

REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

POLICYHOLDERS COMPENSATION FUND

FOR THE YEAR ENDED
30 JUNE, 2019



POLICYHOLDERS COMPENSATION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
30TH JUNE 2019**

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

POLICYHOLDERS COMPENSATION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2019

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1. KEY INFORMATION

(a) Background Information

Section 179 of the Insurance Act provides for the establishment of a Policyholders Compensation Fund to provide compensation to the claimants of insolvent insurers. Through Legal No. 105 of 2004, the Insurance (Policyholders Compensation Fund) Regulations, 2004 were gazetted on 24th September, 2004 establishing the Policyholders Compensation Fund. The Fund commenced its operations on 1st January, 2005.

(b) Principal Activities

The principal activities of the Fund as provided in Section 179 (2A) of the Insurance Act are to:

- i) provide compensation to the policyholders of an insolvent insurer;
- ii) monitor, in consultation with the Commissioner where necessary, the risk profile of any insurer;
- iii) advise the Minister on the national policy to be followed with regard to matters relating to compensation of policyholders and to implement all government policies relating thereto;
- iv) participate in the statutory management of an insurer placed under statutory management by the regulator;
- v) liquidate an insurer as may be ordered by a court;
- vi) Perform such other functions as may be conferred on it by this Act or by any other written law.

(c) Key Management

The Fund's key management vests with the Board of Trustees whose powers are given through Section 179 (2B) of the Insurance Act and its composition stated in Section 179 (4) of the Insurance Act.

The Board of Trustees delegate its functions to a Managing Trustee who carries out the daily operations of the Fund.

(d) Fiduciary Management

Fiduciary responsibility vests with the Managing Trustee who is prescribed in Section 179 (5A) of the Insurance Act.

The Retirement Benefits Authority (RBA) was appointed the Managing Trustee of the Fund with effect from 9th December, 2004 by the Minister for Finance, vide Kenya Gazette Notice No. 3357 dated 6th May, 2005.

1. KEY INFORMATION (CONT'D)

The RBA has deployed staff to run the Fund's operations from a Secretariat which is led by the Representative of the Managing Trustee.

The key management personnel who held office during the financial year ended 30th June, 2019 and who had direct fiduciary responsibility were:

#	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, in their oversight role, provide the Board of Trustees assurance for the integrity of the financial operations of the Fund, the performance of the Funds internal and external audit functions and compliance of 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

(g) Contacts

Telephone: (+254)020 4996236/7/8
Email: info@pcf.co.ke
Website: www.pcfkenya.org

(h) Bankers

Commercial Bank of Africa
Limited Standard/Wabera Streets
P.O. Box 30457-
00100 Nairobi

Co-operative Bank of Kenya
Limited Upper Hill
P.O. Box 48231-
00100 Nairobi

1. KEY INFORMATION (CONT'D)

KCB Bank Limited
Moi Avenue
P.O. Box 30081-00100
Nairobi

(i) Independent Auditors The Auditor
General Office of the Auditor
General 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

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II. THE BOARD OF TRUSTEES

 <p>Mr. Faisal Abbas Chairman</p>	<p>Mr. Abbas is an entrepreneur with over 30 years' experience in running businesses in the logistics and energy sectors.</p> <p>He was first appointed Chairperson of Board of Trustees on 17th April, 2015 and subsequently reappointed on 19th July, 2018 for his second term.</p>
 <p>Mrs. Alice Nzioka Trustee</p>	<p>Mrs. Nzioka is the Manager, Technical Support Services at the Insurance Regulatory Authority with over 21 years' experience in insurance industry.</p> <p>She was appointed as the trustee alternate to the Commissioner of Insurance and Chief Executive Officer of the Insurance Regulatory Authority on 22nd July, 2016 and is an Ex-Officio member in the Board of Trustees.</p>
 <p>Mr. Duncan Ndirangu Trustee</p>	<p>Mr. Ndirangu is a Deputy Director in the Directorate of budget, Fiscal and Economic Affairs. He has served in the civil service for the last 30 years in different positions and sectors especially in policy analysis, planning, budgeting and Monitoring and Evaluation.</p> <p>He was appointed as a trustee Alternate to the Cabinet Secretary of the National Treasury and Planning on 26th November, 2018 and is an Ex-Officio member in the Board of Trustees.</p>

 <p>Mr. Reuben Ndegwa Trustee</p>	<p>Mr. Ndegwa is an entrepreneur and business man with over 20 years' experience in the freight and logistics sector. He is the Managing Director of Tabaki Freight Services Limited.</p> <p>He was appointed as an independent trustee representing Special Interests on 20th September, 2018.</p>
 <p>Mr. Charles Machira Representative of the Managing Trustee & Secretary to the Board</p>	<p>Mr. Machira has over 20 years' experience in the Insurance and Pension sectors.</p> <p>He was appointed on 15th November, 2010 as the Representative of the Managing Trustee and Secretary to the Board</p>
 <p>Mr. Stephen Mbatia Representative of the Inspector - General (Corporations)</p>	<p>Mr. Mbatia is a Principal Inspector in the Inspectorate of State Corporations.</p> <p>He was assigned to be the inspector of the Policyholders Compensation Fund on 28th January, 2019.</p>

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2019

III. MANAGEMENT TEAM

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

IV. CHAIRMAN'S STATEMENT

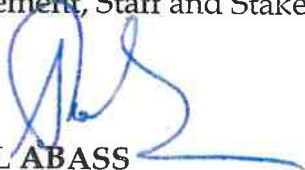
It is my pleasure to present the Annual Report and Financial Statements of the Policyholders Compensation Fund for the year ended 30th June 2019.

During the financial year under review, the Fund witnessed a growth of its asset base by 19% to Kshs. 10.6 billion. This growth places the Fund in a better position to fulfil its mandates particularly that of paying compensation 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. To ensure the Fund remains focused on upholding these rights for every insurance consumer in Kenya, the key result areas of the Fund's Strategic Plan are modelled towards the development of a comprehensive and inclusive compensation framework, prudent financial management for sustainability and development of institutional capacity to improve service delivery.

Through the execution of its mandates, the Fund continues to contribute to the development of the Kenyan insurance and financial sectors, and the economy as a whole. Through its compensation mandate, the Fund mobilizes resources through the financial system for the protection of insolvent insurance claimants. Through the statutory managerial mandate, the Fund continues being the statutory manager of three insurance companies and is well placed to cater to the beneficiaries of the compensation pay-outs. Although, the Fund has made significant strides towards concluding the resolution process of these companies, through its policy advisory mandate, it has proposed several legislative amendments addressing compensation, governance and statutory management issues which if passed, will shorten the time taken to commence compensation pay outs and improve overall service delivery. To improve the implementation of its risk monitoring and liquidation of an insurer mandates, the Fund has forged partnerships with stakeholders in the insurance, financial and legal sectors to review existing frameworks in order to streamline them towards improving their execution.

As the Fund strives towards the commencement of the compensation payments, the resolution of the three insurers under statutory management and the review of its institutional framework to facilitate operational excellence, the Fund remains committed to serving the Kenyan public.

I therefore take this opportunity to appreciate the continued support of my fellow Trustees, Management, Staff and Stakeholders for their commitment towards the Fund's mandate.



FAISSAL ABASS
CHAIRMAN, BOARD OF TRUSTEES

IV. CHAIRMAN'S STATEMENT

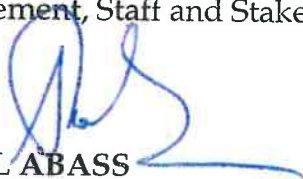
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As the Fund strives towards the commencement of the compensation payments, the resolution of the three insurers under statutory management and the review of its institutional framework to facilitate operational excellence, the Fund remains committed to serving the Kenyan public.

I therefore take this opportunity to appreciate the continued support of my fellow Trustees, Management, Staff and Stakeholders for their commitment towards the Fund's mandate.



FAISSAL ABASS
CHAIRMAN, BOARD OF TRUSTEES

V. STATEMENT OF THE MANAGING TRUSTEE

Background

The Managing Trustee of the Policyholders Compensation Fund is the Retirement Benefits Authority (RBA) which was appointed with effect from 9th December, 2004 vide Kenya Gazette Notice No. 3357 dated 6th May, 2005. A Representative of the Managing Trustee was duly appointed to oversee the Fund's operations.

Introduction

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 remains the protection of insurance consumers through the payment of compensation to the claimants of an insolvent insurer, participation in statutory management, undertaking the liquidation of a wound up insurer and facilitating the formulation of related policy.

During the year under review, the Fund continued with its efforts towards reviewing the compensation settlement framework and is optimistic that proposed legislative amendments aimed towards the fast-tracking of compensation will be enacted into law to enable commencement of pay-outs.

The Fund maintained its status as the Statutory Manager of Blue Shield Insurance, Concord Insurance Limited and United Insurance. The resolution processes of each of the insurers is at an advanced stage with Winding up Applications for the three insurers still undergoing Court consideration. Standard Assurance was handed over to the Official Receiver after its Winding Up application was heard and determined. While the unsettled claims of the three insurers still under statutory management remain potential liabilities, those of Standard Assurance claimants present the Fund with its first case of compensation pay-out and the Fund is working closely with various stakeholders to ensure an efficient payment process.

b) Board & Management

The Fund is administered by the Board of Trustees which has delegated the daily operations to the Managing Trustee which in turn has deployed four staff to the Secretariat of the Fund.

During the year under review, two trustees, one representing special interests and another being an alternate to the Cabinet Secretary of the National

STATEMENT OF THE MANAGING TRUSTEE (CONT'D)

b) Board & Management

The Fund is administered by the Board of Trustees which has delegated the daily operations to the Managing Trustee which in turn has deployed four staff to the Secretariat of the Fund.

During the year under review, two trustees, one representing special interests and another being an alternate to the Cabinet Secretary of the National Treasury and Planning were appointed consequently increasing the number of trustees to four. These appointments enabled the Board of Trustees resume undertaking its oversight role which had previously been hampered by a lack of quorum.

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STATEMENT OF THE MANAGING TRUSTEE (CONT'D)

Although four stakeholder representative seats remain vacant in the board, there is optimism that the National Treasury as the appointing authority shall fill them in due course. On the same breadth, the Fund forwarded proposals for the review of the composition of the Board of Trustees aimed at making its representation more inclusive.

The Managing Trustee retained its management team at the Fund and therefore no changes in the Fund's staff structure.

c) Levy collection & Penalties

The Fund's primary 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 under review, the month-on-month levy collected grew by an average of 3.8%. However, a comparison of the total levy for the year ending 30th June, 2019 reflects a 1% decrease to KShs 788 million compared to KShs 798 million for the year ending 30th June, 2018 due to the recognition of levies that had been paid in prior years but not allocated to any insurers. This one-off exercise undertaken in June 2018 subsequently increased the levy amount for the year ended 30th June, 2018 by KShs 42 million. A breakdown of the levy is tabulated below:

Period	2018/2019	2017/2018	% Growth
Quarter 1	186,464,299	179,711,731	3.8
Quarter 2	168,704,133	157,489,659	7.1
Quarter 3	258,173,113	242,221,751	6.6
Quarter 4	174,926,146	176,437,316	(0.9)
Sub - Total	788,267,691	755,860,457	3.8
Recognition of prior year levy payment	0	42,233,846	
Total Levy	788,267,691	798,094,303	

STATEMENT OF THE MANAGING TRUSTEE (CONT'D)

d) Investments

The Fund invests its surplus assets solely in Government securities in accordance with guidelines issued by the National Treasury and Planning. During the year under review, the Fund generated an investment return of KShs. 964,454,932 by investing its reserves in Treasury Bills. This represents a 21% growth from the previous year amount of KShs. 792,097,053 primarily due to the growth of the reserves available for investment.

e) Administration Expenses

During the year, the Fund continued to maintain low administration expenses due to the fact that it has not been enabled to exercise its primary mandate of compensation payments. In addition, the Fund's activities were limited due to a lean Board composition and maintenance of a lean institutional structure. Overall administration expenses comprising of Board, Staff and Operational costs amounted increased by 8% to KShs. 29,434,914 compared to KShs. 27,193,319 during the previous year.

f) Net Asset Value

The upshot of the increased revenues and maintained expenditure is a notable 19% growth in the net asset value of the Fund translating to KShs 1,736,185,994. This in turn grew the Fund reserves to KShs. 10,665,758,740 in the year under review from KShs. 8,929,381,810 in the previous year. The Fund is keen on maintaining this growth performance in order ensure financial sustainability that is key to enabling it fulfil its mandate of paying claimants effectively.

g) Strategic Partnerships

Fostering strategic partnerships is key in ensuring the Fund has the necessary support to enable it undertake its mandate. In this regard, the Fund maintained partnerships with the Insurance Regulatory Authority (IRA) and the International Forum for Insurance Guarantee Schemes (IFIGS).

During the year under review, the Fund served in two IFIGS working groups namely, the Data and Survey, and Member Outreach. As the only member from the African continent, the Fund remained the regional representative and commenced the development of strategies aimed at creating awareness about the importance of insurance guarantee schemes in the continent.

STATEMENT OF THE MANAGING TRUSTEE (CONT'D)

Conclusion

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. At the onset of the year, the composition of the Board in the year under review was as follows:

Name	Membership	Representation
Mr. Faisal Abass	Chairman	Independent (appointed on 19 th July 2018)
Ms. Alice Nzioka	Trustee	Alternate to Commissioner of Insurance
Mr. Reuben Ndegwa	Trustee	Representative of special interests (appointed 28 th September, 2018)
Mr. Duncan Ndirangu	Trustee	Alternate to the Cabinet Secretary - The National Treasury & Planning (appointed on 28 th January, 2019)

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.

As at 30th June, 2019, the Board was not fully constituted as the following seats were vacant:

- i. Representative of insurers carrying on general business;
- ii. Representative of Insurers carrying on long term business;
- iii. Representative of Insurance Brokers;
- iv. Representative of loss assessors.

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

The committees meet at least four times in a year or at such times the Chairman of the committee shall require but due to the Board Composition, the Committees had only four (4) meetings in the financial year 2018/2019 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. Duncan Ndirangu - Chairman
2. Alice Nzioka
3. Reuben Ndegwa

The committee held one (1) meeting.

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. Alice Nzioka - Chairman
2. Duncan Ndirangu
3. Reuben Ndegwa

The committee held two (2) meetings.

CORPORATE GOVERNANCE STATEMENT (CON'D)

iii) Audit and Risk Management 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. Reuben Ndegwa - Chairman
2. Alice Nzioka
3. Duncan Ndirangu

The committee held one (1) meeting.

Board Attendance

During the financial year 2018/2019, four (4) committee meetings were held. Attendance by individual members for the period is tabulated below:

Trustee	Board meetings		Committee Meetings	
	Held	Attended	Eligible	Attended
Faisal Abass	1	1	N/A	N/A
Reuben Ndegwa	1	1	4	4
Alice Nzioka	1	1	4	4
Duncan Ndirangu	1	1	4	4

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.

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.

CORPORATE GOVERNANCE STATEMENT (CON'D)

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. MANAGEMENT DISCUSSION AND ANALYSIS

Fund Overview

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

The Fund's overall mandate is to protect insurance consumers through the provision of compensation to claimants of insolvent insurers, participate in statutory management of insurers placed under statutory management by the regulator and undertake liquidation as appointed by the Court.

Governance

The appointment of two additional members into the Board of Trustees, enabling it to resume its business, improved governance within the Fund as the Board was able to undertake its oversight role. Consequently, the Fund held Board Committee and Full Board meetings which facilitated the adoption and implementation of key proposals necessary for service delivery.

Operational and Financial Reviews

The Fund's operations during the year under review were restricted to essential services due to limited institutional capacity at both the board and staff levels translating to underutilization of the approved budgets by 50%.

The financial performance of the fund however improved with respect to revenues which grew by 10% to Kshs 1.8 billion. Notably, investments contributed to 54% of the revenues highlighting the growing reserves of the fund.

With respect to the above, the Fund assets grew by 19% to KShs 10.7 billion. This accounts for 19% of all the KShs 56.9 billion claims incurred in 2018 as reported in the Industry Statistics Report compiled by the IRA. It is therefore important that the Fund ensures it maintains an adequate asset to claims ratio to assure adequate compensation cover.

Compensation

The Fund is yet to pay compensation due to the limitations of the law. There is a need to address these legislative limitations to provide for timely compensation. In this regard, the Fund forwarded legislative amendments aimed at revising the circumstances under which compensation is payable. Subject to the enactment of these proposed bills, the Fund will be able to effect compensation pay-outs to qualifying claimants.

VII. MANAGEMENT DISCUSSION AND ANALYSIS

Statutory Management

The Fund is currently the appointed Statutory Manager of three insurance companies namely Concord Insurance, Blue Shield Insurance and United Insurance. It is important that the process of statutory management is efficient and effective and results in an objective resolution. Informed by the Fund's recommendations, Winding Up applications for the three insurers were filed and are currently being heard at the High Court.

Liquidation

Following the filing of a Winding up Application for Standard Assurance Company, the case was determined and the Official Receiver appointed the Provisional Liquidator of the Insurer. Consequently, the qualifying claimants of the insurer ought to be paid compensation. There is a need for the Fund to facilitate the verification of the claimants before payments are made.

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VIII. CORPORATE SOCIAL RESPONSIBILY STATEMENT

The Fund, owing to its mandate and nature of operations, collaborates with other State Corporations in undertaking Corporate Social Responsibility (CSR) activities.

However, during the year under review, the fund did not participate in any CSR activities.

POLICYHOLDERS COMPENSATION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2019

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 2019.

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, 2019 are set out on page 20 of this report

BOARD OF TRUSTEES


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

Mr. Faisal Abass	Chairman -	(appointed 19/07/2018)
Mrs. Alice Nzioka	Trustee -	Alternate to Commissioner of Insurance
Mr. Reuben Ndegwa	Trustee -	Representative of special interests (appointed 28/09/2018)
Mr. Duncan Ndirangu	Trustee -	Alternate to the Cabinet Secretary - National Treasury (appointed 28/01/ 2019)

AUDITORS

The Auditor General is responsible for the statutory audit of the Policyholders Compensation Fund in accordance with Section 35 of the Public Audit Act 2015 (Cap.134)

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.


Chairman
TrusteeDate 23/09/2019.

POLICYHOLDERS COMPENSATION FUND

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2019**

X. REPORT BY THE AUDITOR GENERAL

REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



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Anniversary Towers
Monrovia Street
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON POLICYHOLDERS COMPENSATION FUND FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Policyholders Compensation Fund set out on pages 24 to 43, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of actual and budget amounts 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.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Policyholders Compensation Fund as at 30 June, 2019, 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, 2017 and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Policyholders Compensation Fund Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE.

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective 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 and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

Management 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.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Fund financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in

accordance with the provisions of Section 7(1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Fund policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

15 January, 2021

XI. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019

		2019	2018
	Notes	KSHS	KSHS.
Revenue from non-exchange transactions			
Contribution levy	3	788,267,691	798,094,303
Penalties	4	<u>1,398,285</u>	<u>2,078,584</u>
		<u>789,665,976</u>	<u>800,172,887</u>
Revenue from exchange transactions			
Investment income	5	964,454,932	792,097,053
Other Income	6	<u>11,500,000</u>	<u>8,750,000</u>
		<u>975,954,932</u>	<u>800,847,053</u>
Total Revenue		<u>1,765,620,908</u>	<u>1,601,019,940</u>

EXPENDITURE

Board expenses	7	9,777,148	8,070,513
Employee cost	8	14,508,177	15,332,458
General expenses	9	4,542,840	2,998,289
Repairs & Maintenance	10	88,032	31,900
Contracted services	11	400,000	348,000
Finance cost	12	69,644	53,878
Depreciation	13	49,073	358,281
Total expenses		<u>29,434,914</u>	<u>27,193,319</u>

SURPLUS FOR THE PERIOD		<u>1,736,185,994</u>	<u>1,573,826,622</u>
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The notes on page notes on page 28 to 43 form an integral part of these financial statements.

POLICYHOLDERS COMPENSATION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2019

XII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

		2019	2018
	Notes	KSHS	KSHS
ASSETS			
CURRENT ASSETS			
Receivable from non-exchange transaction	14	48,821,891	47,763,448
Receivable from exchange transactions		-	-
Investments	15	10,594,204,111	7,601,068,713
Cash and cash equivalents	16	<u>22,406,795</u>	<u>1,280,701,745</u>
		<u>10,665,432,797</u>	<u>8,929,533,906</u>
NON CURRENT ASSETS			
Property, plant and equipment	17	1,092,313	60,560
TOTAL ASSETS		<u>10,666,525,110</u>	<u>8,929,594,466</u>
CURRENT LIABILITIES			
Payables from exchange transactions	18	366,370	212,656
Provisions	19	<u>400,000</u>	-
		<u>766,370</u>	<u>212,656</u>
NET ASSETS		<u>10,665,758,740</u>	<u>8,929,381,810</u>
RESERVES			
Government Grant	21	35,000,000	35,000,000
Accumulated surplus		<u>10,630,758,740</u>	<u>8,894,381,810</u>
		<u>10,665,758,740</u>	<u>8,929,381,810</u>

The Financial statements on pages 23 to 40 were signed on behalf of the Board of Trustee by:


Managing Trustee


Trustee

POLICYHOLDERS COMPENSATION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2019

XIII. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2019

FUND RESERVE	KSHS
1 July, 2017	7,355,555,188
Changes in reserves for 2018	
Surplus for the year	<u>1,574,017,558</u>
Balance at 30 June, 2018	<u>8,929,381,810</u>
1 July, 2018	8,929,381,810
Changes in reserves for 2019	
Reversal of provision for sundry creditor	190,936
Surplus for the year	<u>1,736,185,994</u>
Balance at 30 June, 2019	<u>10,665,758,740</u>

Notes:

- The purpose of the reserves is for the payment of compensation to the claimants of insolvent and liquidated insurance companies.
- The reversal of the provision for sundry creditor relates to printing services contracted in September 2013/2014 not rendered due to the winding up of the service provider.

POLICYHOLDERS COMPENSATION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2019

XIV. STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 KSHS	2018 KSHS
Cash flow from operating activities			
Surplus for the year		1,736,485,994	1,573,826,622
Adjustments for:			
Depreciation on property, plant & equipment	17	49,073	358,281
Interest income		<u>(964,454,932)</u>	<u>(792,097,053)</u>
Surplus before working capital changes		772,080,135	782,087,850
 Increase in Levy receivable	14	(1,058,443)	(129,582)
(Decrease)/ Increase in payables	18,19	<u>253,714</u>	<u>(326,280)</u>
Net Cash from Operating Activities		717,275,406	781,631,988
 Cash flow from investing activities			
Purchase of property, plant and equipment	17	(1,080,153)	-
Increase in investments		(2,992,945,135)	(508,667,677)
Investment income		<u>964,454,932</u>	<u>792,097,053</u>
Net cash used in investing Activities		<u>(2,029,570,356)</u>	<u>(283,429,376)</u>
Net increase in cash & cash equivalents		(1,258,294,950)	1,065,061,364
Cash & cash equivalent at the beginning		<u>1,280,701,745</u>	<u>215,640,381</u>
Cash & cash equivalent at the end		<u>22,406,795</u>	<u>1,280,701,745</u>

POLICYHOLDERS COMPENSATION FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE
2019

XV. STATEMENT OF COMPARISON OF ACTUAL AND BUDGET AMOUNTS

	2019	2019	
	KSHS	KSHS	KSHS
	BUDGET	ACTUAL	VARIANCE
INCOME			
Contribution levy	828,998,550	788,267,691	(40,730,859)
Interest Income	853,005,000	964,454,932	111,449,932
Penalties	-	1,398,285	1,398,285
Other Income	-	11,500,000	11,500,000
	1,682,003,550	1,765,620,908	83,617,358
OPERATING EXPENDITURE			
Board expenses	13,123,200	9,777,148	3,346,052
Managing Trustee	5,095,000	10,400,400	4,694,600
Statutory management	14,400,000	3,000,000	11,400,000
Insurance expenses	100,000	-	100,000
Repairs & maintenance	300,000	88,032	211,968
Official entertainment	240,000	11,130	228,870
Travel and accommodation	6,562,000	3,377,409	3,184,591
Office expenses	335,000	293,589	41,411
Printing & stationery	997,300	333,880	663,420
Public Education & Publicity	2,080,000	4,600	2,075,400
Training & Development	1,750,000	1,107,777	642,223
Library expenses	111,800	59,320	52,480
Post & telephone	472,000	293,076	178,924
Professional charges	2,000,000	400,000	1,600,000
Information technology	200,000	169,838	30,162
Bank Charges	100,000	69,644	30,356
Depreciation	-	49,073	-
TOTAL EXPENDITURE		29,434,914	
SURPLUS FOR THE YEAR		1,736,185,994	

The material variances are explained in Note 20.

XVI. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2019

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, 2019 (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%

NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE, 2019 (CONT'D)

(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. Those regarded as related parties include:

- The Board of Trustees, in exercise of the powers given to them through Section 179 (2B) of the Insurance Act;
- Management and staff in exercise of their fiduciary duties;
- The Retirement Benefits Authority as the appointed Managing Trustee;
- The Commissioner of Insurance as the Appointing Authority of Statutory Managers;
- The Insurance Regulatory Authority as the Industry Regulator and host to the Fund's Secretariat;

(e) Financial instruments

Financial assets and financial liabilities are recognized 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 amortized cost.

Short term deposits

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE, 2019 (CONT'D)

Financial liabilities

Trade payables

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

(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

A Fund reserve is maintained to be used to compensate policyholders of insurance companies that may be liquidated.

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE, 2019 (CONT'D)

(j) Comparatives

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

(k) Sundry Creditors

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, 2019 (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, 2019.

3. CONTRIBUTION LEVY

Section 179 (6) of the Insurance Act requires Insurers to pay a monthly contribution to the Fund in such amount and time as may be prescribed by the Cabinet Secretary in consultation with the Board. The rate is currently set at 0.5%.

Period	2019 KShs	2018 KShs
Quarter 1	186,464,299	179,711,731
Quarter 2	168,704,133	157,489,659
Quarter 3	258,173,113	242,221,751
Quarter 4	174,926,146	176,437,316
Sub - Total	<u>788,267,691</u>	<u>755,860,457</u>
Recognition of prior year levy payment	0	42,233,846
Total Levy	<u>788,267,691</u>	<u>798,094,303</u>

The decrease in levy collected is attributed to the one-off recognition of prior years' levy payments which increased the 2018 levy amount by KShs 42 million.

4. PENALTIES

Section 179 (8) requires insurers to pay a penalty of 2.5% of any overdue levy amount. Additionally, late submissions of return to the Insurance Regulatory Authority and delay in claims settlement also attract a penalty payable into the Fund.

	2019 KShs	2018 KShs
Penalties	<u>1,398,285</u>	<u>2,078,584</u>

The decline in penalty amount is attributed to increased compliance by insurers.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE, 2019 (CONT'D)**

5. INVESTMENT INCOME

The investment income was generated by interest earned on Treasury Bills and on current accounts held in the Fund's commercial bank.

	2019 KShs	2018 KShs
Interest from Treasury Bills	960,763,305	792,097,053
Current accounts interest	<u>3,691,627</u>	<u>-</u>
	<u>964,454,932</u>	<u>792,097,053</u>

A nil return was earned in the prior year due to the implementation of cash management guidelines in the National Treasury Circular No. 15/2016

6. OTHER INCOME

This is income the Fund earned as management fees for Statutory Management services for the three insurers placed under statutory management by the Commissioner of Insurance. The three companies are Blue Shield Insurance Company, Concord Insurance Company, Standard Assurance Company and United Insurance Company

	2019 KShs	2018 KShs.
Other Income	<u>11,500,000</u>	<u>8,750,000</u>

7. BOARD EXPENSES

These are expenses incurred in the execution of Board of Trustees related activities.

	2019 Kshs	2018 Kshs
Honoraria	960,0000	-
Sitting allowances	1,020,000	498,000
Lunch allowances and snacks	103,560	262,540
Seminars, travel and accommodation	7,693,588	7,092,753
Insurance	-	203,220
Airtime	-	<u>14,000</u>
	<u>9,777,148</u>	<u>8,070,513</u>

The differences are due to the following:

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE, 2019 (CONT'D)**

- **Honoraria** – The Fund did not have a Chairperson in 2018
- **Sitting & Lunch Allowances** – Board activities were limited due to a lack of quorum.
- **Insurance & Airtime** – Expenditure not incurred.

8. EMPLOYEE COSTS

These are incurred with respect to staff costs.

	2019	2018
	KShs	KShs
Representative of Managing Trustee	600,000	600,000
Secretariat	9,800,400	11,500,200
Statutory management	3,000,000	3,000,000
Training	<u>1,107,777</u>	<u>232,258</u>
	<u>14,508,177</u>	<u>15,332,458</u>

The differences are to the following:

- **Secretariat** – Gratuity was paid to contractual staff in 2018.
- **Training** – All staff were trained in 2019 as compared to 2018 when only one was trained.

9. GENERAL EXPENSES

	2019	2018
	KShs	KShs
Travel and accommodation	3,377,409	2,207,898
Information technology	169,838	123,071
Office expenses	293,589	177,384
Official entertainment	11,130	138,080
Printing and stationery	333,880	4,901
Library	59,320	60,080
Postage and telephone	293,076	164,960
Public education and publicity	<u>4,600</u>	<u>121,824</u>
	<u>4,642,842</u>	<u>2,998,198</u>

The differences were due to:

- **Travel & Accommodation** – Increased in 2019 travel due to training.
- **Office Expenses** – Increased in 2019 due to more operational activities
- **Printing & Stationery** – Increased in 2019 due to production of branded stationery
- **Postage & Telephone** – Increased in 2019 due to (TBC)

POLICYHOLDERS COMPENSATION FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2019

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE, 2019**

- **Public Education & Publicity** – Decreased in 2019 due to collaboration with IRA in related activities resulting in minimal costs.

10. REPAIRS & MAINTANANCE

These are costs incurred to maintain or repair office equipment

	2019	2018
	KShs	KShs
General office repairs	<u>88,032</u>	<u>31,900</u>

11. CONTRACTED SERVICES

This cost relates to the outsourced services engaged during the period under review. The amount stated related to professional fees paid to the Auditor General for the Systems and Final Audits.

	2019	2018
	KShs	KShs
Contracted services	<u>400,000</u>	<u>348,000</u>

12. FINANCE COST

This relates to transactional costs incurred while utilizing banking services.

	2019	2018
	KShs	KShs
Bank charges	<u>69,644</u>	<u>53,878</u>

13. DEPRECIATION

This amount relates to the depreciation charged to the Fixed Assets of the Fund

	2019	2018
	KShs	KShs
Fixed assets charge	<u>49,073</u>	<u>358,281</u>

14. RECEIVABLES FROM NON EXCHANGE TRANSACTIONS

This is contribution levy for June 2019 receivable in July 2019.

	2019	2018
	KShs	KShs
Contribution levy	<u>48,821,891</u>	<u>47,763,448</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE, 2019**

15. INVESTMENTS

The Fund invests its surplus assets in Government Securities. During the year under review, all the investments were placed in Treasury Bills that yielded an average interest rate of 9% as at 30th June, 2019. Treasury bills are stated at cost plus accrued interest.

	2019 KShs	2018 KShs
Treasury bills	<u>10,594,204,111</u>	<u>7,601,068,713</u>

The amount in 2019 increased due to the transfer of funds held in deposits accounts in the previous year to Government Securities in the year under review.

16. CASH AND CASH EQUIVALENTS

	2019 KShs	2018 KShs
Commercial Bank of Africa - Operational Account	1,099,325	4,884,023
Fund Account	19,614,839	1,275,448,085
Kenya Commercial Bank	62,300	68,920
Cooperative Bank of Kenya	4,834	239,454
Cash on hand	72,394	68,663
Imprest	1,553,101	22,600
	<u>22,406,975</u>	<u>1,280,701,745</u>

The difference is due to the following:

- CBA Operational Account – Investment of funds
- Co-operative Bank of Kenya – Transfer of funds to CBA bank for investment
- Imprest – Due to the overlap of a trip commencing in the period under review but ending in the period after.

NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE, 2019

17. PROPERTY, PLANT & EQUIPMENT

	Computer Equipment 33.3% Kshs.	Office Furniture & Equipment 12.5% Kshs.	Total Kshs.
Cost			
At 01 July 2017	2,654,419	384,143	3,129,959
Additions	-	-	-
Disposal	-	-	-
At 30 June 2018	<u>2,654,419</u>	<u>384,143</u>	<u>3,129,959</u>
Depreciation			
At 01 July 2018	1,390,901	355,167	1,746,068
Charge for the year	345,586	12,695	358,281
Disposal	-	-	-
At 30 June 2018	2,593,859	384,143	2,711,118
<u>Net book value</u>			
At 30 June 2018	<u>407,423</u>	<u>13,898</u>	<u>3,369,399</u>
At 30 June 2017	<u>792,757</u>	<u>22,736</u>	<u>792,306</u>
Cost			
At 01 July 2018	2,654,419	384,143	3,129,959
Additions	1,080,153	-	1,080,153
Disposal	-	-	-
At 30 June 2019	<u>3,825,969</u>	<u>384,143</u>	<u>4,210,112</u>
<u>Depreciation</u>			
At 01 July 2018	2,593,859	384,153	3,068,726
Charge for the year	49,073	-	49,073
Disposal	-	-	-
At 30 June 2019	<u>2,733,656</u>	<u>384,143</u>	<u>3,117,799</u>
<u>Net book value</u>			
At 30 June 2019	<u>1,092,313</u>	<u>-</u>	<u>1,092,313</u>
At 30 June 2018	60,560	-	60,560

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE, 2019**

18. PAYABLES FROM EXCHANGE TRANSACTIONS

These are expenses relating to services whose rendering commenced during the period under review but not yet concluded or settled as at 30th June, 2019.

	2019	2018
	KShs	KShs
Sundry creditors	<u>366,370</u>	<u>212,656</u>

19. PROVISIONS

Provision relate to allocations provided for a service relating to the period under review but yet to be established. This particular provision is for the external audit services to be rendered by the Office of the Auditor General.

	2019	2018
	KShs	KShs
Audit fees	<u>400,000</u>	-

No provision was made for 2018.

POLICYHOLDERS COMPENSATION FUND
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20. STATEMENT OF COMPARISON OF ACTUAL AND BUDGET AMOUNTS

	2019	2019	
	KSHS	KSHS	KSHS
	BUDGET	ACTUAL	VARIANCE
INCOME			
Contribution levy	828,998,550	788,267,691	(40,730,859)
Interest Income	853,005,000	964,454,932	111,449,932
Penalties	-	1,398,285	1,398,285
Other Income	-	11,500,000	11,500,000
	1,682,003,550	1,765,620,908	83,617,358
OPERATING EXPENDITURE			
Board expenses	13,123,200	9,777,148	3,346,052
Managing Trustee	5,095,000	10,400,400	4,694,600
Statutory management	14,400,000	3,000,000	11,400,000
Insurance expenses	100,000	-	100,000
Repairs & maintenance	300,000	88,032	211,968
Official entertainment	240,000	11,130	228,870
Travel and accommodation	6,562,000	3,377,409	3,184,591
Office expenses	335,000	293,589	41,411
Printing & stationery	997,300	333,880	663,420
Public Education & Publicity	2,080,000	4,600	2,075,400
Training & Development	1,750,000	1,107,777	642,223
Library expenses	111,800	59,320	52,480
Post & telephone	472,000	293,076	178,924
Professional charges	2,000,000	400,000	1,600,000
Information technology	200,000	169,838	30,162
Bank Charges	100,000	69,644	30,356
Depreciation	-	49,073	-
TOTAL EXPENDITURE		29,434,914	
SURPLUS FOR THE YEAR		1,736,185,994	

21. 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.

22. 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.



The following is the summary of other audit matters raised by the external auditor as there were no key audit issues, and management comments that were provided to the auditor in the financial year ended 30th June 2018. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:
1	Fund has only been budgeting for Administrative purposes only and not financing its Core mandate	Commence inclusion of the contingent liability (being anticipated compensation payments) into the annual Budgetary Estimates	Managing Trustee	Provision for Core Mandates incorporated into the Budgetary Estimates for 2018/2019
2	Lack of a Functional Board	Engage the appointing Authority to confirm appointments of Stakeholder Nominees	Managing Trustee	Functional Board in place but not yet fully constituted. Ongoing engagement of appointing authority to appoint stakeholder nominees.
3	Lack of Substantive Governance Structure	<ol style="list-style-type: none"> 1. Seek for Fund Autonomy & approval of organizational structure 2. Replace any seconded officer who has served more than 3 years as per PSC guidelines 	<p>Board of Trustees</p> <p>Managing Trustee</p>	<p>Engagement with the Parent Ministry, the National Treasury ongoing</p> <p>RBA clarified that staff are on deployment which is indefinite and therefore the guidelines of the PSC on secondment do not apply.</p>