

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
POLICYHOLDERS COMPENSATION FUND**

**FOR THE YEAR ENDED
30 JUNE 2016**



POLICYHOLDERS COMPENSATION FUND

The Fund You Can Trust

POLICYHOLDERS COMPENSATION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
30TH JUNE 2016**

Prepared in accordance with the Accrual Basis of Accounting Method
under the International Public Sector Accounting Standards (IPSAS)

POLICYHOLDERS COMPENSATION FUND

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I. KEY INFORMATION**(a) Establishment**

The Policyholders Compensation Fund is a State corporation established under Section 179 of the Insurance Act and commenced its operations on 1st January, 2005.

(b) Principal Activities

The principal activities of the Fund are to protect the policyholders of an insolvent insurer through provision of compensation for unpaid claims, participation in statutory management and liquidation of a wound up insurer.

(c) Key Management

The Fund is administered by a Board of Trustees, which is accountable to Government of Kenya through the National Treasury.

(d) Fiduciary Management

The Fund is run by a Managing Trustee. The appointed Managing Trustee is the Retirement Benefits Authority (RBA) as contained in the Kenya Gazette Notice No. 3357 of 6th May, 2005.

The key management personnel who held office during the financial year ended 30th June, 2016 and who had direct fiduciary responsibility were:

No	Designation	Name
1	Representative of the Managing Trustee	Mr. Charles Machira
2	Head of Secretariat	Mr. John Keah
3	Internal Audit and Risk Management	Mrs. Elizabeth Waruingi

(e) Fiduciary Oversight Arrangements

The Audit and Risk Management Committee provides the Board of Trustees in their oversight role for the integrity of the financial operations of the Fund and the performance of the Funds internal audit and external auditors and compliance by the Fund with legal and statutory requirements.

(f) Office

Policyholders Compensation Fund
Zep Re Place 2nd Floor
02 Longonot Road, Upper-Hill
P.O. Box 24203 -00100
Nairobi

I. KEY INFORMATION (CONT'D)

(g) Contact

Telephone: (254)-020-4996236/7/8

Email: info@phcf.co.ke

Website: www.pcfkenya.org

(h) Bankers

Commercial Bank of Africa

Standard/Wabera Streets

P.O. Box 30457-00100

Nairobi

Co-operative Bank of Kenya

Upper Hill

P.O. Box 48231-00100

Nairobi

Kenya Commercial Bank

Moi Avenue

P.O. Box 30081-00100

Nairobi

(i) Independent Auditors

Auditor General

Kenya National Audit Office

Anniversary Towers University Way

P. O. Box 30084 -00100

Nairobi

(j) Principal Legal Advisor

The Attorney General

State Law Office

Harambee Avenue

P. O. Box 40112 - 00200

Nairobi

II. THE BOARD OF TRUSTEES



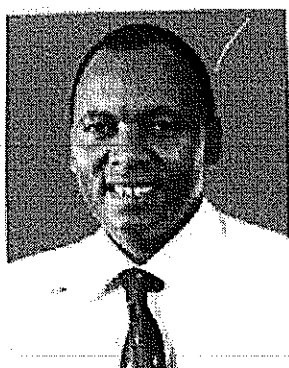
Mr. Faisal Abbas
Chairman

Mr. Abbas is the current Chairman of the Board of Trustees. He was appointed on 17th April 2015. He is a businessman. Age 51



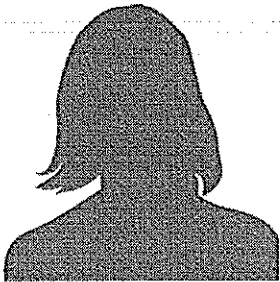
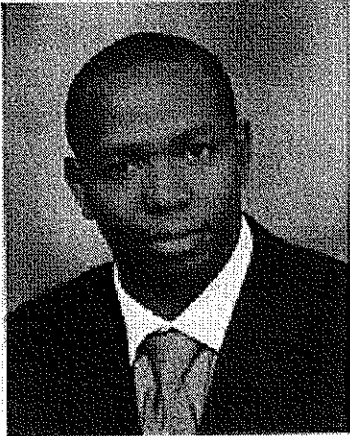

Mr. Douglas Mburia
Trustee
Bsc. Mathematics, MBA

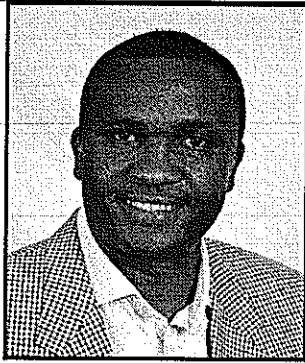
Mr. Mburia is a statutory member of the Board of Trustees in his capacity as the alternate to the Commissioner of Insurance and Chief Executive Officer of the Insurance Regulatory Authority. He is a Senior Supervision Officer at the Insurance Regulatory Authority and has over 23 years' experience in insurance industry. Age 51



Mr Tom Gitogo
Trustee
BSc Eng, ACA,FCPA,CPS,MBA

Mr. Gitogo was appointed as a trustee representing insurers carrying on long term business on 17th April 2015. He is the Group Chief Executive Officer CIC Insurance Group and has vast experience in Insurance, Audit and Accountancy fields. Age 47

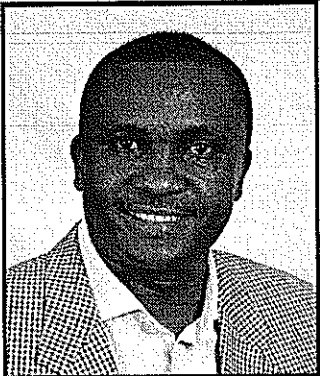


 <p>Ms. Joy Njuguna Trustee</p>	<p>Ms. Njuguna is a statutory member of the Board of Trustees in her capacity as the alternate of the Cabinet Secretary of the National Treasury.</p>
 <p>Mr. Ndiritu Muriithi Trustee MPM, BA</p>	<p>Mr. Muriithi was appointed as a trustee on 17th April 2015. He is an Economist and has vast experience in financial, industrialization and Management sectors having served in both private and public sector capacities for over 24 years both locally and internationally. Age 48.</p>
 <p>Mr. Maurice Okumu Trustee LLM, LLB(HON) Dip ACII London</p>	<p>Mr. Okumu was appointed as a Trustee representing loss assessors on 17th April 2015. He has over 20 years' experience in insurance. He is a practicing advocate of the High Court, and runs M.J. Okumu & Associates Advocates. Age 53.</p>



Representative of the Managing
Trustee
and
Secretary to the Board
MSc, BSc

Mr. Machira is the Representative of the Managing Trustee and also serves as the Secretary to the Board. He was appointed on 15th November 2010 and has over 20 years' experience in the Insurance and Pensions Regulatory sectors. Age 47.

III. MANAGEMENT TEAM

 <p>Mr. Charles M. Machira MSc, BSc</p>	Representative of the Managing Trustee and Secretary to the Board
 <p>Mr. John S. Keah MBA, BSc</p>	Head of Secretariat
 <p>Mrs. Elizabeth Waruingi MBA, BA, CPA, CIA, CISA, CRMA</p>	Internal Audit and Risk Management

IV. CHAIRMAN'S STATEMENT

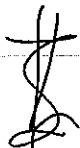
It is my pleasure to present the annual report and financial statements of the Policyholders Compensation Fund for the year ended 30th June 2016.

During the year under review, the Fund witnessed a growth of its reserves attributed to a growing insurance sector characterized by increased gross written premiums mainly from general business and increased uptake that has seen insurance penetration grow to 2.9% of Gross Domestic Product.

In consideration of the Funds mandate, the growth in reserves presents the Fund with an opportunity to provide adequate compensation and protection to all insurance claimants of insolvent insurers in line with article 46 of the Constitution of Kenya, 2010 which gives consumers the right to protection of their economic interests and to compensation for loss. The Fund is focused on upholding these rights for every insurance consumer in Kenya by working towards achievement of its key result areas which include developing a comprehensive compensation framework, financial sustainability and institutional capacity.

While the Fund works towards these goals, the Fund has also taken a proactive role in policyholder protection through its appointment as the statutory manager of four insurance companies currently under statutory management. Consequently, the Fund is playing a leading role in the efforts towards the resolution of these cases and will be better placed in handling the potential claim liabilities they present the Fund, in the event any is to be wound up. In this regard, the Fund is working towards reviewing its compensation framework and increasing its capacity to be able to effectively undertake this important role.

I therefore take this opportunity to appreciate the continued support of the members of the Board, management, staff and stakeholders for their commitment towards the Fund's mandate.



FAISAL ABASS

CHAIRMAN, BOARD OF TRUSTEES

V. STATEMENT OF THE MANAGING TRUSTEE

The Managing Trustee of the Policyholders Compensation Fund is the Retirement Benefits Authority which was appointed with effect from 9th December, 2004 vide Kenya Gazette Notice No. 3357 dated 6th May, 2005.

Since the commencement of its operations, the Fund has witnessed a steady growth. This trend was maintained during the year under review and this report highlights some of the notable aspects of growth as follows:

a) Mandate

The scope of the Fund's mandate has evolved to the protection of the policyholders of an insolvent insurer. This evolution results from the expansion of the mandate to not only include the payment of compensation for unsettled claims but to also include participation in statutory management and undertaking the liquidation of a wound up insurer.

During the year under review, the Fund was appointed statutory manager of Concord Insurance Limited. In addition to Blue Shield Insurance, Standard Assurance and United Insurance which the Fund had taken over in the previous financial year, the four insurer's unsettled claims continue to represent potential liabilities to the Fund. In expectation of compensation payments to the claimants, the Fund commenced a review of its compensation terms.

In anticipation of the successful implementation of the above initiatives, the Fund is better placed to undertake a proactive role in the development and promotion of stability in the insurance sector.

b) Management

The Fund is administered by the Board of Trustees which has delegated the daily operations to the Managing Trustee which in turn has seconded four staff to man the Secretariat of the Fund. In accordance with its Strategic Plan Key Result Area to build institutional capacity, the Fund undertook staff training and reviewed its processes aimed at improving its operational effectiveness and efficiency. To this end, key staff was trained in various insurance compensation related areas both locally and overseas while at the same time initiated the automation of its accounting process.

STATEMENT OF THE MANAGING TRUSTEE (CONT'D)**c) Levy collection**

The Fund's original mandate is the payment of compensation. The funds for this purpose are collected from a statutory levy which is calculated at 0.5% of the insurance premiums paid to an insurer. In addition, the Fund also collects penalties charged either by itself or the Insurance Regulatory Authority (IRA) on insurers defaulting on specific sections of the Insurance Act.

During the year, there was a growth in the collection of levy by 7% to KShs 704,058,456 from KShs 659,117,383 in the previous year. The growth on levy collection was largely due to the increased volume of insurance premiums as a result of industry growth but also due to correct computation of payable levy by insurers, timely payments and improved levy management. With increased enforcement of the law and close cooperation with the IRA, this trend is expected to increase in the next financial year.

d) Investments

The Fund invests its surplus assets primarily in Government securities. During the year the Fund generated an investment return of KShs. 581,759,354 by investing in Treasury Bills which represents a 47% growth from the previous year. In addition, the Fund improved its cash management processes by reviewing its banking terms to ensure that funds awaiting investments are held in competitive interest bearing instruments.

e) Administration Expenses

During the year, the Fund continued to maintain low administration expenses due to the fact that it has not been required to exercise its primary mandate of compensation payments. Overall administration expenses comprising of Board, Staff and Operational costs amounted to KShs. 29,089,284 compared to KShs. 23,614,803 during the previous year with the increase attributed to development related activities necessary for capacity building and statutory management functions.

f) Net Asset Value

The upshot in the improved performance in levy collection, investment returns, low administration costs and improved governance is a notable 26% growth in the net asset value of the Fund translating to KShs 5,928,295,562 from KShs. 4,660,810,834 in the previous year. The Fund is keen on

STATEMENT OF THE MANAGING TRUSTEE (CONT'D)

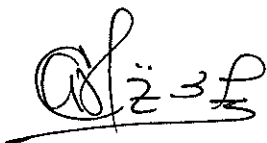
maintaining this performance in order to be able to offer to fulfil its mandate of paying claimants effectively.

g) Strategic Partnerships

Fostering strategic partnerships is one of the Fund's strategic objectives. In this regard, the Fund is a member of the International Forum for Insurance Guarantee Schemes (IFIGS). During the year under review, the Fund participated in conferences and meetings aimed to develop IFIGS. As the only member from the African continent, the Fund is playing an active role in creating awareness about the importance of insurance guarantee schemes in the continent.

Conclusion

Though the Fund has not been required to pay out compensation, its appointment as statutory manager for several insurers is testament of its importance in the insurance sector. As a result, the Fund will continue to undertake its mandate diligently to ensure that insurance claimants will be adequately protected thereby contributing to the industry development through promotion of confidence.



CHARLES MACHIRA
REPRESENTATIVE OF MANAGING TRUSTEE

VI. CORPORATE GOVERNANCE STATEMENT

The Policyholders Compensation Fund is a State Corporation established in 2004 under section 179 of the Insurance Act.

Board Composition

The management of the Fund is vested in the Board of Trustees. The composition of the Board in the year under review was as follows:

Name	Membership	Representation
Mr. Faisal Abbas	Chairman	Independent
Mr. Douglas Mburia	Trustee	Alternate to Commissioner of Insurance
Mr. Tom Gitogo	Trustee	Representative of Insurers carrying on long term business
Ms. Joyce Njuguna	Trustee	Alternate to Principal Secretary, The National Treasury
Mr. Maurice Okumu	Trustee	Representative of loss assessors
Mr. Ndiritu Muriithi	Trustee	Independent

During the period under review, the following changes took place:

1. Mr. Julius Mutua's appointment as the Alternate of the Cabinet Secretary to the National Treasury ended on 14th October, 2015.
2. Ms. Joy Njuguna was appointed to be the Alternate of the Cabinet Secretary to the National Treasury on 14th October, 2015.

Members of the board other than statutory members hold office for a period of three years and are eligible for re-appointment for a further one term. The Board is currently not fully constituted as the seats of the representative of insurers carrying on general business and the representative of Insurance Brokers remain vacant.

However, the Fund continues to engage with the National Treasury on the appointment of these Trustees.

Trustees are required to disclose any conflict of interest in relation to matters that are brought before them for deliberation as stipulated in the Board Charter.

CORPORATE GOVERNANCE STATEMENT (CON'D)

Board Committees

The Board has delegated its authority to the standing committees to enable it effectively carry out its mandate. These Committees are described below and each has its own Terms of reference setting forth the purposes, goals and responsibilities as well as qualifications for membership and operational procedures.

During the period under review, the Board Committee membership was reconstituted by resolution of the Board. The committees meet at least four times in a year or at such times the Chairman of the committee shall require.

The Committees had eleven (11) meetings in the financial year 2015/2016 as follows:

i) Finance and Management Committee

The terms of reference of the committee are to review and make recommendations to the Board on financials, operations, budget and the annual accounts.

In the year under review the members of the committee were;

1. Tom Gitogo - Chairman
2. Douglas Mburia
3. Ndiritu Muriithi

The committee held three (3) meetings.

ii) Technical and Public Policy Committee

The Technical and Public Policy committee responsibility is to review the technical and policy related aspects of the Fund to ensure it operates within statutory and best practice requirements.

The membership to this committee was as follows:

1. Maurice Okumu - Chairman
2. Douglas Mburia
3. Joy Njuguna
4. Ndiritu Muriithi

The committee held four (4) meetings.

CORPORATE GOVERNANCE STATEMENT (CON'D)

iii) Audit and Risk Committee

The role of the committee is oversight of integrity of the financial statements of the Fund, performance of internal and external auditors and compliance with legal and regulatory requirements.

Members of the committee were:

1. Ndiritu Muriithi - Chairman
2. Joyce Njuguna
3. Maurice Okumu

The committee held three (3) meetings.

Board Attendance

During the financial year 2015/2016, four (4) Board meetings and ten (10) committee meetings were held. Attendance by individual members for the period is tabulated below:

Trustee	Board meetings		Committee Meetings	
	Held	Attended	Eligible	Attended
Faisal Abbas	4	2	N/a	N/a
Tom Gitogo	4	4	6	6
Douglas Mburia	4	4	7	7
Ndiritu Muriithi	4	4	9	9
Maurice Okumu	4	4	7	7
Julius Mutua	-	-	2	2
Joy Njuguna	-	-	7	2

Statement of Compliance

The Funds operations are legally guided by The Constitution of Kenya, 2010, the provisions of the Insurance Act Chapter 487 of the Laws of Kenya, the State Corporation Act, Chapter 446 of the Laws of Kenya and by the principles of good corporate governance

CORPORATE GOVERNANCE STATEMENT (CON'D)

The Fund continues to comply with all statutory requirements relevant to its operations as a body corporate and complies with relevant Government circulars issued from time to time.

Board Oversight

The Board is responsible for the formulation, implementation and monitoring of the Fund's Strategic Plan therefore providing appropriate strategic direction for the Fund. In addition, the Board defines the Vision, Mission and Core Values that enable the realization of the set Strategic Plan. During the period under review, the Board carried out a midterm review of its Strategic Plan for the period 2012-2017.

The day to day operations of the Fund have been delegated to the Management which is headed by the Managing Trustee through its representative. Periodically, the Board monitors and evaluates the implementation of its plans and strategies through reports received from Management through its Committees.

Board Remuneration

The Board is remunerated in accordance to the approved terms and conditions of service prescribed under Government circular Number OP/CAB.2/12A (9) of 29th August 2003.

Secretary to the Board

The Secretary to the Board co-ordinates the Boards activities and ensures, in conjunction with the Chairman, that the Board meetings are held procedurally. In addition, the Secretary links the flow of information between the Board and management as well as ensuring the Board receives adequate and timely information.

All Trustees have direct access to the Secretary who is also responsible for implementing and monitoring good corporate governance practices, ensuring that Board business meets all statutory requirements, keeps all legal and regulatory requirements under review and briefs the Board accordingly about these developments

VII. CORPORATE SOCIAL RESPONSIBLY STATEMENT

The Fund, owing to its mandate and nature of operations, collaborates with other State Corporations in undertaking Corporate Social Responsibility activities. In the year under review, the Fund undertook the following activities:

a) Beyond Zero Campaign

The Fund participated in the First Lady's half marathon which was held on 6th March, 2016 at Nyayo National Stadium in support of reducing maternal, new born and child deaths through provision quality healthcare.

b) Supporting the Cerebral Palsy Society of Kenya

The Fund supported the Cerebral Palsy Society of Kenya in its efforts to raise awareness required to help alleviate stigma and challenges associated with the condition and to provide continued support to the individuals afflicted by Cerebral Palsy by donating funds and participating in its Annual Charity Walk held on 25th June, 2016.

VIII. REPORT OF THE BOARD OF TRUSTEES

The Trustees submit their report together with Financial Statements of the Policyholders Compensation Fund for the period ending 30th June 2016.

ESTABLISHMENT

The Policyholders Compensation Fund is a State corporation established under Section 179 of the Insurance Act and commenced its operations on 1st January, 2005.

PRINCIPAL ACTIVITIES

The principal activities of the Fund are to protect the policyholders of an insolvent insurer through provision of compensation for unpaid claims, participation in statutory management and liquidation of a wound up insurer.

RESULTS

The results for the year ended 30th June, 2016 are set out on page 21 of this report

BOARD OF TRUSTEES

The Trustees who served during the current year are as follows:

Mr. Faisal Abbas	Chairman
Mr. Douglas Mburia	Trustee - Alternate to Commissioner of Insurance
Mr. Tom Gitogo	Trustee - Representative of Insurers conducting Long term Business
Mr. Julius Mutua	Trustee - Alternate to Cabinet Secretary, The National Treasury (up to 14 th October, 2015)
Ms. Joyce Njuguna	Trustee - Alternate to Principal Secretary, The National Treasury (Appointed 14 th October, 2015)
Mr. Maurice Okumu	Trustee - Nominee of Insurance loss assessors
Mr. Ndiritu Muriithi	Trustee - Representing Special Interests

AUDITORS

The Auditor General is responsible for the statutory audit of the Policyholders Compensation Fund in accordance with Section 12 of the Public Audit Act 2003 (Cap.12)

By Order of the Board



Charles Machira

Representative of the Managing Trustee and Secretary to the Board
POLICYHOLDERS COMPENSATION FUND

IX. STATEMENT OF THE BOARD OF TRUSTEES RESPONSIBILITIES


The Public Financial Management Act section 68 requires the Fund to prepare financial statements for each financial year. Financial statements include a statement of financial position showing in detail the assets and liabilities of the Fund, a statement of financial performance, a statement of cash flows and any other statements and accounts that may be necessary to fully disclose the financial position of the Fund. The State Corporations Act (Cap 446) requires the Fund to keep or cause to be kept proper books recording all the property, undertakings, funds, activities, contracts, transactions and other business of the Fund. Under the State Corporations Act, the Board of Trustees is responsible for the proper management of the affairs of a state corporation.

The Board of Trustees accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with generally accepted accounting principles and in the manner required by the State Corporations Act. The Trustees are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Fund and of its operating results. The Board of Trustees further accepts responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal control.

Nothing has come to the attention of the Board of Trustees to indicate that the Fund will not continue to operate as a "going concern" for at least the next twelve months from the date of this statement.



 Managing Trustee



 Trustee



 Trustee

Date 29/09/2016

POLICYHOLDERS COMPENSATION FUND

X. REPORT BY THE AUDITOR GENERAL

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON POLICYHOLDERS COMPENSATION FUND FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Policyholders Compensation Fund set out on pages 20 to 35, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in net assets, statement of comparison of budget and actual amounts and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations, which to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

The Board of Trustees is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The Board is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks 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

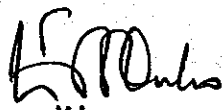
Report of the Auditor-General on the Financial Statements of Policyholders Compensation Fund for the year ended 30 June 2016

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Policyholders Compensation Fund as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Insurance Act, Cap 487 of the Laws of Kenya.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

12 May 2017

XI. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016

RESTATED

		2016	2015
	Notes	KSHS	KSHS.
Revenue from non-exchange transactions			
Contribution levy	3	704,058,456	659,117,383
Penalties	4	<u>6,202</u>	<u>600,000</u>
		<u>704,064,658</u>	<u>659,717,383</u>
Revenue from exchange transactions			
Interest income	5	581,759,354	394,531,782
Other Income	6	10,750,000	3,500,000
		<u>592,509,354</u>	<u>398,031,782</u>
Total Revenue		<u>1,296,574,012</u>	<u>1,057,749,165</u>

EXPENDITURE

Board expenses	7	8,660,599	10,900,851
Employee cost	8	16,789,550	*9,370,367
General expenses	9	2,630,588	*1,946,984
Repairs & Maintenance	10	56,318	*69,252
Contracted services	11	384,910	*973,040
Finance cost	12	67,313	*58,789
Depreciation	13	500,006	*295,520

Total expenses		<u>29,089,284</u>	<u>23,614,803</u>
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SURPLUS FOR THE YEAR		<u>1,267,484,728</u>	<u>1,034,134,362</u>
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The notes on page notes on page 25 to 35 form an integral part of these financial statements.

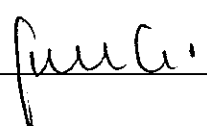
XII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

	Notes	2016 KSHS	2015 KSHS
ASSETS			
CURRENT ASSETS			
Receivable from non exchange transaction	14	48,081,950	44,420,799
Receivable from exchange transactions	15	-	206,564
Investments	16	5,818,669,985	4,509,426,738
Cash and cash equivalents	17	<u>61,290,257</u>	<u>107,248,997</u>
		<u>5,928,042,192</u>	<u>4,661,308,098</u>
NON CURRENT ASSETS			
Property, plant and equipment	18	792,306	1,293,312
TOTAL ASSETS		<u>5,928,834,498</u>	<u>4,662,596,410</u>
CURRENT LIABILITIES			
Payables from exchange transactions	19	190,936	1,437,576
Provisions	20	<u>348,000</u>	<u>348,000</u>
		<u>538,936</u>	<u>1,785,576</u>
NET ASSETS		<u>5,928,295,562</u>	<u>4,660,810,834</u>
RESERVES			
Government Grant	22	35,000,000	35,000,000
Accumulated surplus		<u>5,893,295,562</u>	<u>4,625,810,834</u>
		<u>5,928,295,562</u>	<u>4,660,810,834</u>

The Financial statements on pages 20 to 35 were approved by the Board of Trustees for issue on 29th September, 2016 and were signed on its behalf by:



Managing Trustee



Trustee



Trustee

XIII. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2016

FUND RESERVE	Notes	KSHS
1 July, 2014		3,626,676,472
Changes in reserves for 2015		
Surplus for the year		<u>1,034,134,362</u>
Balance at 30 June, 2015		<u>4,660,810,834</u>
1 July, 2015		4,660,810,834
Changes in reserves for 2016		
Surplus for the year		<u>1,267,484,728</u>
Balance at 30 June, 2016		<u>5,928,295,562</u>

XIV. STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 KSHS	2015 KSHS
Cash flow from operating activities			
Surplus for the year		1,267,484,728	1,034,134,362
Adjustments for:			
Depreciation on property, plant & equipment	18	500,006	294,528
Interest income		<u>(581,759,354)</u>	<u>(398,031,782)</u>
Surplus before working capital changes		686,225,380	636,397,108
Decrease in withholding tax	15	206,564	(145,578)
Increase in Levy receivable	14	(3,660,151)	452,958
(Decrease)/ Increase in payables	20,19	<u>(1,246,640)</u>	<u>867,452</u>
Net Cash from Operating Activities		681,524,153	637,571,940
Cash flow from investing activities			
Purchase of property, plant and equipment	18	-	(1,136,662)
Increase in investments		(1,309,243,247)	(1,007,134,850)
Investment income		<u>581,759,354</u>	<u>398,031,782</u>
Net cash used in investing Activities		<u>(727,483,893)</u>	<u>(610,239,730)</u>
Net increase in cash & cash equivalents		(45,959,740)	27,332,210
Cash & cash equivalent at the beginning		<u>107,248,997</u>	<u>79,916,787</u>
Cash & cash equivalent at the end		<u>61,290,257</u>	<u>107,248,997</u>

XV. STATEMENT OF COMPARISON OF ACTUAL AND BUDGET AMOUNTS

	2016	2016	
	KSHS	KSHS	KSHS
	BUDGET	ACTUAL	VARIANCE
INCOME			
Contribution levy	718,106,000	704,058,456	(14,047,544)
Interest Income	395,561,000	581,759,354	186,198,354
	1,113,667,000	1,285,817,810	172,150,810
OPERATING EXPENDITURE			
*Board expenses	14,740,800	8,660,599	6,080,201
*Managing Trustee	14,219,800	16,782,550	(2,562,750)
Insurance expenses	100,000	93,811	6,189
Repairs & maintenance	100,000	56,318	43,682
Official entertainment	240,000	82,860	157,140
*Travel and accommodation	3,485,000	1,846,442	1,638,558
Office expenses	176,000	31,406	144,594
*Printing & stationery	898,800	88,601	810,199
*Public Education & Publicity	1,020,000	66,900	953,100
*Training & Development	950,000	7,000	943,000
Library expenses	92,000	64,840	27,160
*Post & telephone	538,000	159,240	378,760
*Professional charges	1,000,000	384,910	615,090
*Information technology	1,000,000	196,488	803,512
Bank Charges	120,000	67,313	52,687
Depreciation	=	500,006	-
TOTAL EXPENDITURE	38,680,400	29,089,284	10,091,122
SURPLUS FOR THE YEAR	1,074,986,600	1,267,484,728	162,059,688

*The variances are explained in note 21.

**XVI. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR
ENDED 30 JUNE, 2016**

1. Statement of compliance and basis of preparation

The financial statements are prepared in accordance and comply with International Public Sector Accounting Standards (IPSAS). The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period. The financial statements have been prepared on the basis of historical cost. The cashflow is prepared using the indirect method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(a) Income recognition

i) Revenue from non-exchange transactions

Contribution Levy and Penalties

The Fund recognizes revenues from levies and penalties when the event occurs and the asset recognition criteria are met. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Fund and the fair value of the asset can be measured reliably.

ii) Revenue from exchange transactions

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONT'D)

(b) Budget information

The annual budget is prepared on accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Fund.

As a result of the adoption of the accrual basis for budgeting purposes, there is no basis that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

(c) Property, plant, equipment and depreciation

All property and equipment is initially recorded at cost and thereafter stated at historical cost less accumulated depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Depreciation is calculated on the cost of each asset on a straight-line basis at annual rates estimated to write off the cost of the asset over its estimated useful life.

The Depreciation rates used are as follows.

Computers	33.3%
Office furniture & Equipment	12.5%

(d) Related parties

The Fund regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Fund, or vice versa. The Board of Trustees and members of key management, Retirement Benefits Authority and Insurance Regulatory Authority are regarded as related parties.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR
ENDED 30 JUNE, 2016 (CONT'D)****(e) Financial instruments**

Financial assets and financial liabilities are recognised in the Fund's statement of financial position when the Fund becomes a party to the contractual provisions of the instrument.

Financial Assets***Receivables***

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Fund provides money, goods or services directly to a debtor with no intention of trading the receivable.

Government securities

Government securities comprise treasury bills and treasury bonds which debt securities are issued by the Government of Kenya. Government securities are classified as held to maturity and are stated at amortised cost.

Short term deposits

Short term deposits are classified as held to maturity and are stated at amortised cost.

Financial liabilities***Trade payables***

Trade payables are current and are stated at their nominal value.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR
ENDED 30 JUNE, 2016 (CONT'D)****(f) Inventories**

The Fund procures stationery and other inventories as and when need arises and are expensed in the period it relates.

(g) Provisions

Provisions are recognized when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(h) Nature and Fund reserve

The Fund maintains a general reserve.

(i) Cash and cash equivalents.

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, current account bank balances, and short term fixed deposits.

(j) Comparatives

Comparative figures have, where applicable, been adjusted to conform to changes in the current presentation.

(k) Provisions

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date.

(l) Currency

The financial statements are prepared in Kenya Shillings (KShs.), rounded to the nearest shilling.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONT'D)

(m) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2016.

3. CONTRIBUTION LEVY

	2016 KShs	2015 KShs
Contribution Levy	<u>704,058,456</u>	<u>659,117,383</u>

As per section 179 (2) of the Insurance Act, Insurers are required to pay a levy on gross direct premiums written at a rate prescribed by the Cabinet Secretary. The rate is currently at 0.5%.

4. PENALTIES

	2016 KShs	2015 KShs
Penalties	<u>6,202</u>	<u>600,000</u>

The Insurance Act Section 179 requires insurers to pay a penalty of 2.5% of any overdue levy amount. Additionally, late submissions of return to the Insurance Regulatory Authority also attract a penalty payable into the Fund.

5. INTEREST INCOME

	2016 KShs	2015 KShs
Treasury Bills	505,035,297	391,281,520
Deposit accounts	<u>76,724,057</u>	<u>3,250,262</u>
	<u>581,759,354</u>	<u>394,531,782</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016 (CONT'D)

6. OTHER INCOME

	2016	2015
	Kshs	Kshs.
Other Income	10,750,000	3,500,000

This is income the Fund earned from Blue Shield Insurance Company, United Insurance Company and Concord Insurance Company (Under statutory management) as management fees since the Fund was appointed to be the Statutory Manager. The Fund is also the Statutory Manager for Standard Assurance.

7. BOARD EXPENSES

	2016	2015
	KShs	KShs
Honoraria	960,000	960,000
Sitting allowances	1,300,000	3,780,000
Lunch allowances and snacks	294,650	498,810
Seminars, travel and accommodation	6,105,949	4,519,185
Bonus	=	<u>1,142,856</u>
	<u>8,660,599</u>	<u>10,900,851</u>

8. EMPLOYEE COST

Representative of Managing Trustee	600,000	600,000
Secretariat	16,182,550	8,055,703
Training	7,000	45,950
Bonus	=	<u>668,714</u>
	<u>16,789,550</u>	<u>9,370,367</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR
ENDED 30 JUNE, 2016 (CONT'D)**

9. GENERAL EXPENSES	2016	2015
Travel and accommodation	1,846,442	1,438,111
Information technology	196,488	19,871
Office expenses	31,406	14,232
Official entertainment	82,860	95,970
Printing and stationery	88,601	52,049
Library	64,840	65,980
Postage and telephone	159,240	144,720
Public education and publicity	66,900	116,050
Insurance	93,811	-
	<u>2,630,588</u>	<u>1,946,984</u>

10. REPAIRS & MAINTANANCE	2016	2015
General office repairs	56,318	69,252

11. CONTRACTED SERVICES	2016	2015
Contracted services	384,910	973,040

12. FINANCE COST	2016	2015
Bank charges	67,313	58,789

13. DEPRECIATION	2016	2015
Fixed assets charge	500,006	295,520

14. RECEIVABLES FROM NON EXCHANGE TRANSACTIONS

	2016	2015
	KShs	KShs
Contribution levy	<u>48,081,950</u>	<u>44,420,799</u>

This is contribution levy for June 2016 receivable in July 2016.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016

15. WITHHOLDING TAX

	2016 KShs	2015 KShs
Withholding tax	-	<u>206,564</u>

This relates to investment interest and was erroneously withheld by Cooperative Bank since the Fund's income is tax exempt as per Legal Notice No.68 of 15th June 2006.

16. INVESTMENTS

	2016 KShs	2015 KShs
Treasury bills	<u>5,818,669,985</u>	<u>4,509,426,738</u>

The interest rate was 13.4% as at 30th June 2016. Treasury bills are stated at cost plus accrued interest.

17. CASH AND CASH EQUIVALENTS

	2016 KShs	2015 KShs
Commercial Bank of Africa		
Operational Fund	(2,363,083)	1,085,298
	56,419,289	71,989,283
Kenya Commercial Bank	6,976,445	91,012
Cooperative Bank of Kenya	250,024	41,406
Kenya Commercial Bank -Deposit	-	34,000,000
Cash on Hand	<u>7,582</u>	<u>41,998</u>
	<u>61,290,257</u>	<u>107,248,997</u>

POLICYHOLDERS COMPENSATION FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016

18. PROPERTY, PLANT & EQUIPMENT

	Computer Equipment 33.3% Kshs.	Office Furniture & Equipment 12.5% Kshs.	Total Kshs.
Cost			
At 01 July 2014	1,517,575	384,153	1,901,718
Additions	1,136,662	-	1,136,662
Disposal	-	-	-
At 30 June 2015	2,654,237	384,143	3,038,380
Depreciation			
At 01 July 2014	1,104,148	346,392	1,450,540
Charge for the year	286,753	8,775	295,528
Disposal	-	-	-
At 30 June 2015	1,390,901	355,167	1,746,068
Net book value			
At 30 June 2015	1,264,336	28,976	1,293,312
At 30 June 2014	413,427	37,751	451,178
Cost			
At 01 July 2015	2,654,419	348,143	3,038,380
Additions	-	-	-
Disposal	-	-	-
At 30 June 2014	2,654,419	384,143	3,038,380
Depreciation			
At 01 July 2014	1,390,901	355,167	1,746,068
Charge for the year	493,766	6,240	500,006
Disposal	-	-	-
At 30 June 2016	1,884,667	361,407	2,246,074
Net book value			
At 30 June 2016	769,752	22,736	792,306
At 30 June 2015	1,264,336	28,986	1,293,312

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016

19. PAYABLES FROM EXCHANGE TRANSACTIONS

	2016 KShs	2015 KShs
Sundry creditors	<u>190,936</u>	<u>1,437,576</u>

20. PROVISIONS

	2016 KShs	2015 KShs
Audit fees	<u>348,000</u>	<u>348,000</u>

21. STATEMENT OF COMPARISON OF ACTUAL AND BUDGET AMOUNTS

INCOME	VARIANCE	NOTE
Contribution levy	(14,047,544)	The industry dynamics.
Interest Income	186,198,354	Treasury bills rate remained stable and increase in volumes invested
EXPENSES		
*Board expenses	6,080,201	Our Board was not fully constituted as we have vacancies
Managing Trustee	(2,562,750)	Increase in statutory management functions
Travel and accommodation	1,636,558	This air tickets for training which did not take place.
Printing & stationery	810,199	Printing of annual accounts
Public Education & Publicity	943,000	Public forum panned did not take place
Training & Development	943,000	Planned training cancelled by organizers
Professional charges	615,090	The is related with public forum above
Information technology	803,512	The purchase of claims system did not take place

22. GOVERNMENT GRANT

The Government grant was seed capital provided to the Fund by Government of Kenya in two financial years, Kshs. 15 million in 2005/2006 and Kshs 20 million in 2006/2007. The grant was not refundable and was immediately invested.

23. CONTINGENT LIABILITY

In anticipation the payment of compensation to claimants of insolvent insurers, the Fund acknowledges the amount payable as compensation as a contingent liability it will incur in future.

24. RE-STATEMENT OF PRIOR PERIOD ITEMS AND BALANCES

In the statement of financial position under comparative figures for 2014/2015 period have been reclassified and retrospectively re- stated in accordance with IPSAS 3. These include employee cost, general expenses, repairs and maintenance, contracted services, finance cost and depreciation.

REASONS FOR THE CHANGES IN THE BALANCES BROUGHT FORWARD FROM 2014/15 FINANCIAL STATEMENTS					
		AUDITED FINANCIAL STATEMENT	ADJUSTMENTS	DRAFT FINANCIAL STATEMENT 2015/16	
	EXPENSES	2014/15		B/F 2014/15	REMARKKS/EXPLANATIONS
1	Employee costs	9,324,417	45,950	9,370,367	Reclassified from admin expenses
2	General expenses	-	1,946,984	1,946,984	Reclassified from admin. Expenses
3	Repairs and maintenance	-	69,252	69,252	Reclassified from admin. Expenses
4	Contracted services	-	973,040	973,040	Reclassified from admin. Expenses
5	Finance costs	-	58,789	58,789	Reclassified from admin. Expenses
6	Depreciation	-	295,520	295,520	Reclassified from admin. Expenses
7	Administrative expenses	3,389,535	(3,389,535)	-	Reclassified to expenditure heads as above
	TOTAL	12,713,952	-	12,713,952	