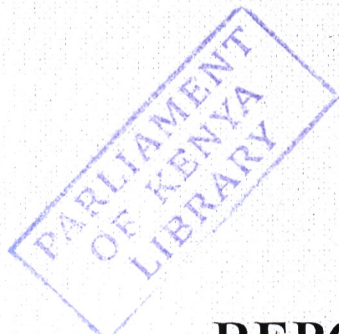


REPUBLIC OF KENYA



171

KENYA NATIONAL AUDIT OFFICE



Paper folded by the  
Hon. Tunji Hagi, MP  
on behalf of the Deputy  
PM & Minister for Finance  
on 3/3/10  
Alba

REPORT  
OF  
THE CONTROLLER  
AND AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
NATIONAL SOCIAL SECURITY FUND  
FOR THE YEAR ENDED 30 JUNE 2008





# NATIONAL SOCIAL SECURITY FUND

FINANCIAL

STATEMENTS

BOARD OF TRUSTEES



FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2008

N.S.S.FUND,  
P.O. Box 30599  
00100, Nairobi.  
Tel.020-2729911/ 020-2710552  
e'mail [mt@nssfkenya.co.ke](mailto:mt@nssfkenya.co.ke)  
[info@nssfkenya.co.ke](mailto:info@nssfkenya.co.ke)  
Website- [www.nssfkenya.co.ke](http://www.nssfkenya.co.ke)



# NATIONAL SOCIAL SECURITY FUND

FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30<sup>TH</sup> JUNE, 2008

---

<b>CONTENTS</b>		<b>Page</b>
1.0	STATEMENT OF TRUSTEES RESPONSIBILITIES	1
2.0	STATEMENT OF CHANGES IN NET ASSETS	2
3.0	STATEMENT OF ASSETS	3
4.0	CASH FLOW STATEMENT	4
5.0	SIGNIFICANT ACCOUNTING POLICIES	5
6.0	NOTES TO THE FINANCIAL STATEMENTS	9



# NATIONAL SOCIAL SECURITY FUND

## 1.0 STATEMENT OF TRUSTEES' RESPONSIBILITIES

The National Social Security Fund Act requires the Trustees to prepare financial statements for each financial year which include, a balance sheet (statement of assets available for benefits) showing in detail the assets and liabilities of the Fund, a statement of income and expenditure (statement of changes in net assets available for benefits) and such other statements that the Trustees may deem necessary. It also requires the Trustees to ensure that the Fund keeps proper books of accounts and other books and records in relation to the Fund, and, to all the undertakings, funds, investments, activities and property of the Fund. They are also responsible for safeguarding the assets of the Fund.

The Trustees accept 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 International Financial Reporting Standards and in the manner required by the National Social Security Fund Act as well as the Retirement Benefits 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 Trustees further accept 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 financial controls.

The Trustees certify that to the best of their knowledge and belief the information furnished to the Auditors for the purpose of the audit was correct and complete in every respect.

Chairman: .....

Jane S. Mwangi (Mrs.)

Ag. Managing Trustee:  .....

Albert Odera

Date: ..... 19<sup>th</sup> Jan. 2009. ....



1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19





## **KENYA NATIONAL AUDIT OFFICE**

### **REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF NATIONAL SOCIAL SECURITY FUND FOR YEAR ENDED 30 JUNE 2008**

I have audited the financial statements of the National Social Security Fund for the year ended 30 June 2008 set out on pages 2 to 30 which comprise the statement of net assets as at 30 June 2008, the statement of changes in net assets and the cash flow statement for the year then ended, together with a summary of significant accounting policies and other explanatory notes in accordance with the provisions of Section 14 of the Public Audit Act, 2003. 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.

#### **Board of Trustees' Responsibility for the Financial Statements**

The Board of Trustees is responsible for the preparation of financial statements which give a true and fair view of the Fund's state of affairs and its operating results in accordance with the International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Responsibility of the Controller and Auditor General**

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement.

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



policies used and the reasonableness of accounting estimates made by the Trustees, as well as evaluating the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

### **1. Properties in Gazetted Areas**

As previously reported, the Fund acquired investment properties in gazetted areas in New Muthaiga L.R. No. 209/12274 measuring 18.41 hectares (located within Sigiria Block which is part of the Karura Forest Reserve), Ngong Road L.R. Nos. 20840 and 20841 lying next to Lenana School (part of Ngong Forest) and Ojijo Road L.R. No. 209/6439 next to Parklands Sports Club. The properties, being in gazetted areas, cannot be owned, possessed, utilized or accessed, and any development on such land would be illegal. The carrying values of the properties in New Muthaiga, Ngong Road and Ojijo Road as at 30 June 2008 stood at Kshs.450,000,000, Kshs.95,000,000 and Kshs.338,691,000 respectively. No provision for impairment loss has however been made for these properties in the financial statements. The carrying value of the properties as shown in the financial statement does not therefore reflect the fair value of the Fund's investment in land and buildings as at the balance sheet date.

### **2. Accumulated Members' Funds**

As previously reported, the Fund's total funds employed of Kshs.90,508,481,000 include contributions from members held in a suspense account as they had not been allocated to members' accounts. Such contributions totalled Kshs.6,355,001,380 as at 30 June 2008, reflecting a decrease of Kshs.430,864,376 (2007 Kshs.6,785,865,756). The Fund continued to hold these contributions in the suspense account without showing how the affected members will benefit from them.

### **3. Tax Receivable**

As reported in 2006/2007, the statement of net assets reflects taxation balance of Kshs.904,904,000 recoverable from the Kenya Revenue Authority (KRA). The taxation relates mainly to tax overpaid prior to 1 January 1997 before the Fund was exempted from taxation and withholding tax. Although according to the Fund the matter is still being pursued by consultants, KRA has indicated in a letter that any overpayment by the Fund had been utilized against unpaid penalties and interest and hence no amounts are refundable. In the circumstances, it was not possible to confirm that the taxation balance of Kshs.904,904,000 as at 30 June 2008 represents realizable Fund's asset.

### **4. Advances to Mugoya Construction and Engineering Limited**

As disclosed in note 17 to the financial statements, the debtors and prepayments balance of Kshs.1,546,051,000 includes an amount of Kshs.324,355,699



advanced to Mugoya Construction and Engineering Limited, to facilitate completion of phase 2 sub-sectors 2.1, 2.2, 2.3 and 2.5 of the Nyayo Estate, Embakasi project but with the Fund having not obtained collateral from the company as security for the advance granted. The contract was terminated on 19 November 2004 due to non performance and the company has since been placed under receivership. As pointed out in 2006/2007 report, this matter is still under arbitration, and in this respect therefore, it has not been possible to confirm whether and if so, when the Fund will be able to recover the amount of Kshs.324,355,699 advanced to the company. Any provision that would have been necessary in relation to this uncertainty has not been incorporated in the financial statements.

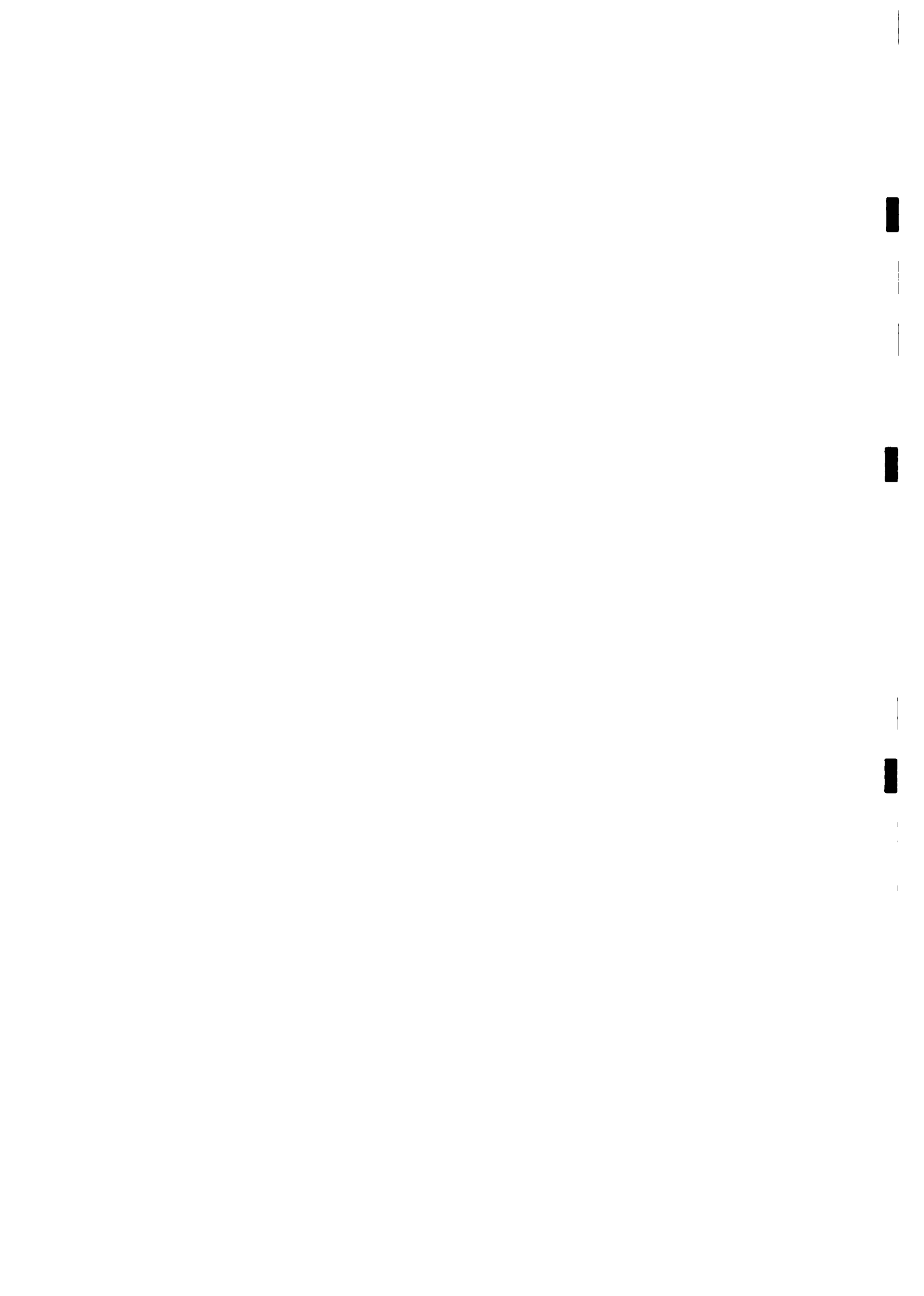
#### **5. Salaries and Allowances for Management Staff**

As disclosed in note 5 to the financial statements, the Fund incurred administrative costs totalling Kshs.3,648,219,000, out of which an amount Kshs.2,274,550,000 relates to staff expenses. Included in the staff expenses is a salary increment awarded to the management staff during the year, after approval by the Finance, Investment and Tender Board Committee. The increment became effective from 1 October 2007, and was effected in the payroll in February and April 2008, before approval by the full board. Authority for the increment was also not sought from both the parent Ministry and Office of the President. Further, the Managing Trustee's house allowance was increased from Kshs.80,000 to Kshs.100,000 per month after approval by the Finance, Investment and Tender Board Committee, contrary to the Office of the President Circular Ref. OP/CAB.9/21/2A/L11/43 of 23 November 2004, which limits the maximum allowance payable at Kshs.80,000. Under the circumstances, the Fund was in breach of the existing regulation.

#### **6. Legal Expenses**

As disclosed in note 5 to the financial statements, the Fund's administration costs of Kshs.3,648,219,000 include an amount of Kshs.1,200,602,000 in respect of administrative expenses, out of which legal expenses totalling Kshs.76,118,375 were incurred against a budget of Kshs.60,000,000. An over-expenditure of Kshs.16,118,375 was therefore incurred. The over-expenditure was not however approved by both the Board and the parent Ministry. It was further noted that the Fund has various on-going legal suits against third parties. The outcome and related potential liability of these suits remains unknown. These facts have not been disclosed in the financial statements in accordance with the International Accounting Standards No. 37 which requires that contingent liabilities that might arise in future from on-going cases be disclosed. It was further observed that most of the Fund's cases arose from litigations related to property and not from its core mandate. In addition, it was not clear how the legal firms representing the Fund in the cases were identified and whether or not their fees were competitive.





## **7. Information and Communications Technology (I.C.T.) Projects**

As disclosed in note 6 to the financial statements, the Fund's property plant and equipment balance of Kshs.380,130,000 includes ICT projects with a net book value of Kshs.110,452,000, out of which an amount of Kshs.60,965,000 was incurred during the year under review. Although the Fund spent Kshs.60,965,000 on the ICT projects during the year under review, the projects are not fully operational and no tangible benefits to the Fund appear to have been realized.

## **8. Land without Title Deed**

As disclosed in note 7(a) to the financial statements, the Fund owns undeveloped land valued at Kshs.4,435,630,000, out of which land valued at Kshs.400,000,000 does not have title deeds. In the absence of title deeds, it has not been possible to confirm the ownership status of the land. It has also not been possible to confirm that the undeveloped land balance of Kshs.4,435,630,000 is fairly stated in the financial statements.

## **9.0 Irregular Sale of Fund Properties**

As disclosed in note 8 to the financial statements, the land and buildings balance of Kshs.20,970,119,000 includes the following two plots of land sold during the year under review at prices below the valuation and without advertising, contrary to provisions of the Public Procurement and Disposal Act 2005:

**9.1** Hospital Road Development LR No. 209/10662 measuring 1.071 hectares was sold for Kshs.85,000,000 to a company as per the sale agreement dated 10 October, 2007. However, the land was valued at Kshs.150,000,000 and was transferred to the firm on 7 September 2007, before the Fund received any payment. It was also observed that the company had separately paid Kshs.20,000,000 to a third party under unclear circumstances, for the third party to withdraw civil case No. 96 of 2007, which related to the above land, pursuant to consent order dated 17 September 2008.

**9.2** The Fund's State House Road plot LR No. 209/11408 measuring 1.145 hectares was sold to a company for Kshs.85,000,000 in accordance with a sale agreement dated 17 October 2007 and the transfer was effected on 18 October, 2007. The plot had been valued at Kshs.226,400,000. The Fund therefore lost possible revenue totalling Kshs.141,400,000 on the sale.

## **10. Sale of Kenyatta Avenue Plots**

Between 1991 and 1994, the Fund purchased plots along Kenyatta Avenue comprising five parcels of land; i.e. LR/No.209/11412, 209/12219, 209/11331, 209/12220 and 209/12287, measuring 0.4320, 0.0794, 0.1200, 0.0868 and 1.197 hectares respectively, all totalling 1.9152 hectares, for a sum of



Kshs.880,000,000. On 6 March 2008 the Fund sold the plots, to the second highest bidder at Kshs.1,375,000,000, against a valuation price of Kshs.1,410,000,000 as indicated below:

<u>Plot No.</u>	<u>Valuation</u> <u>Kshs.</u>	<u>Selling Price</u> <u>Kshs.</u>	<u>Difference</u> <u>Kshs.</u>
209/11412	320,000,000 on 21/11/07	310,000,000	10,000,000
209/11331	90,000,000	86,000,000	4,000,000
209/12219	60,000,000	57,000,000	3,000,000
209/12220	65,000,000	62,000,000	3,000,000
209/12287	<u>875,000,000</u>	<u>860,000,000</u>	<u>15,000,000</u>
	<u>1,410,000,000</u>	<u>1,375,000,000</u>	<u>35,000,000</u>

The Fund therefore lost an amount of Kshs.35,000,000 on the transaction.

It was further observed that there is a dispute between the Fund and the purchaser on the measurement or size of plot LR/ No.209/12287.

In addition, the following other discrepancies were noted in the sale of plot ref. No.209/12287 measuring 1.9152 hectares:

- (i) A deposit of 10% was paid by a company known as Delta Resources Ltd. instead of the initial purchaser (Delta Square Ltd) on 14 December 2007 before the offer was accepted by the Fund on 7 January 2008, and also before signing of sale agreement on 9 January 2008,
- (ii) The sale agreement was signed between NSSF and Delta Resources Ltd. and not Delta Square Ltd. which had quoted for the purchase of the property.
- (iii) The transfer of the property was effected on 6 March 2008 to Delta Square Ltd which had been incorporated on 3 March 2008, just three days before the transfer was effected. In the circumstances, it has not been possible to confirm that due diligence was exercised in the sale of the Kenyatta Avenue property or that the property was sold in the best interest of the Fund. Further, no disclosure or provision for contingent liability that may arise from these transactions has been made in these financial statements especially considering that the case of the Kenyatta Avenue property is before a court and the outcome is uncertain.

## **11. Non compliance With Statutory Requirements On Investments**

The Fund did not appoint a fund manager and a custodian contrary to the provisions of the Retirement Benefits Authority Act No. 3 of 1997 and the Retirement Authority Regulations 2000, both of which require the Fund to appoint



a fund manager and a custodian. In addition, the Fund invested funds totalling Kshs.43,702,325,000 in stock exchange without the approval of both the Minister for Labour and Minister for Finance, contrary to the requirements of Section 27 of the N.S.S.F. Act, Cap. 258 which requires the Fund to seek such approval. The Fund was, therefore, in breach of the law.

## **12. Shares Without Certificates**

As disclosed in note 10 to the financial statements, the Fund has through various stock brokers invested in quoted securities of various companies, whose market value as at 30 June 2008 stood at Kshs.43,702,325,000. Included in this balance are shares worth Kshs.778,452,776 which do not have share certificates. In the absence of the share certificates, it has not been possible to confirm that the Fund owns the shares as shown in note 10 to the financial statements.

## **13. Discount Securities Limited**

As again disclosed in note 10 to the financial statements, the balance of Kshs.43,702,325,000 under the Fund's investments in quoted securities includes an amount of Kshs.2,306,718,862 in respect of shares purchased through Discount Securities Ltd., one of its authorized stock brokers. The balance of Kshs.2,306,718,862 includes shares with initial cost of Kshs.1,388,097,593 purchased during the period from August 2004 to 2007 and whose supporting share certificates were not produced for audit verification. It was further observed that Discount Securities Ltd purchased the above shares on behalf of the Fund through their own eighty two (82) Nominee Accounts, contrary to the terms of engagement. As disclosed by a reconciliation carried out in April 2008, Discount Securities Ltd. cannot account for the above shares, since they are neither in the Nominee Accounts nor have they been transferred to the Registrar for the issuance of share certificates. In October 2008, the stock broker, was placed under statutory management by the Capital Markets Authority, citing serious governance issues. In the absence of the share certificates, it has not been possible to confirm the existence and ownership of shares worth Kshs.1,388,097,593 purchased through the broker. Under the circumstances, the status of the investment of Kshs.1,388,097,593 may be in jeopardy.

## **14. Nairobi City Council Stock 1994**

As disclosed in note 12 to the financial statements, the unquoted stocks and equity balance of Kshs.1,380,500,000 includes an amount of Kshs.338,609,000 invested in 12.25% Nairobi City Council Stock 1994. This balance however differs with the schedule balance of Kshs.402,021,000 resulting in an unexplained variance of Kshs.63,412,000 between the two sets of records. Although the management has been aware of the above variance, no action to reconcile the two sets of records has been taken. In the circumstances, it has not been possible to confirm that



the 12.25% Nairobi City Council Stock 1994 balance of Kshs.338,609,000 as at 30 June 2008 is fairly stated..

#### 15. Loss of Cash

The statement of net assets, cash and bank balance of Kshs.877,882,000 excludes an amount of Kshs.7,243,000 in respect of cash lost through fraudulent practices at the Fund's Westlands branch office. Further, the cash and bank balance includes balances totalling Kshs.6,859,763.90 and Kshs.669,110.30 held in the Fund's two current accounts at the National Bank of Kenya. No bank certificates of the balances as at 30 June 2008 were however produced for audit review. Further, the Bank through a letter to the Fund dated 30 October 2008, indicated that the two Accounts were re-activated as early as 6 September, 2007. This is contrary to the management's position that the accounts had remained frozen after the Bank, which was the appointed a tax collection agent on NSSF, failed to remit tax collections of Kshs.370,394,718 to KRA as required by Section 96 of the Income Tax Act Cap 470. In the circumstances, it has not been possible to confirm the correctness of the cash and bank balance of Kshs.877,882,000 as at 30 June 2008.

#### Opinion

Except for any adjustments that might be necessary arising from the foregoing reservations, in my opinion, proper books of account have been kept and the accompanying financial statements give a true and fair view of the state of the financial affairs of the Fund as at 30 June 2008 and of its surplus funds and cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the National Social Security Fund Act, Cap 258 of the laws of Kenya.



A.S.M. Gatumbu  
**CONTROLLER AND AUDITOR GENERAL**

Nairobi

12 March 2009







**2.0 STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2008**

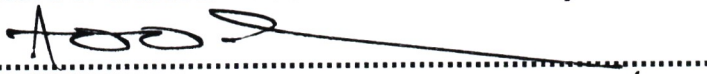
<b><u>DESCRIPTION</u></b>	<b><u>Note</u></b>	<b>JUNE 2008 <u>KSHS.'000</u></b>	<b>JUNE 2007 <u>KSHS.'000</u></b>
<b>DEALINGS WITH MEMBERS</b>			
Contributions Receivable	1	5,670,353	5,445,691
Benefits Payable	2	<u>2,375,353</u>	<u>2,420,165</u>
<b>Net additions from dealings with members</b>		<b><u>3,295,000</u></b>	<b><u>3,025,526</u></b>
<b>RETURN ON INVESTMENTS</b>			
Investments Income	3	5,035,684	3,980,015
Change in market value of investments	4	<u>4,328,855</u>	<u>5,263,439</u>
<b>Total Return on Investments</b>		<b><u>9,364,539</u></b>	<b><u>9,243,454</u></b>
<b>TOTAL REVENUE</b>		<b>12,659,539</b>	<b>12,268,980</b>
ADMINISTRATION EXPENSES	5	<u>3,648,219</u>	<u>2,705,778</u>
<b>NET INCREASE/(DECREASE) IN SCHEME FUNDS DURING THE PERIOD</b>		<b><u>9,011,320</u></b>	<b><u>9,563,202</u></b>



### 3.0 STATEMENT OF NET ASSETS AS AT 30<sup>TH</sup> JUNE, 2008

	Note	JUNE 2008 <u>KSHS.'000</u>	JUNE 2007 <u>KSHS.'000</u>
<b><u>Non-current Assets</u></b>			
Property and Equipment	6	380,130	394,861
<b><u>Investments</u></b>			
Undeveloped Land	7	4,435,630	5,413,698
Land and Buildings	8	20,970,119	22,856,104
Tenant Purchase Scheme	9	4,413,183	2,672,573
Quoted Equities	10	43,702,325	38,811,620
Government of Kenya Stocks	11	408,800	408,800
Unquoted Stocks and Equity	12	1,380,500	1,380,500
Treasury Bills	13	-	155,987
Treasury Bonds	14	11,185,261	6,919,637
Corporate Bond	15	50,000	-
Deposits with Financial Institutions	16	988,760	426,750
<b>Net Investments</b>		<b>87,534,579</b>	<b>79,045,669</b>
<b><u>Current Assets</u></b>			
Debtors and Prepayments	17	1,546,051	1,240,271
Taxation	18	904,904	299,548
Accrued Income	19	757,034	833,138
Cash & Bank Balances		877,882	852,611
<b>Total Current Assets</b>		<b>4,085,871</b>	<b>3,225,568</b>
<b><u>Current Liabilities</u></b>			
Creditors and Accruals	20	1,492,099	1,355,228
<b>Total Current Liabilities</b>		<b>1,492,099</b>	<b>1,355,228</b>
<b>Net Current Assets</b>		<b>2,593,772</b>	<b>1,870,340</b>
<b>NET ASSETS</b>		<b>90,508,481</b>	<b>81,310,870</b>
<b>TOTAL FUNDS EMPLOYED</b>	21	<b>90,508,481</b>	<b>81,310,870</b>

Signed on behalf of the Board of Trustees - National Social Security Fund

Ag. Managing Trustee ..... 

Albert Odera

Ag. Finance Manager ..... 

Nancy Mwangi (Mrs)

Date ..... 19 - 1 - 2009



## 4.0 CASH FLOW STATEMENT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2008

<b>Reconciliation of net increase in assets to Cash Flows from Operating Activities</b>	<b>JUNE 2008 <u>KSHS.'000</u></b>	<b>JUNE 2007 <u>KSHS.'000</u></b>
Net increase in assets	9,011,320	9,563,202
<b>Adjustments for:</b>		
Depreciation	161,837	185,196
Property and Equipment	(43,582)	52,913
Reversal of Contributions 2006/2007	(419,065)	
Profit on sale of Property and equipment	(2,179)	(5,752)
Market Gain in Securities, 2007/2008	(4,328,855)	(5,263,439)
<b>Operating Surplus / (Deficit) before working capital changes</b>	<b><u>4,379,476</u></b>	<b><u>4,532,120</u></b>
<b>Changes in Working Capital</b>		
Decrease/(Increase) in Debtors & Prepayments	(305,780)	(340,737)
Decrease/(Increase) in Accrued Income	76,104	61,162
Increase/(Decrease) in Creditors & Accruals	136,871	(281,328)
	<b><u>(92,805)</u></b>	<b><u>(560,903)</u></b>
<b>Cash flows from operating activities</b>	<b><u>4,286,671</u></b>	<b><u>3,971,217</u></b>
<b>Investing activities</b>		
(Acquisition) /Redemption of Stocks	(561,850)	(2,128,366)
(Acquisition) /Redemption of Treasury Bonds	(4,265,624)	(1,921,376)
(Acquisition) /Redemption of Treasury Bills	155,987	-
(Acquisition) /Redemption of Corporate Bond	(50,000)	-
Placement of Deposits with Financial Institutions	(562,010)	(28,749)
Development of Land & Buildings	(588,565)	(379,697)
Proceeds from sale of Land	978,068	306,493
Receipts from Tenant Purchase Scheme	733,940	380,150
Purchase of Property, Plant and Equipment	(103,524)	(254,882)
Proceeds from sale of Property, Plant and Equipment	2,179	5,752
<b>Cash flow from Investing activities</b>	<b><u>(4,261,400)</u></b>	<b><u>(4,020,675)</u></b>
Net Increase/(Decrease) in Cash and Cash Equivalents in the Year	25,271	(49,458)
Opening of Cash and Cash Equivalent	852,611	902,069
Cash and Cash Equivalent as at 30th June	<b><u>877,882</u></b>	<b><u>852,611</u></b>



## **5.0 SIGNIFICANT ACCOUNTING POLICIES**

The principle accounting policies adopted in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

### **a) Basis of Preparation**

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention as modified by the revaluation of certain assets. The provisions of IFRS' International Accounting Standard (IAS) No. 26 – Accounting & Reporting by Retirement Benefit Plans have been included in the preparation of the Financial Statements. It is hoped these will fairly present the operations and results of the Fund. Further the Financial Statements comply with the Retirement Benefits Authority Act 1997 and the Retirement Benefits Authority regulations 2000, both as amended and Income Tax (NSSF exemption) Rules 2002. The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's Accounting Policies.

### **b) Accounting for contributions**

Contributions from employers/employees are accounted for on an accrual basis in the year due.

Benefits to members are accounted for on a payment basis. Benefit payment cheques going stale before they are presented to the bank are written back in the cash book and a liability thereof recognized in the financial statements.

Interest payable on members accumulated contributions (standard contributions plus interest) is accrued annually at the agreed rate in accordance with section 19(2) and (3) of the National Social Security Fund Act (2007 – 2.5% and 2008-5.0%).



### **c) Income Recognition**

i) Dividends

Dividend income from investments is recognized when the Fund's rights to receive payment as a shareholder have been established.

ii) Interest on Deposits with Financial Institutions

Interest on deposits with financial institutions is accounted for on accrual basis.

iii) Interest/Discounts on Treasury Bills and Treasury Bonds

Interest on Treasury bills and bonds is credited to income on a straight-line basis over the maturity period of the investments.

iv) Coupon Interest on Government Securities

Coupon interest on Government securities is accounted for on accrual basis.

### **d) Tenant Purchase Scheme**

Interest income on Tenant Purchase Scheme loans is calculated on the balance outstanding at the end of each month at the rate prevailing. The rate, currently at 15%, is variable at the discretion of NSSF's Board of Trustees.

### **e) Depreciation**

Depreciation is calculated on a straight-line basis, at annual rates estimated to write off the carrying values for property and equipment over their expected useful lives as follows:

<b>PARTICULARS</b>	<b>%</b>
Freehold and Long Term Leasehold Land	Nil
Motor Vehicles	20
Computer and Microfilming Equipment	33.33
Office Furniture	10
Office Equipment	12.5
Fittings and Furnishings	20

## **f) Investments**

### (i) Quoted Equities

Equities are stated at market value. Differences between cost and market value are debited/(credited) to an unrealized revaluation reserve. Upon sale of the investment, the surplus/ (deficit) relating to the transaction will be transferred to the Revenue Statement.

### (ii) Unquoted Equities

Unquoted equities are stated at cost less provision for any permanent diminution in value.

### (iii) Treasury Bills and Bonds and Government Bearer Bonds

Treasury bills and bonds and Government bearer bonds which are held to maturity are stated at amortized cost.

## **g) Investments in Land and Buildings**

Undeveloped land and partly developed land and buildings are stated at cost.



Cost is defined as follows:

- ❖ Undeveloped land – Cost of the land plus incidental expenses.
- ❖ Partly developed land held for long-term investments – Cost of land as defined above plus construction work certified and paid.
- ❖ Undeveloped land and partly developed land which a decision to sell has been made – Cost as defined above, less any foreseen losses on immediate sale.

#### **h) Cash and Cash Equivalents**

For the purposes of presentation in the cash flow statement, the cash and cash equivalents comprise of bank balances and treasury bills maturing within 3 months.

#### **i) Impairment**

The carrying amounts of the Fund's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such asset exists, the asset's recoverable amount is estimated and an impairment loss recognized whenever the carrying amount of an asset exceeds its recoverable amount.

#### **j) Valuation of Assets**

No valuation of Investments in Land and Building was done during the year.

#### **k) Employee Benefits**

The majority for the Fund's employees are eligible for retirement benefits under a defined contribution plan.

Contributions to the defined contributions plan are charged to the statement of changes in net assets as they are incurred. Any difference between the charge to the statement of changes in net assets and the annual contributions paid is recorded in the Statement of Net Assets under other liabilities/assets.

## **I) Actuarial Valuation**

An actuarial valuation was carried out by Alexander Forbes Financial Services Limited and a report issued in January, 2004. The valuation was done on an attained Age method. The actuarial report indicates that the value of liabilities of the scheme was kshs.53,675 million compared to the value of assets amounting to kshs.49,716 million giving rise to a shortfall of Kshs.3,959 million. The next actuarial valuation is currently on going.

### **6.0 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2008**

#### **1. CONTRIBUTIONS RECEIVABLE**

<b><u>Particulars</u></b>	<b>JUNE 2008 <u>KSHS.'000</u></b>	<b>JUNE 2007 <u>KSHS.'000</u></b>
Contributions Receivable -Employer	3,125,461	3,001,629
Contributions Receivable -Employee	<u>2,544,892</u>	<u>2,444,062</u>
<b>Total Contributions Receivable</b>	<b><u>5,670,353</u></b>	<b><u>5,445,691</u></b>

#### **2. BENEFITS PAYABLE**

<b><u>Particulars</u></b>	<b>JUNE 2008 <u>KSHS.'000</u></b>	<b>JUNE 2007 <u>KSHS.'000</u></b>
Age Benefit Payments	1,001,797	911,623
Survivors Benefit	265,502	287,941
Invalidity Benefit	26,222	38,710
Withdrawal Benefit	1,057,928	1,161,734
Emigration Grant	16,506	14,302
Refunds	4,003	5,378
Funeral Grant	<u>3,395</u>	<u>477</u>
<b>Total Benefit Payable</b>	<b><u>2,375,353</u></b>	<b><u>2,420,165</u></b>



### **3 INVESTMENTS INCOME**

<b><u>PARTICULARS</u></b>	<b>JUNE 2008 <u>KSHS.'000</u></b>	<b>JUNE 2007 <u>KSHS.'000</u></b>
Dividends	1,191,268	1,198,494
Gains on Stock Sales	1,688,781	982,877
Rental Income	615,176	676,598
Interest on Term Deposits and Treasury Bills/Bonds	1,022,504	732,641
Interest on Tenant Purchase Scheme	486,991	374,659
Gain on Sale of Assets	2,179	5,752
Other Income	28,785	8,994
<b><i>Total Investment Income</i></b>	<b><u>5,035,684</u></b>	<b><u>3,980,015</u></b>

### **4 CHANGE IN MARKET VALUE OF INVESTMENTS**

<b>a) Quoted Equities Revaluation Surplus Analysis</b>	<b>JUNE 2008 <u>KSHS.'000</u></b>	<b>JUNE 2007 <u>KSHS.'000</u></b>
Quoted Equities at Market Value	43,702,325	38,811,620
Quoted Equities at Cost	(9,509,111)	(8,947,261)
Surplus at 30th June	34,193,214	29,864,359
Less: Surplus Brought Forward	(29,864,359)	(24,600,920)
<b>Surplus Transferred to Statement of Changes in Net Assets</b>	<b><u>4,328,855</u></b>	<b><u>5,263,439</u></b>

**5 ADMINISTRATION COSTS**

	<b>JUNE 2008 KSHS.'000</b>	<b>JUNE 2007 KSHS.'000</b>
Staff Expenses	2,274,550	1,930,416
Administrative Expenses	1,200,602	580,426
Depreciation Charge	161,837	185,196
Board Expenses	11,230	7,852
Increase/(Decrease) in Provisions	0	1,888
<b>TOTAL ADMINISTRATION COSTS</b>	<b>3,648,219</b>	<b>2,705,778</b>

**6 PROPERTY AND EQUIPMENT**

	LAND KSHS.'000	COMPUTER / MICROFILM KSHS.'000	MOTOR VEHICLES KSHS.'000	OFFICE EQUIPMENT KSHS.'000	OFFICE FURNITURE KSHS.'000	FITTINGS & FURNISHINGS KSHS.'000	TOTAL KSHS.'000
Cost/Valuation							
At 01/07/2007	124,540	635,020	319,617	199,474	100,140	24,627	1,403,418
Additions	-	60,965	21,012	14,462	5,928	1,157	103,524
Disposals	-	-	(36,843)	-	-	-	(36,843)
Adjustment	-	3,755	-	(417)	2,739	-	6,077
At 30/6/2008	124,540	699,740	303,786	213,519	108,807	25,784	1,476,176
Depreciation							
At 01/07/2007	-	482,924	266,014	156,839	80,008	22,772	1,008,557
Charge for the year	-	112,014	34,978	10,062	4,006	777	161,837
Adjustment	-	(5,650)	-	(699)	(1,206)	-	(7,554)
Disposals 2006/2007	-	-	(29,950)	-	-	-	(29,950)
Disposals 2007/2008	-	-	(36,843)	-	-	-	(36,843)
At 30/06/2008	-	589,288	234,199	166,202	82,808	23,549	1,096,047
Net Book Value							
At 30/6/2008	124,540	110,452	69,587	47,316	25,999	2,235	380,130
At 30/6/2007	124,540	152,096	53,603	42,635	20,132	1,855	394,861



## 7 **UNDEVELOPED LAND**

### 7(a) **Analysis of Undeveloped Land**

	<b>JUNE</b>	<b>JUNE</b>
	<b>2008</b>	<b>2007</b>
	<b><u>KSHS. '000</u></b>	<b><u>KSHS. '000</u></b>
Hospital Hill Project	-	35,000
Ngong Road Project	150,000	150,000
Elgon Road Project	-	50,000
Tassia Estate	589,396	1,340,592
Mombasa Town Project	98,322	98,322
Likoni Road - Nairobi	-	74,961
Loita Street Project	90,000	90,000
Kajiado Project	-	39,427
Mtwapa Project	316,001	316,000
Belle Vue Project	-	12,522
Nairobi South B	-	17,489
Athi River Project	595,446	595,446
Mavoko Projects	431,883	431,560
Outering Road Project	122,350	122,350
Upper Hill Project	40,000	40,000
Langata Project	400,000	400,000
Bamburi Project	195,490	195,300
Bishops Road Project	200,000	200,000
Muthaiga Project	450,000	450,000
Embakasi Housing Project	755,744	753,731
Forest Edge Langata	95,000	95,000
	<b>4,529,632</b>	<b>5,507,700</b>
<b>Less:</b> Provision for Losses on Suspended Projects	(94,002)	(94,002)
	<b><u>4,435,630</u></b>	<b><u>5,413,698</u></b>

**7(b) Movements in Undeveloped Land**

	Tassia Estate	Kajiado Project	Mtwapa Project	Mavoko Projects	Bamburi Project	Embakasi Housing Project	Others	Totals
KSHS.	'000	'000	'000	'000	'000	'000	'000	'000
Balance b/f	1,340,592	39,427	316,000	431,560	195,300	753,731	2,431,090	5,507,700
Additions	-	-	-	-	-	-	-	-
Adjustments	(751,196)	-	1	323	190	2,013	-	(748,669)
Disposals	-	(39,427)	-	-	-	-	(189,972)	(229,399)
Provision								(94,002)
Balance c/f	589,396	-	316,001	431,883	195,490	755,744	2,241,118	4,435,630



## 8 LAND AND BUILDINGS

### (a) Analysis of Land and Buildings

	<b>JUNE 2008</b>	<b>JUNE 2007</b>
	<b><u>KSHS. '000</u></b>	<b><u>KSHS. '000</u></b>
Social Security House - Nairobi	4,880,000	4,880,000
Social Security House -Mombasa	486,174	485,000
Bruce House - Nairobi	1,224,814	1,215,000
Hazina Trade Centre -Nairobi	2,306,755	2,150,000
Hazina Estate	1,091,173	1,106,070
Social Security House Annex - Nairobi	559,499	559,499
Hazina Towers	690,245	690,000
View park Towers	1,150,727	1,150,000
Hazina Plaza Mombasa	375,194	375,000
Hospital Road Development	65,000	150,000
Kenyatta Avenue Development	1,320,100	1,320,100
Nyayo Estate Embakasi	10,052,473	12,017,257
Machakos Development	61,600	61,600
Ojjo Road - Nairobi	338,691	335,000
Mountain View Development	487,698	487,698
Kileleshwa Development	42,346	42,346
Kitisuru Development	688,116	682,020
State House Road	415,000	415,000
Milimani Flats	150,000	150,000
Kapsoya Estate	6,185	6,185
Karen Development	<u>307,971</u>	<u>307,971</u>
	<b><u>26,699,761</u></b>	<b><u>28,585,746</u></b>
<b>Less:</b>		
Provision for Foreseeable Losses	(5,070,339)	(5,070,339)
Provision for Losses on Suspended Projects	<u>(659,303)</u>	<u>(659,303)</u>
	<u>(5,729,642)</u>	<u>(5,729,642)</u>
	<b><u>20,970,119</u></b>	<b><u>22,856,104</u></b>

**8 (b) Movements In Land and Buildings**

	Social Security House - Nairobi	Bruce House Nairobi	Hazian Trade Centre - Nairobi	Hazina Estate	Hazina Towers	View park Towers	Hazina Plaza- Mombasa	Nyayo Estate Embakasi	Ojijo Road Nairobi	Kitisuru Developm ent	Other Plots	Total
Kshs.	000	000	000	000	000	000	000	000	000	000	000	000
Balance b/f	4,880,000	1,215,000	2,150,000	1,106,070	690,000	1,150,000	375,000	12,017,213	335,000	682,020	3,985,399	28,585,702
Additions	-	9,814	156,755	-	245	727	194	509,766	3,691	6,096	1,219	688,506
Adjustments	-	-	-	(14,897)	-	-	-	(2,474,550)	-	-	-	(2,489,447)
Disposals	-	-	-	-	-	-	-	-	-	-	(85,000)	(85,000)
Provision	-	-	-	-	-	-	-	-	-	-	-	(5,729,642)
Balance c/f	4,880,000	1,224,814	2,306,755	1,091,173	690,245	1,150,727	375,194	10,052,429	338,691	688,116	3,901,618	20,970,119



## 9. Tenant Purchase Scheme

	<b>JUNE 2008 <u>KSHS.'000</u></b>	<b>JUNE 2007 <u>KSHS.'000</u></b>
Embakasi Estate I	800,100	991,518
Embakasi Estate II	2,139,375	-
Mountain View Estate	342,569	393,035
Hazina Estate	407,345	461,029
Kitisuru Estate	385,890	438,545
Kibera H/Rise Estate	187,999	213,069
Prudential Estate	975	1,037
Kapsoya Estate	35,045	40,666
Tassia Estate	<u>65,021</u>	<u>78,961</u>
	<b>4,364,318</b>	<b>2,617,860</b>
Accrued TPS Income	129,929	91,187
	<b>4,494,247</b>	<b>2,709,047</b>
Less:		
Provision for Doubtful Income	81,064	36,474
	<b>4,413,183</b>	<b>2,672,573</b>

## 10 QUOTED SECURITIES

	<b>JUNE 2008 <u>KSHS.'000</u></b>	<b>JUNE 2007 <u>KSHS.'000</u></b>
<b>Kenya Power Lighting Co. Ltd.</b> 6,413,801 Kshs. 20 Ordinary Shares, 3,550 cum. Preference Shares, 750 Cum Preference Shares	1,366,176	1,340,520
<b>East African Breweries Limited</b> 43,173,258 Kshs.10 Ordinary Shares	8,591,478	5,540,912
<b>B.A.T (K) Limited</b> 12,730,136 Kshs.10 Ordinary Shares	2,125,933	2,655,120
<b>Unilever Tea Kenya Ltd</b> 1,437,500 Kshs. 10 Ordinary Shares	68,281	106,375
<b>KenGen Company Ltd.</b> 17,341,231 ordinary Shares	424,860	450,872
<b>Bamburi Portland Cement Co. Ltd</b> 54,534,234 Kshs 5 Ordinary Shares	10,634,176	11,680,436
<b>E.A. Portland Cement Co. Ltd.</b> 24,300,000 Kshs.5 Ordinary Shares	2,794,500	2,673,000
<b>Kenya Commercial Bank Limited</b> 167,042,478 Kshs. 10 Ordinary Shares	5,178,317	4,409,865



**QUOTED SECURITIES (CONTINUED)**

	<b>JUNE 2008 <u>KSHS.'000</u></b>	<b>JUNE 2007 <u>KSHS.'000</u></b>
<b>Housing Finance Co. of Kenya Ltd.</b> 15,716,448 Kshs. 5 Ordinary Shares	506,855	381,256
<b>Sameer Africa Ltd.</b> 5,677,550 Kshs. 5 Ordinary Shares	55,640	73,808
<b>National Bank Of Kenya Ltd.</b> 96,105, 519 Kshs.5 Ordinary Shares	5,862,437	4,565,012
<b>Barclays Bank Of Kenya Ltd.</b> 42,772,467 Ordinary Shares	3,015,388	2,889,558
<b>Standard Bank Of Kenya Ltd.</b> 5,785,952 Ordinary Shares	1,215,050	1,028,717
<b>Nation Media Group Kenya Ltd.</b> 3,833,856 Ordinary Shares	1,341,850	951,789
<b>Athi River Mining Company Ltd.</b> 870,000 Ordinary Shares @ Kshs.5	89,610	64,380
<b>Kenya Re</b> 20,089,638 Ordinary Shares @ Kshs.5	<u>339,515</u>	<u>64,380</u>
<b>Safaricom Limited</b> 12,467,400 Ordinary Shares @ Kshs.0.05	<u>92,259</u>	<u>64,380</u>
	<b><u>43,702,325</u></b>	<b><u>38,811,620</u></b>

**11 GOVERNMENT STOCKS**

	<b>JUNE 2008 <u>KSHS.'000</u></b>	<b>JUNE 2007 <u>KSHS.'000</u></b>
10% Kenya Stock 2010	<u>408,800</u>	<u>408,800</u>
	<b><u>408,800</u></b>	<b><u>408,800</u></b>

## 12. UNQUOTED STOCKS AND EQUITY

	<b>JUNE 2008</b>	<b>JUNE 2007</b>
	<b><u>KSHS.'000</u></b>	<b><u>KSHS.'000</u></b>
<b>Consolidated Bank Limited Shares</b>		
8,050,000 4% Kshs.20 Cumulative Preference Shares	161,000	161,000
2,225,000 Kshs.20 Ordinary Shares	44,500	44,500
<b>8.25% Nairobi City Council Stock 1990</b>	17,497	17,497
<b>8.5% Nairobi City Council Stock 1993</b>	25,665	25,665
<b>12.25% Nairobi City Council Stock 1994</b>	338,609	338,609
<b>NBK Shares 235 million N/cum pref. shares</b>	<u>1,175,000</u>	<u>1,175,000</u>
	<b>1,762,271</b>	<b>1,762,271</b>
<b>Less: Provisions for Doubtful Investments</b>	<u>(381,771)</u>	<u>(381,771)</u>
	<b><u>1,380,500</u></b>	<b><u>1,380,500</u></b>

	<b>JUNE 2008</b>	<b>JUNE 2007</b>
	<b><u>KSHS.'000</u></b>	<b><u>KSHS.'000</u></b>
<b>13. TREASURY BILLS</b>		
Due within one year	-	155,987
	<u>-</u>	<b><u>155,987</u></b>

	<b>JUNE 2008</b>	<b>JUNE 2007</b>
	<b><u>KSHS.'000</u></b>	<b><u>KSHS.'000</u></b>
<b>14. TREASURY BONDS</b>		
Due within 1 year	403,087	1,673,293
Due between 1 and 5 years	4,894,895	2,778,404
Due after 5 years	5,887,279	2,467,940
	<b><u>11,185,261</u></b>	<b><u>6,919,637</u></b>

	<b>JUNE 2008</b>	<b>JUNE 2007</b>
	<b><u>KSHS.'000</u></b>	<b><u>KSHS.'000</u></b>
<b>15. CORPORATE BOND</b>		
Barclays Bank of Kenya	50,000	-
	<b><u>50,000</u></b>	<b><u>-</u></b>



**16) DEPOSITS WITH FINANCIAL INSTITUTIONS**

	<b>JUNE</b>	<b>JUNE</b>
	<b>2008</b>	<b>2007</b>
	<b><u>KSHS.'000</u></b>	<b><u>KSHS.'000</u></b>
Continental Credit Ltd. (In liquidation)	57,188	57,188
Housing Finance Company of Kenya Ltd	157,164	-
Middle Africa Finance Company (In liquidation)	3,668	3,668
Kenya Commercial Bank Ltd	402,458	-
Nairobi Finance Corporation Ltd. (In liquidation)	3,368	3,368
Pioneer Building Society	34,915	34,915
Post Bank Credit Limited (In liquidation)	553,138	553,138
Prudential Building Society	989,900	989,900
Revolving Funds (Savings and Loan Ltd.)	115,010	132,000
Rural Urban Credit Finance Ltd. (In liquidation)	131,765	131,765
Savings and Loan Ltd.	314,128	294,750
Thabiti Finance Company Ltd. (In liquidation)	166,540	166,540
Trade Bank Ltd. ( In liquidation)	197,000	197,000
Trade Finance Ltd. (in liquidation)	<u>6,600</u>	<u>6,600</u>
	<b>3,132,842</b>	<b>2,570,832</b>
<b>Less:</b> Provision for Doubtful Investments *	<u>(2,144,082)</u>	<u>(2,144,082)</u>
<b>Net Amount</b>	<b><u>988,760</u></b>	<b><u>426,750</u></b>

**\* ANALYSIS OF PROVISION FOR DOUBTFUL INVESTMENTS**

	<b>JUNE</b>	<b>JUNE</b>
	<b>2008</b>	<b>2007</b>
	<b><u>KSHS.'000</u></b>	<b><u>KSHS.'000</u></b>
Continental Credit Ltd.	57,188	57,188
Rural Urban Credit Ltd.	131,765	131,765
Pioneer Building Society	34,915	34,915
Middle Africa Finance	3,668	3,668
Nairobi Finance Corporation Ltd.	3,368	3,368
Trade Bank Ltd.	197,000	197,000
Trade Finance Ltd.	6,600	6,600
Post Bank Credit Ltd.	553,138	553,138
Thabiti Finance Ltd.	166,540	166,540
Prudential Building Society	<u>989,900</u>	<u>989,900</u>
	<b><u>2,144,082</u></b>	<b><u>2,144,082</u></b>



**17. DEBTORS AND PREPAYMENTS**

	<b>JUNE 2008 <u>KSHS.'000</u></b>	<b>JUNE 2007 <u>KSHS.'000</u></b>
Sundry Debtors*	729,517	756,538
Deposits & Prepayments	13,345	11,918
Staff Debtors**	331,845	417,427
Legal Debtors	298,451	298,451
CDS Account	-	240,927
Other Debtors	3,070	2,374
Contributions Arrears***	<u>817,168</u>	<u>160,000</u>
	<b>2,193,396</b>	<b>1,887,635</b>
<b>Less:</b>		
Provision for doubtful Debtors ****	<u>(647,345)</u>	<u>(647,364)</u>
<b>Total Debtors and Prepayments</b>	<b><u>1,546,051</u></b>	<b><u>1,240,271</u></b>
 <b><u>Analysis of Sundry Debtors*</u></b>		
Shah Munge Associates	251,516	251,516
Bounced Cheques	115,928	146,013
Milligan & Co.	25,744	25,744
Regent Management Ltd	150	150
Lloyd Masika Ltd	4,787	4,787
Staff Pension Debtor	7,036	3,972
Mugoya Construction Ltd.	<u>324,356</u>	<u>324,356</u>
	<b><u>729,517</u></b>	<b><u>756,538</u></b>

## **DEBTORS AND PREPAYMENTS (CONTINUED)**

### **Analysis of Staff Debtors\*\***

	<b>JUNE 2008 <u>KSHS.'000</u></b>	<b>JUNE 2007 <u>KSHS.'000</u></b>
Commuted Pension	71,389	89,503
Staff House Loans	6,211	24,387
Advances and Imprest	10,115	32,297
Staff Car Loans	<u>244,130</u>	<u>271,240</u>
	<b><u>331,845</u></b>	<b><u>417,427</u></b>

### **Analysis of Contributions Due\*\*\***

	<b>JUNE 2008 <u>KSHS.'000</u></b>	<b>JUNE 2007 <u>KSHS.'000</u></b>
Outstanding for less than 30 days	283,975	65,000
Outstanding for more than 30 days	<u>533,193</u>	<u>95,000</u>
	<b><u>817,168</u></b>	<b><u>160,000</u></b>

### **Analysis of Provision for doubtful Debtors \*\*\*\***

	<b>JUNE 2008 <u>KSHS.'000</u></b>	<b>JUNE 2007 <u>KSHS.'000</u></b>
Shah Munge & Partners	251,516	251,516
Legal Debtors (Mutula Kilonzo)	298,451	298,451
Bounced Cheques (Contributions)	72,253	72,272
M/S Milligan & Company	<u>25,125</u>	<u>25,125</u>
	<b><u>647,345</u></b>	<b><u>647,364</u></b>

Shah Munge & Partners debt relates to amounts receivable on a fixed deposit placed by the company with Euro Bank Limited (in liquidation). The amounts are deemed not recoverable.

## **18. TAXATION**

According to section 45 of the First schedule of Income Tax Act effective 18 June, 1996, the Fund is exempted from taxation. According to Income Tax (National Social Security Fund) (Exemption) Rules 2002, effective 1st July, 2002 the Fund should comply with certain regulations for it to remain exempt. With effect from 2006/2007 year the Fund has complied with regulations for exemption.



The amounts reflected in the balance sheet relate to taxes overpaid in years prior to the exemption together with any withholding tax on interest and dividends deducted at source as at 30 June, 2008.

Negotiations between the Fund and Kenya Revenue Authority (KRA) are ongoing on this issue.

### 19. ACCRUED INCOME

	<b>JUNE 2008</b>	<b>JUNE 2007</b>
	<b><u>KSHS. '000</u></b>	<b><u>KSHS. '000</u></b>
Rent Social Security House Nairobi	177,210	164,662
Rent-Social Security House, Mombasa	18,410	25,156
Rent- Bruce House, Nairobi	32,942	27,345
Rent-Hazina Towers, Nairobi	10,293	31,239
Rent-Hazina Estate, Nairobi	340	3,825
Rent View Park Towers	26,835	27,760
Rent Milimani Flats	-	1,482
Rent-Other S.S. Houses	(572)	23,866
Rent - Hazina Plaza	237,543	237,543
Interest on Term Deposits	<u>2,301,846</u>	<u>2,398,801</u>
	<b>2,804,847</b>	<b>2,941,679</b>
<b>Less:</b>		
Provision for doubtful accrued Income:		
Rent	(237,543)	(237,543)
Interest	<u>(1,810,270)</u>	<u>(1,870,998)</u>
	<b><u>757,034</u></b>	<b><u>833,138</u></b>

## **20. CREDITORS AND ACCRUALS**

	<b>JUNE 2008 <u>KSHS. '000</u></b>	<b>JUNE 2007 <u>KSHS. '000</u></b>
House Purchase Deposits	496,058	520,024
Sundry Creditors and Accruals*	660,040	587,727
Project Creditors	12,999	10,285
Statutory and other deductions	78,869	4,909
Unclaimed Benefits	244,133	232,283
	<b><u>1,492,099</u></b>	<b><u>1,355,228</u></b>

### **Analysis of Sundry Creditors and Accruals\***

	<b>JUNE 2008 <u>KSHS. '000</u></b>	<b>JUNE 2007 <u>KSHS. '000</u></b>
<b>Legal fees Payable</b>		
Mutula Kilonzo	293,836	293,836
B. M. Musau	29,250	29,250
Okoth, Ndengu and Kiplagat	7,278	7,278
Prepaid Rent	12,600	9,294
Sundry Creditors	87,266	71,817
Staff Loan Deposits	9,493	9,493
Stale Cheques	33,083	24,727
T.P.S Creditors	-	35,993
Audit fees	4,900	6,570
Rental Deposits	83,979	74,207
Accrued Rent Expenses	98,355	25,262
	<b><u>660,040</u></b>	<b><u>587,727</u></b>



**21. TOTAL CAPITAL EMPLOYED - STATEMENT OF CHANGES IN ACCUMULATED MEMBERS' FUNDS AS AT 30TH JUNE, 2008**

The total assets (*Funds Employed – Kshs. 90,539,170,000*) are broken down as shown below:

Particulars	Members' Funds	Accumulated Reserves	Revaluation Reserve	Total
	Kshs.000	Kshs.000	Kshs.000	Kshs. '000
<b>Restated Balance</b>	<b>59,429,098</b>	<b>(5,258,543)</b>	<b>9,297,064</b>	<b>63,467,619</b>
<b>At June, 2006</b>				
Surplus in Contributions	2,226,831	-	-	<b>2,226,831</b>
Market Gain on Investment	-	3,739,707	-	<b>3,739,707</b>
Interest on members' accounts	1,445,928	(1,445,928)	-	-
Income and Expenditure	-	2,408,511	-	<b>2,408,511</b>
<b>Restated Balance</b>	<b>63,101,857</b>	<b>(556,253)</b>	<b>9,297,064</b>	<b>71,842,668</b>
<b>At June, 2007</b>				
Interest on members' accounts**	1,575,170	(1,575,170)	-	-
Reversal of accrued contributions	(95,000)	-	-	<b>(95,000)</b>
Net Increase in Assets in the period	-	9,563,202	-	<b>9,563,202</b>
<b>Balance at 30<sup>th</sup> June, 2007</b>	<b>64,582,027</b>	<b>7,431,779</b>	<b>9,297,064</b>	<b>81,310,870</b>
<b>At June, 2008</b>				
Interest on members' accounts**	3,103,320	(3,103,320)	-	-
Reversal of Contributions 2006/2007	-	(419,065)	-	<b>(419,065)</b>
Tax Claim	-	605,356	-	<b>605,356</b>
Reversal of Accrued contributions	(160,000)	160,000	-	-
Net Increase in Assets in the period	-	9,011,320	-	<b>9,011,320</b>
<b>Balance at 30<sup>th</sup> June, 2008</b>	<b>67,525,347</b>	<b>13,686,070</b>	<b>9,297,064</b>	<b>90,508,481</b>

**\*\* Interest on Members' Accounts**

The Fund has adjusted the rate from the minimum of 2.5% payable as interest on contributions to 5.0% effective 1<sup>st</sup> July, 2007.

## 22. BASIS OF NON-CONSOLIDATION OF INTEREST IN ASSOCIATE

The financial statements of the NSSF are prepared in accordance with S.31 of the NSSF Act. The Section requires NSSF balance sheet to show in details the assets and liabilities of the Fund. Although NSSF owns 48.05% of ordinary shares and 235 million preference shares in National Bank of Kenya Limited (NBK), the operations of the bank have not been consolidated in the Fund's financial statements as required by the International Financial Reporting Standards. The Fund intends to dispose of a substantial amount of the shareholding in 2007/2008 financial year.

Had consolidated Financial Statements been prepared based on the latest audited financial statements of NBK as at 31 December, 2007, NSSF's share in the operations of NBK would have been as follows:-

	<b>DECEMBER 2007 <u>KSHS.'000</u></b>	<b>DECEMBER 2006 <u>KSHS.'000</u></b>
Profit after taxation	537,870	300,070
Accumulated Deficit	<u>(1,250,944)</u>	<u>(2,061,034)</u>

## 23. RELATED PARTY TRANSACTIONS

	<b>JUNE 2008 <u>KSHS.'000</u></b>	<b>JUNE 2007 <u>KSHS.'000</u></b>
<b>(a) Income earned from related parties</b>		
Kenya Commercial Bank – Dividend income	171,248	131,608
East African Portland Cement Company	31,590	95,490
NASSEFU Savings and Credit Society Limited – Rental income	215	215
	<u>203,053</u>	<u>227,313</u>
<b>(b) Balances due from related parties</b>		
TPS Debtors	131,435	160,354
	<u>131,435</u>	<u>160,354</u>



## **24. CONTINGENT LIABILITIES AND CONTRACTS**

### **a) CONTRACTS/COMMITMENTS**

(i) Project works at Nyayo Estate Embakasi are ongoing and Kshs.1.2 billion is expected to be paid during 2008/2009 financial year.

(ii) Refurbishment of SSH Nairobi, Bruce House, Hazina Plaza Mombasa and SSH Mombasa is expected to be done at a projected cost of kshs.285.75 million in 2008/2009 financial year.

(iii) Project works for Social Security House Annex Parking Silo are expected to be done at a cost of Kshs.350 million in 2008/2009 financial year.

(iv) Minor works on other Social Security properties will be done at Kshs. 77.5 million during 2008/2009 financial year.

### **b) LIABILITIES**

#### **(i) Sololo Outlets Limited Vs NSSF**

As at 30 June, 2003 NSSF had a contingent liability of Kshs.4.95 billion, relating to a claim made by Sololo Outlets Limited in High Court Civil Case No.804 of 2002 for an alleged breach of contract in the development of Hazina Estate in South B. NSSF has filed its defence and counter claim of Kshs.3.1 billion. The case has been on going since 1993 and a final ruling is yet to be reached.

#### **(ii) Africa Planning and Design Consultants (APDC) Vs NSSF**

APDC was engaged by Sololo Outlets Limited as the architects for South B (Hazina) Estate project. On termination of the contract between NSSF and Sololo Outlets Limited in 1993, architects' fees amounting to Kshs 64.9 million had not been paid. APDC enjoined NSSF in the suit claiming that the Fund was the principal to Sololo Outlets Limited, the project developers.

APDC has also sued NSSF for Kshs 42.6 million for professional fees in respect of Quantity Surveyors services rendered to the Fund. The hearing of the case is yet to commence.

### **(iii) James Nderitu Gachagua Vs NSSF**

On 26 January 2002, the Plaintiff sued the Fund for Kshs 50.8 million, being Quantity Surveyors fees in respect of the proposed Kitengela Housing Scheme. The plaintiff claims that he was commissioned by NSSF to carry out quantity survey work on the proposed project before it was later suspended by the Fund. NSSF has disputed the claim. However, the matter is in court and final ruling is yet to be reached.

## **25. COMPLIANCE WITH RETIREMENT BENEFITS ACT**

The NSSF Amendment Act came into operation on 23 February 2003. S3 of the Act provides that NSSF shall be subject to all the provisions of the Retirement Benefits Act. The Fund has not complied with the following provisions of the Retirement Benefits Act and the rules under the Act:-

❖ Rule 28 (2) of the occupational rules for a retirement benefit scheme requires the Fund to maintain an account under which all transactions should be recorded. However, as at 30 June 2008, NSSF had Kshs 6.3 billion of contributions held in suspense account. A task force has been established to work on the reduction and elimination of the amount in suspense account.

## **26. COMPLIANCE WITH TRUSTEES ACT**

On 22<sup>nd</sup> September 2003, the long term loan that the Fund had advanced to National Bank of Kenya Limited together with interest accrued from 1<sup>st</sup> January, 2001 to that date amounting to Ksh. 1,175 million, was applied towards the purchase of 235 million non-cumulative preference shares at par value of Kshs 5 each in the bank.



The non-cumulative preference shares issued are not quoted on the stock exchange nor had NBK paid any dividend on its ordinary shares which ranked for dividend on each of the five (5) years immediately preceding the year in which the investment in non-cumulative preference shares was made as required by Section 4(d) of the Trustees Act (Cap 167). The Fund intends to dispose of part of the shareholding in the Bank in 2008/2009 financial year after obtaining approval from the Treasury.

## **27. INCORPORATION**

NSSF is incorporated under the NSSF Act, (Chapter 258 of the Laws of Kenya), which came into effect under Legal Notice No.28 of 1965. NSSF is a body corporate managed by a Board of Trustees appointed by the Minister responsible for Social Security.

## **28. CURRENCY**

The Financial Statements are presented in Kenya shillings (Kshs).