

AFRICA CENTRE FOR OPEN GOVERNANCE
(A COMPANY LIMITED BY GUARANTEE)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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COMPANY INFORMATION

BOARD OF DIRECTORS	: Gladwell Otieno : Stella Chege : Maina Kiai : John Githongo
REGISTERED OFFICE	: Kabasiran Avenue : Lavington : P.O. Box 18157, 00100 : NAIROBI
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 & Co. Advocates : Josem Trust House, 4th floor : Masaba road, Upperhill : P.O Box 52969, 00200 : NAIROBI
PRINCIPAL BANKER	: NIC Bank Limited : NIC Branch House, Masaba Road : P.O. Box 44599, 00200 : NAIROBI

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2012, which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

The principal activities of the company are that of being committed to providing cutting edge research on governance and public ethics issues and monitor governance fundamentals in both the government and private sector.

RESULTS

The results of the company for the year ended 31 December 2012 are set out on the statement of comprehensive income and general fund on pages 6 and 7.

DIRECTORS

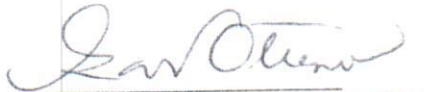
The directors who held office during the year and to the date of this report are shown on page 1.

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 Companies Act (Cap. 486).

BY ORDER OF THE BOARD



DIRECTOR
NAIROBI

13 June 2013

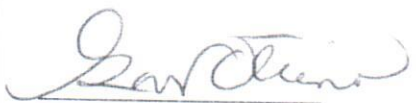
STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act (Cap. 486) requires the directors to prepare financial statements which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results for that year. It also requires the directors to ensure that the company maintains proper accounting records which 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 the responsibility for the financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, consistent with previous years and in conformity with International Financial Reporting Standards for Small and Medium-Sized Entities and the requirements of the Companies Act (Cap. 486). 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 2012 and of its operating results for the year then ended. The directors further confirm the accuracy and completeness of the accounting records maintained by the company which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the systems of internal financial controls.

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

Approved by the board of directors on 13 June 2013 and signed on its behalf by:



DIRECTOR



DIRECTOR

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

Report on the financial statements

We have audited the accompanying financial statements of Africa Centre for Open Governance set out on pages 6 to 15 which comprise the statement of financial position as at 31 December 2012 and the statement of comprehensive income 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 and fair presentation of these financial statements in accordance with International Financial Reporting Standard for Small and Medium-Sized Entities and the requirements of the Companies Act (Cap. 486). This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an 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 financial position of Africa Centre for Open Governance as at 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standard for Small and Medium-Sized Entities and with the requirements of the Company's Act (Cap.486)



Accountants &
business advisers

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

Report on other legal requirements

As required by the 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 comprehensive income and general fund are in agreement with the books of account.

Emphasis of matter

Without qualifying our opinion, we draw your attention to Note 11 of the financial statements which indicates that the organisation has not obtained a tax exemption certificate from Kenya Revenue Authority. No provision for tax has been made in the financial statements as the directors are of the opinion that the organisation is deemed to be exempt from tax due to the nature of its activities.

PKF Kenya

**Certified Public Accountants
PIN NO. P051130467R**

NAIROBI

19 June 2013

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STATEMENT OF COMPREHENSIVE INCOME AND GENERAL FUND

		2012	2011
		Shs	Shs
	Notes		
INCOME			
Grant income	1	41,584,673	58,428,310
Interest income		<u>277,834</u>	<u>147,855</u>
Total income		<u>41,862,507</u>	<u>58,576,165</u>
Transfer from deferred income	9	22,042,791	-
Transfer to deferred income	9	<u>(30,509,570)</u>	<u>(22,042,791)</u>
Net income		<u>33,395,728</u>	<u>36,533,374</u>
EXPENDITURE			
Staff costs	3	16,852,359	13,728,251
Case studies and research		5,164,076	4,600,524
Consultancy and legal fees		1,667,808	1,828,472
Policy and partnership		2,103,712	1,494,571
Communications and postage		725,999	856,184
Advocacy		2,024,711	3,003,853
Office rent		2,199,450	1,999,500
Printing and publication		1,377,604	2,640,542
Office expenses and maintenance		1,479,583	1,778,011
Travelling and accommodation		804,389	1,103,033
Meeting expenses		-	6,000
Media Advertising		-	482,326
Mobilization		-	128,000
Networking		-	5,000
Capital expenditure		973,202	686,302
Bad debts		-	571,000
Audit fees		300,000	250,000
Bank charges		85,205	66,894
Insurance		16,545	22,525
Monitoring		630,464	245,447
Security		<u>1,009,419</u>	<u>923,792</u>
Total expenditure		<u>37,414,526</u>	<u>36,420,227</u>
(Deficit)/surplus for the year		<u>(4,018,798)</u>	<u>113,147</u>
Total comprehensive (deficit)/surplus for the year		<u>(4,018,798)</u>	<u>113,147</u>

The significant accounting policies on pages 10 to 12 and the notes on pages 13 to 15 form an integral part of these financial statements.

Report of the independent auditor - pages 4 and 5.

STATEMENT OF COMPREHENSIVE INCOME AND GENERAL FUND (CONTINUED)

	2012 Shs	2011 Shs
Movement in general fund		
At start of year	(2,723,213)	(2,836,360)
Total comprehensive (deficit)/surplus for the year	<u>(4,018,798)</u>	<u>113,147</u>
At end of year	<u><u>(6,742,011)</u></u>	<u><u>(2,723,213)</u></u>

The significant accounting policies on pages 10 to 12 and the notes on pages 13 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	
		2012 Shs	2011 Shs
CAPITAL EMPLOYED			
General fund		(6,742,011)	(2,723,213)
Capital fund	4	<u>1,724,087</u>	<u>1,306,568</u>
		<u>(5,017,924)</u>	<u>(1,416,645)</u>
REPRESENTED BY			
Non-current assets			
Plant and equipment	5	<u>1,724,087</u>	<u>1,306,568</u>
Current assets			
Other receivables	6	556,515	144,875
Cash and cash equivalents	7	<u>24,547,385</u>	<u>23,827,428</u>
		<u>25,103,900</u>	<u>23,972,303</u>
Current liabilities			
Other payables	8	1,336,341	4,652,725
Deferred income	9	<u>30,509,570</u>	<u>22,042,791</u>
		<u>31,845,911</u>	<u>26,695,516</u>
Net current (liabilities)		<u>(6,742,011)</u>	<u>(2,723,213)</u>
		<u>(5,017,924)</u>	<u>(1,416,645)</u>

The financial statements on pages 6 to 15 were authorised for issue by the Board of Directors on 13 June 2013 and were signed on its behalf by:

 DIRECTOR  DIRECTOR

The significant accounting policies on pages 10 to 12 and the notes on pages 13 to 15 form an integral part of these financial statements.

Report of the independent auditor - pages 4 and 5.

STATEMENT OF CASH FLOWS

		2012 Shs	2011 Shs
Cash from operating activities	Notes		
(Deficit)/surplus for the year		(4,018,798)	113,147
Adjustments for:			
Changes in working capital:			
- other receivables		(411,640)	682,828
- other payables		(3,316,384)	400,632
- deferred income		<u>8,466,779</u>	<u>22,042,791</u>
Net cash from/(used in) operating activities		<u>719,957</u>	<u>23,239,398</u>
Increase in cash and cash equivalents		<u><u>719,957</u></u>	<u><u>23,239,398</u></u>
Movement in cash and cash equivalents			
At start of year		23,827,428	588,030
Increase		<u>719,957</u>	<u>23,239,398</u>
At end of year	7	<u><u>24,547,385</u></u>	<u><u>23,827,428</u></u>

The significant accounting policies on pages 10 to 12 and the notes on pages 13 to 15 form an integral part of these financial statements.

Report of the independent auditor - pages 4 and 5.

NOTES: SIGNIFICANT ACCOUNTING POLICIES

1. General Information

Africa Centre for Open Governance is incorporated in Kenya under the Kenyan Companies Act 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, Lavington, Nairobi. The principal activities of the company are that of being committed to providing cutting edge research on governance and public ethics issues and monitor governance fundamentals in both the government and private sector.

2. Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-Sized Entities (IFRS for SMEs) issued by the International Accounting Standards Board. They are presented in Kenya Shillings (Shs). The measurement basis used is the historical cost basis.

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 estimates are significant to the financial statements, are disclosed in note 3a.

3. Summary of significant accounting policies

a) Significant judgements made by management in applying the company's accounting policies

Management has made the following judgements that are considered to have the most significant effect on the amounts recognised in the financial statements:

- The entity applies judgement in determining whether the conditions for recognition of grants as income have been met.

Key sources of estimation uncertainty

In the opinion of management there are no assumptions or other major sources of estimation uncertainty at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within 12 months of the reporting date

b) 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 recognised as income.

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

NOTES: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Summary of significant accounting policies (continued)

c) 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 surplus or deficit.

d) Plant and equipment

Plant and equipment are initially recorded at cost and thereafter stated at historical cost less depreciation.

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 surplus or deficit during the financial period in which they are incurred.

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

	<u>Rate</u>
Computers	30%
Plant and machinery	12.5%
Furniture and fittings	12.5%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each 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 plant and equipment are determined by reference to their carrying amount and are taken into account in determining surplus/(deficit) for the year.

e) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and bank balances.

f) Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less impairment.

Impairment of trade receivables is recognized in the profit and loss account under administrative expenses when there is objective evidence that the company will not be able to collect all amounts due per the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default in payments are considered indicators that the trade receivable is impaired. The provision is based on the difference between the carrying amount and the present fair value of the expected cash flows, discounted at the effective interest rate.

Receivables not collectible are written off against the impairment. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income under administrative expenses in the year of their recovery.

NOTES: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Summary of significant accounting policies (continued)

g) Other payables

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

h) Taxation

No provision for corporate taxation has been made in these financial statements, as the company was not in receipt of taxable income.

i) The company as a lessee

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to surplus or deficit 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 surplus or deficit in the year to which they relate.

k) Capital fund

Capital fund is recognized for all fixed assets acquired through donors' fund received by the company. The depreciation charge relating to these assets is charged against the capital fund.

l) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, the comparatives have been adjusted to account for capital fund in relation to fixed assets acquired through donors fund.

NOTES

	2012	2011		
	Shs	Shs		
1. Income				
Open Society International	12,827,709	32,060,183		
United Nations Development Programme	-	9,577,500		
Embassy of Finland	1,898,315	6,617,634		
Other grant income	373,991	1,737,040		
Embassy of Netherlands	-	5,500,000		
USAID Kenya /DfID Kenya	-	2,284,360		
TIDES Foundation	-	651,593		
DFID/DAP	20,146,746	-		
SUNY	1,748,380	-		
KPTJ 2011	3,754,160	-		
UNODC	416,208	-		
Pooling a/c	419,164	-		
Total grant income	<u>41,584,673</u>	<u>58,428,310</u>		
2. Surplus/(deficit) for the year				
The following items have been charged in arriving at surplus/(deficit) for the year:				
Bad debts	-	571,000		
Auditor's remuneration	300,000	250,000		
Staff costs (Note 3)	16,852,359	13,728,251		
3. Staff costs				
Salaries and wages	<u>16,852,359</u>	<u>13,728,251</u>		
4. Capital fund				
At start of year	1,306,568	1,024,638		
Additions during the year (Note 5)	973,202	686,302		
Depreciation charge for the year (Note 5)	<u>(555,683)</u>	<u>(404,372)</u>		
At end of year	<u>1,724,087</u>	<u>1,306,568</u>		
5. Plant and equipment				
Year ended 31 December 2012	Computers	Plant and	Furniture and	Total
	Shs	machinery	fittings	Shs
		Shs	Shs	
Cost				
At start of year	1,684,168	442,363	405,930	2,532,461
Additions	<u>784,908</u>	<u>166,295</u>	<u>21,999</u>	<u>973,202</u>
At end of year	<u>2,469,076</u>	<u>608,658</u>	<u>427,929</u>	<u>3,505,663</u>
Depreciation				
At start of year	922,151	162,383	141,359	1,225,893
Charge for the year	<u>464,078</u>	<u>55,784</u>	<u>35,821</u>	<u>555,683</u>
At end of year	<u>1,386,229</u>	<u>218,167</u>	<u>177,180</u>	<u>1,781,576</u>
Net book value	<u>1,082,847</u>	<u>390,491</u>	<u>250,749</u>	<u>1,724,087</u>

NOTES (CONTINUED)

5. Plant and equipment (continued)

Year ended 31 December 2011	Computers Shs	Plant and machinery Shs	Furniture and fittings Shs	Total Shs
Cost				
At start of year	1,023,968	442,363	379,828	1,846,159
Additions	<u>660,200</u>	<u>-</u>	<u>26,102</u>	<u>686,302</u>
At end of year	<u>1,684,168</u>	<u>442,363</u>	<u>405,930</u>	<u>2,532,461</u>
Depreciation				
At start of year	595,572	122,386	103,563	821,521
Charge for the year	<u>326,579</u>	<u>39,997</u>	<u>37,796</u>	<u>404,372</u>
At end of year	<u>922,151</u>	<u>162,383</u>	<u>141,359</u>	<u>1,225,893</u>
Net book value 2010	<u><u>762,017</u></u>	<u><u>279,980</u></u>	<u><u>264,571</u></u>	<u><u>1,306,568</u></u>

6. Other receivables

	2012 Shs	2011 Shs
Project advances	350,000	89,576
Staff advances	<u>206,515</u>	<u>55,299</u>
	<u><u>556,515</u></u>	<u><u>144,875</u></u>

7. Cash and cash equivalents

Cash at bank and in hand	<u><u>24,547,385</u></u>	<u><u>23,827,428</u></u>
For the purpose of the statement of cash flows, the year-end cash and cash equivalents comprise the following:		
Cash and bank balances	<u><u>24,547,385</u></u>	<u><u>23,827,428</u></u>

8. Other payables

Accruals	<u><u>1,336,341</u></u>	<u><u>4,652,725</u></u>
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9. Deferred income

At start of year	22,042,791	-
Transfer from statement of comprehensive income and general fund	<u>(32,692,142)</u>	<u>22,042,791</u>
At end of year	<u><u>30,509,570</u></u>	<u><u>22,042,791</u></u>

NOTES (CONTINUED)

9. Deferred income (continued)

The detailed analysis of deferred income is as follows:

Project	At start of year Shs	Receipts during the year Shs	Expenditure during the year Shs	At end of year Shs
Dutch/KPTJ	4,655,063	39,829	(2,819,690)	1,875,202
SUNY	1,558,477	1,763,524	(2,693,828)	628,173
UNDP	3,628,756	19,355	(2,794,695)	853,416
Osiea/KPTJ	2,693,432	3,778,151	(5,308,059)	1,163,524
Osiea/Africog	6,562,962	12,869,057	(9,931,288)	9,500,731
IJ 2011	2,944,101	1,926,629	(2,720,810)	2,149,920
DFID/DAP	-	20,201,643	(6,206,726)	13,994,917
UNODC	-	560,733	(217,046)	343,687
	<u>22,042,791</u>	<u>41,158,921</u>	<u>(32,692,142)</u>	<u>30,509,570</u>

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

10. Tax

The company has not obtained an exemption certificate from Kenya Revenue Authority to exempt it from paying corporation tax on its income. Due to the nature of the company activities, the director are of the opinion that no provision for tax is required. However, the management is pursuing the exemption certificate.

11. Presentation currency

The financial statements are presented in Kenya Shillings (Shs).