure and general fund.

l) **Impairment of non-financial assets**

Assets that are subject to depreciation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are companied at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

m) **Taxation**

Tax has not been provided in these financial statements as the directors are of the opinion that the organisation is exempt from tax due to the nature of its activities.

n) **Comparatives**

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

NOTES

	2015 Shs	2014 Shs
3. Income		
Open Society International	15,109,446	17,816,271
United Nations Development Programme	2,167	2,113,174
Embassy of the Republic of Netherlands	40,353,827	36,552
Department for International Development	455,882	41,794,276
Trust Africa	781,683	3,134,145
Canadian International Development Agency	3,597,808	-
Total donor income	60,300,813	64,894,418
Transfer from deferred income	18,909,555	13,848,444
Transfer to donor	(23,107)	-
Transfer to deferred income	(10,951,367)	(18,909,555)
Net donor income	68,235,894	59,833,307
Transfer from capital fund	525,430	616,111
Total grant income	68,761,324	60,449,418

4. **Other income**

	2015 Shs	2014 Shs
Other income	154,556	-
	154,556	-

5. **Surplus for the year**

The following items have been charged in arriving at surplus for the year:

	2015 Shs	2014 Shs
Audit fees		
- current year	454,000	405,000
- underprovision in prior year	81,462	-
Operating lease rentals	2,861,616	2,661,339
Staff costs (Note 6)	5,402,823	7,977,617

6. **Staff costs**

	2015 Shs	2014 Shs
Salaries and wages	3,936,455	7,206,831
Other staff costs	875,255	648,266
Pension costs:		
- National Social Security Fund	98,403	50,240
- defined contribution scheme	492,710	72,280
	5,402,823	7,977,617

7. **Tax**

No tax provision has been made in the financial statements, since the directors are of the opinion that the company is deemed to be exempt from tax due to the nature of its activities as disclosed in accounting policy (m).

NOTES (CONTINUED)

8. Capital fund

	2015 Shs	2014 Shs
At start of year	2,450,408	2,528,486
Additions during the year (Note 9)	194,528	538,033
Depreciation charge for the year (Note 9)	(525,430)	(616,111)
At end of year	2,119,506	2,450,408

9. Property and equipment

	Computers Shs	Office equipment Shs	Furniture and fittings Shs	Total Shs
Cost				
At start of year	3,123,236	1,756,198	601,035	5,480,469
Additions	182,028	-	12,500	194,528
At end of year	3,305,264	1,756,198	613,535	5,674,997
Depreciation				
At start of year	2,192,051	572,743	265,267	3,030,061
Charge for the year	333,964	147,932	43,534	525,430
At end of year	2,526,015	720,675	308,801	3,555,491
As at 31 December 2015	779,249	1,035,523	304,734	2,119,506
As at 31 December 2014	931,186	1,183,455	335,767	2,450,408

10. Receivables

	2015 Shs	2014 Shs
Project advances	30,809	-
Prepayments	1,451,638	654,778
Staff advances	191,999	41,998
	1,674,446	696,776

11. Cash and cash equivalents

	2015 Shs	2014 Shs
Cash at bank and in hand	10,891,950	22,206,065

For the purpose of the statement of cash flows, the year-end cash and cash equivalents comprise the above.

12. Payables

	2015 Shs	2014 Shs
Accruals	724,974	1,575,194
Other payables	538,543	2,066,580
	1,263,517	3,641,774

NOTES (CONTINUED)

13. Deferred income

	2015 Shs	2014 Shs
At start of year	18,909,555	13,848,444
Transfer to donor	(23,107)	-
Receipts during the year	60,300,813	64,894,418
Transfer from statement of profit or loss	(68,235,894)	(59,833,307)
At end of year	10,951,367	18,909,555

The detailed analysis of deferred income is as follows:

Project	At start of year Shs	Receipts during the year Shs	Expenditure and refund during the year Shs	At end of year Shs
Embassy of the Republic of Netherlands	132,957	40,353,827	(26,980,726)	13,506,058
United Nations Development Programme	142,503	2,167	(2,521)	142,149
Open Society International/Kenyans for Peace Truth and Justice	2,353,869	9,112,955	(11,251,645)	215,179
Open Society International/Africa Centre for Open Governance	61,050	5,996,491	(9,293,854)	(3,236,313)
Department for International Development	15,928,095	455,882	(16,277,229)	106,748
Trust Africa	291,081	781,683	(876,295)	196,469
Canadian International Development Agency	-	3,597,808	(3,576,731)	21,077
	18,909,555	60,300,813	(68,259,001)	10,951,367

Deferred income relates to unexpended portion of grants received during the year.

14. Related party transactions

The following transactions were carried out with related parties:

	2015 Shs	2014 Shs
i) **Key management personnel compensation**		
Salaries and wages	10,080,000	13,144,287

15. Operating lease commitments - as a lessee

The future minimum lease payments payable under non-cancellable operating leases are as follows:

	2015 Shs	2014 Shs
Not later than 1 year	3,480,000	2,859,394
Later than 1 year and not later than 5 years	17,765,748	12,785,179
	21,245,748	15,644,573

The company has leased property under non-cancellable operating lease agreement. The lease term is five years and is generally renewable at the end of the tenure of the lease.

SCHEDULE OF EXPENDITURE

	2015 Shs	2014 Shs
1. Programme expenses		
Case studies and research	14,929,263	6,386,493
Public interest litigation consultancies and legal fees	1,338,150	4,672,961
Policy and partnership	4,954,483	2,658,494
Communications and postage	992,975	667,608
Advocacy	3,173,135	1,886,693
Printing and publication	5,411,107	5,563,193
Travelling and accommodation	5,026,127	3,635,683
Media engagement	-	1,235,140
Monitoring and Evaluation	2,032,692	-
Salaries and wages	16,583,875	15,781,038
Total programme expenses	54,441,807	42,487,303
2. Administrative expenses		
Employment costs		
Salaries and wages	3,936,455	7,206,831
Staff medical	689,787	377,206
Staff training and welfare	185,468	271,060
Employer pension contributions	492,710	72,280
Employer National Social Security Fund contributions	98,403	50,240
Total employment costs	5,402,823	7,977,617
Other administrative expenses		
Professional fees	35,063	530,022
Secretarial fees	106,384	102,840
Printing and office stationery	890,895	674,437
Telephone and postage	483,122	480,685
Travelling and accomodation	657,050	967,340
Rent	2,861,616	2,661,339
Insurance	31,239	25,744
Security	1,532,070	1,503,693
Bank charges	178,676	122,558
Audit fees		
- current year	454,000	405,000
- underprovision in prior year	81,462	-
Internet set up and maintenance	444,174	683,872
Office expenses	473,139	548,044
Office maintenance	47,772	74,780
Donations	74,630	50,000
Depreciation on property and equipment	525,430	616,111
Total other administrative expenses	8,876,722	9,446,465
Capital expenditure	194,528	538,033
Total administrative expenses and capital expenditure	14,474,073	17,962,115

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