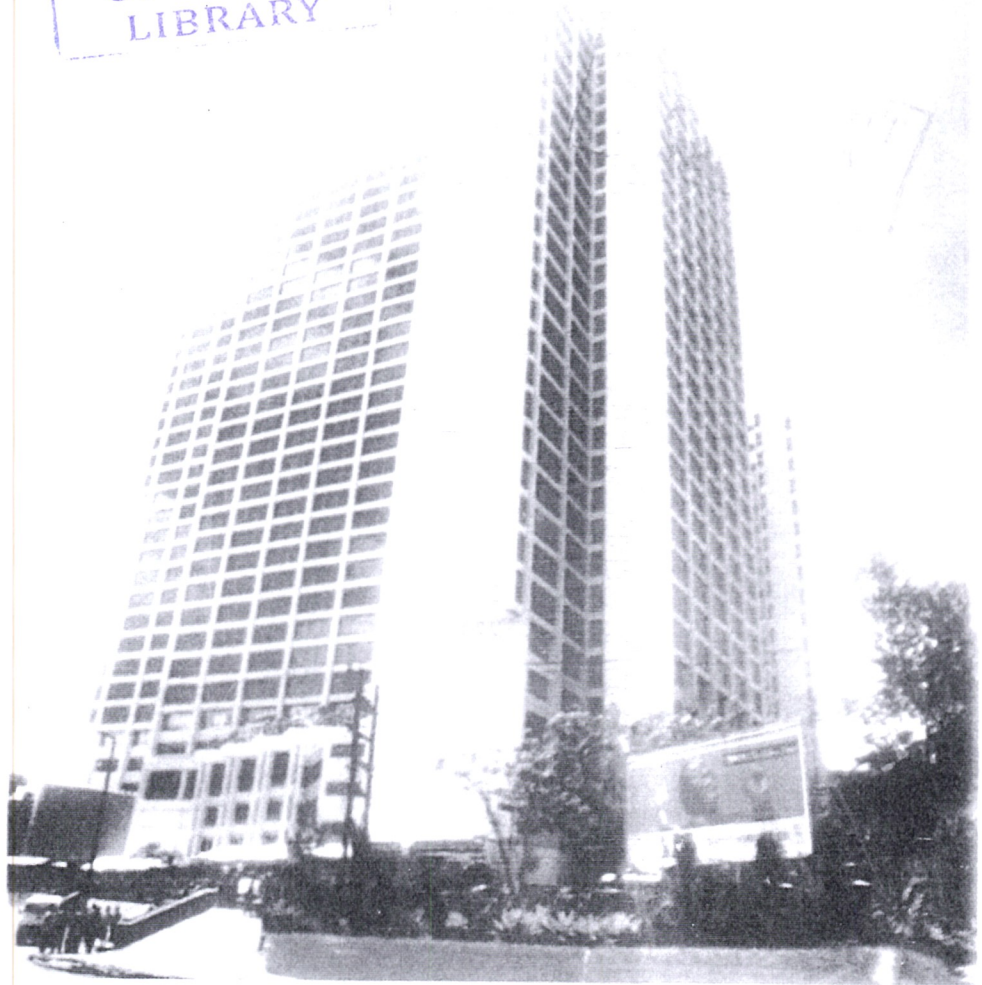


Library
96



NATIONAL SOCIAL SECURITY FUND

PARLIAMENT
OF KENYA
LIBRARY



ANNUAL REPORT & ACCOUNTS 2002 - 2003

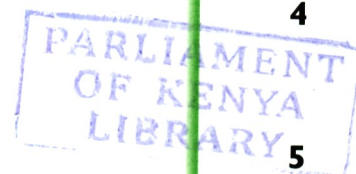
657-3
NSSF



CONTENTS

	Page
1. Board of Trustees	2
2. Chairman's Report	3
3. Report of the Trustees	4
4. Statistical Information	5
5. Statement of Trustees Responsibilities	10
6. Report of the Controller and Auditor General	11
7. Income and Expenditure Account	15
8. Balance Sheet	16
9. Cash-flow Statement	17
10. Notes to the Accounts	18

KENYA NATIONAL ASSEMBLY
Accession: 10013410
Call No: 657-3 NSSF

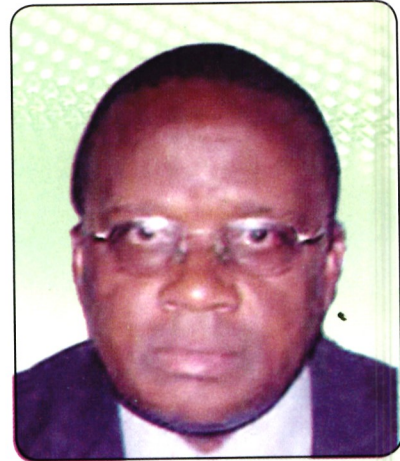




BOARD OF TRUSTEES



MR. JAMES OLUBAYI
Chairman



MR. NAFTALI O. MOGERE
Managing Trustee



Mr. PETER MUTHEE
Trustee



Mr. JOSEPH MAGARI
Trustee



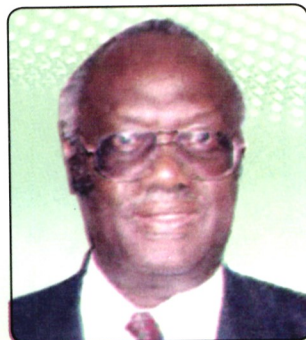
Mr. WALTER MUKURIA
Trustee



Ms. DEBORA ONGEWE
Trustee



Ms. JANE S. MWANGI
Trustee



Mr. TOM OWUOR
Trustee



Mr. FRANCIS ATWOLI
Trustee

CHAIRMAN'S REPORT



I am pleased to present the Fund's Annual Report and Accounts for the year ended 30th June, 2003.

OVERVIEW OF THE KENYAN ECONOMY

Overall economic performance improved slightly from a growth of 1.1% in 2002 to 1.8% in 2003. Inflation increased to 7.5% in 2003 from 1.15% in the previous year. Interest rates continued on a downward trend while the Kenya Shilling remained stable with slight appreciation.

FUND'S RESULTS

Income realized was Kshs.1.96 billion which was an improvement of 9.3% on the previous year's results. Expenditure amounted to Kshs.2.7 billion, the same level as the previous year. Increased provisions on doubtful incomes and foreseeable losses on housing projects led to this situation. The overall position was a deficit of Kshs.785.9 million compared to a deficit of Kshs.928.0 million in 2001/2002 year, hence a small improvement on performance. Regarding investments, the report indicates that they amounted to Kshs. 48.5 billion after providing for doubtful investment of kshs.2.7 billion (2002 -39.7 billion).

The investments were comprised of the following:

Class	Kshs. (Billions)	%
Government Stock	2.7	5
Nairobi City Council and unquoted stocks	0.6	2
Tenant Purchase debtors	3.6	7
Terms Deposits/Loans	4.1	8
Real Estate	28.9	56
Quoted securities	11.3	22
Total	51.2	100
Provisions for doubtful investment	2.7	
Net Investment	48.5	

During the year under review net assets of the Fund rose by 22% from kshs.39.7 billion in 2002 to Kshs.48.4 billion in 2003. Concerning members funds, contributions increased by 5% from Kshs.50.4 billion in 2002 to kshs.53.1 billion in 2003. Registered employees increased from 2,882,807 in 2002 to 2,993,030 in 2003. Registered employers also increased from 61,528 in 2002 to 63,369 in 2003. Benefit payments for the year amounted to Kshs.2.1 billion compared to Kshs.2.2 billion in 2002 as a result of the decline of the number of those claiming withdrawal benefits.

OUTLOOK

Conversion of the Fund from a Provident Fund to an Insurance Pension Scheme is ongoing because it is still felt that it will be more beneficial to the members than the current arrangement. The management of the Fund continues to work closely with the Government through Ministry of Labour and Human Resource Development to make this objective a reality. The Fund has also changed its investment policy and as such disposal of real properties will be emphasized in order to conform to the provisions of Retirement Benefits Authority.

APPRECIATION

Finally, I take this opportunity to thank the members of the Fund and their employers whose support has made us grow to this extent. I also wish to express my sincere gratitude to my colleagues in the Board of Trustees, Management and staff, for their commitment to render the best services possible to our members.

Joseph Olubayi

J. OLUBAYI
CHAIRMAN





REPORT OF THE TRUSTEES

The Trustees submit their report and the audited financial statements for the year ended 30th June, 2003 which show the state of affairs of the Fund.

1. PRINCIPAL ACTIVITY

National Social Security Fund is a provident fund organization established under an Act of Parliament. Its principal activity is the provision of basic social security to its members.

2. FUND RESULTS

The Fund results are set out on pages 15 and 16 of the Annual Report.

3. INTEREST TO MEMBERS

The Trustees recommend crediting of members accounts with interest at the rate of 2.5% in accordance with the N.S.S.F. Act.

4. RESERVES

The Fund continued to show accumulated deficit which stood at Kshs.13,994,212,000 as at 30th June, 2003.

5. TRUSTEES

The Trustees who served during the year under consideration were:-

NAME	DESIGNATION
James Olubayi	Chairman
Natfali O. Mogere(Replaced Ben Mtuweta)	Managing Trustee
Debora Ongewe(Replaced Joshua Terer)	Permanent Secretary, Ministry of Labour and Human Resource Development (Member)
Joseph Magari(Alternate to Joseph Kinyua)	Deputy Secretary, Ministry of Finance (Member)
Walter Mukuria(Replaced Wilfred Kiboro)	Chairman, Federation of Kenya Employers(Member)
Tom Owuor	Executive Director, Federation of Kenya Employers, (Member)
Francis Atwoli	Secretary General, Central Organisation of Trade Union (Member)
Peter Muthee	Deputy Secretary General, Central Organization of Trade Union (Member)
Jane S. Mwangi	Advocate (Member)

6. BANKERS

Kenya Commercial Bank Ltd.
National Bank of Kenya Ltd.

7. AUDITORS

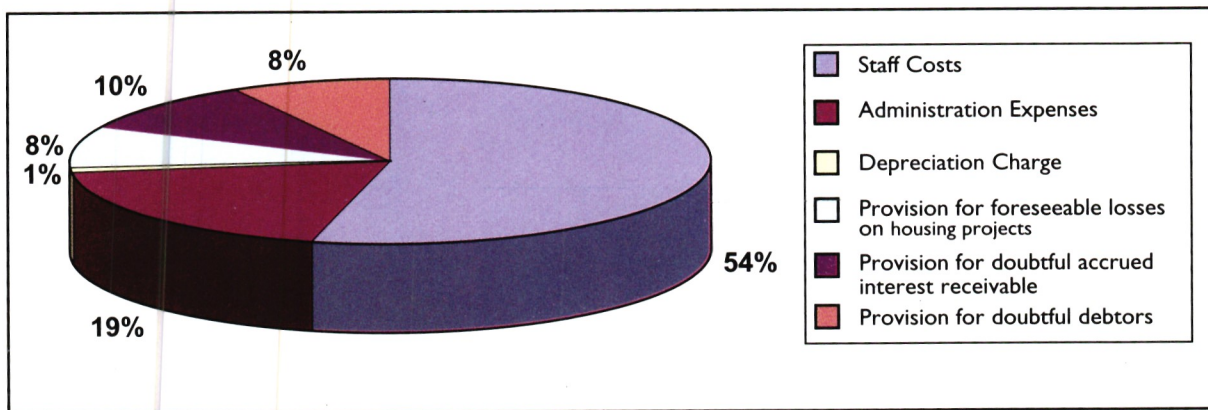
M/s KPMG were the appointed auditors in accordance with Section 29(2)(b) of the Exchequer and Audit Act (Cap 412).

**BY THE ORDER OF BOARD
SECRETARY
6th JANUARY, 2005**

STATISTICAL INFORMATION

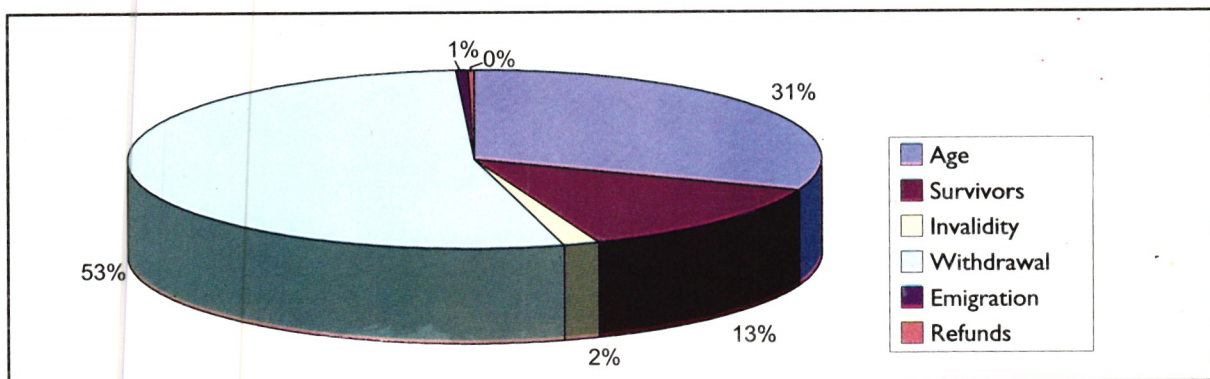
1) EXPENDITURE

DETAILS	Kshs.'000	%
Staff Costs	1,476,530	54
Administration Expenses	524,388	19
Depreciation Charge	32,415	1
Provision for foreseeable losses on housing projects	215,465	8
Provision for doubtful accrued interest receivable	260,789	10
Provision for doubtful debtors	217,065	8



2) BENEFITS PAYMENTS

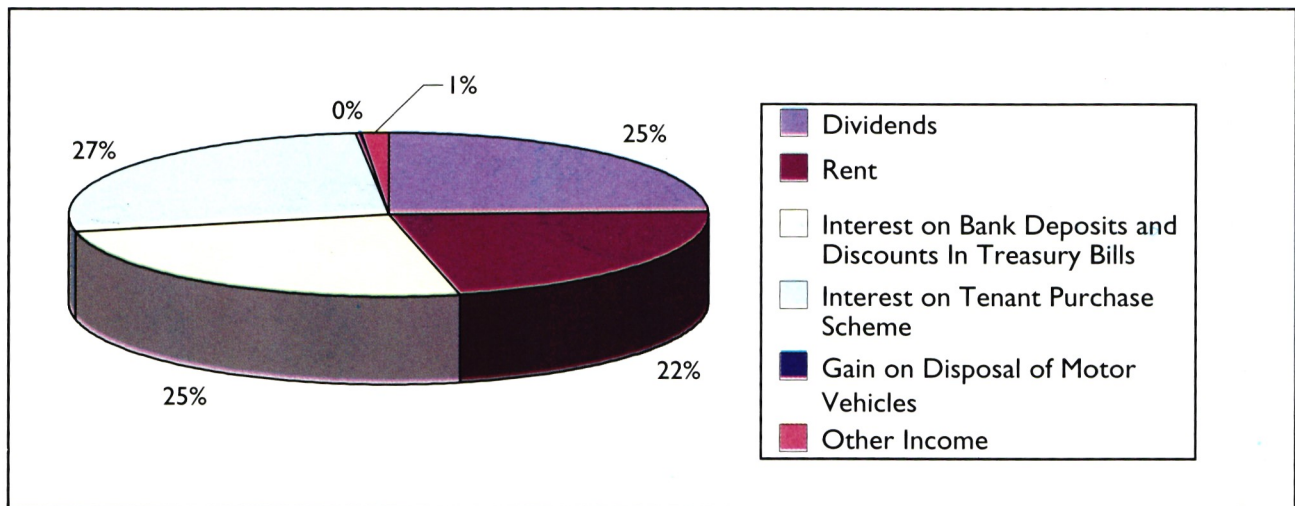
TYPE	KSHS.'000	%
Age	648,156	31
Survivors	276,465	13
Invalidity	38,465	2
Withdrawal	1,114,823	53
Emigration	12,167	1
Refunds	5,102	0
TOTAL	2,095,178	100





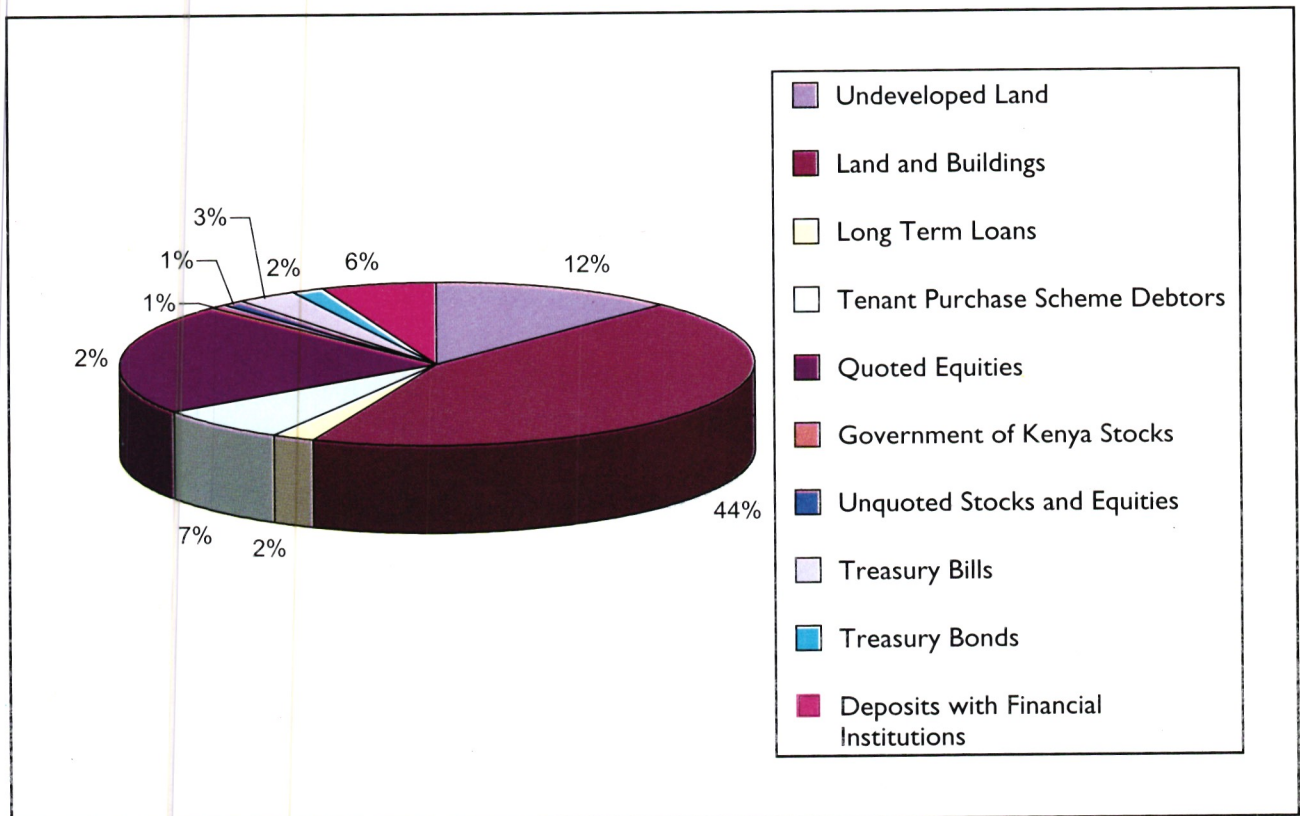
3) INVESTMENT INCOME

DETAILS	Kshs.'000	%
Dividends	482,651	25
Rent	427,509	22
Interest on Bank Deposits and Discounts In Treasury Bills	498,993	25
Interest on Tenant Purchase Scheme	523,279	27
Gain on Disposal of Motor Vehicles	6,325	0
Other Income	29,024	1
TOTAL	1,967,781	100



4) INVESTMENTS

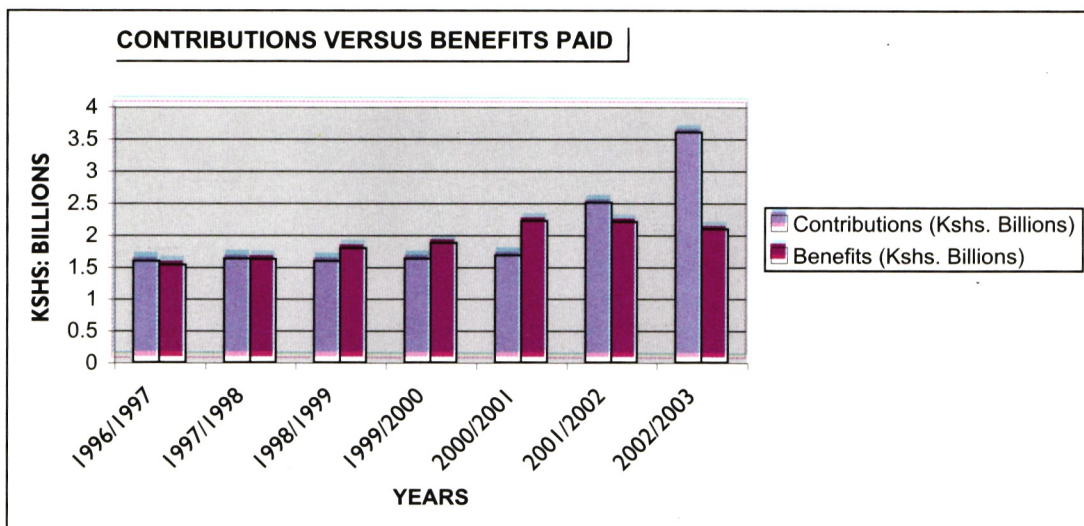
DETAILS	Kshs.'000	%
Undeveloped Land	6,400,016	12
Land and Buildings	22,458,056	44
Long Term Loans	1,100,000	2
Tenant Purchase Scheme Debtors	3,556,897	7
Quoted Equities	11,278,458	22
Government of Kenya Stocks	408,800	1
Unquoted Stocks and Equities	587,271	1
Treasury Bills	1,515,684	3
Treasury Bonds	812,010	2
Deposits with Financial Institutions	3,011,005	6
TOTAL	51,128,197	100





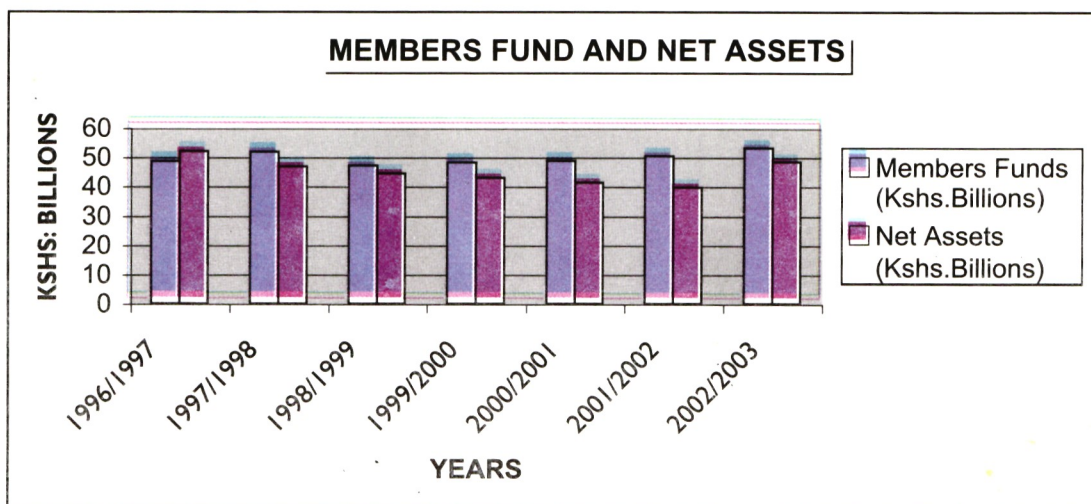
5) CONTRIBUTIONS VERSUS BENEFITS PAID

Financial Year ended 30th June							
YEARS	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003
Contributions (Kshs. Billions)	1.59	1.63	1.59	1.63	1.68	2.50	3.60
Benefits (Kshs. Billions)	1.53	1.62	1.79	1.87	2.22	2.20	2.09



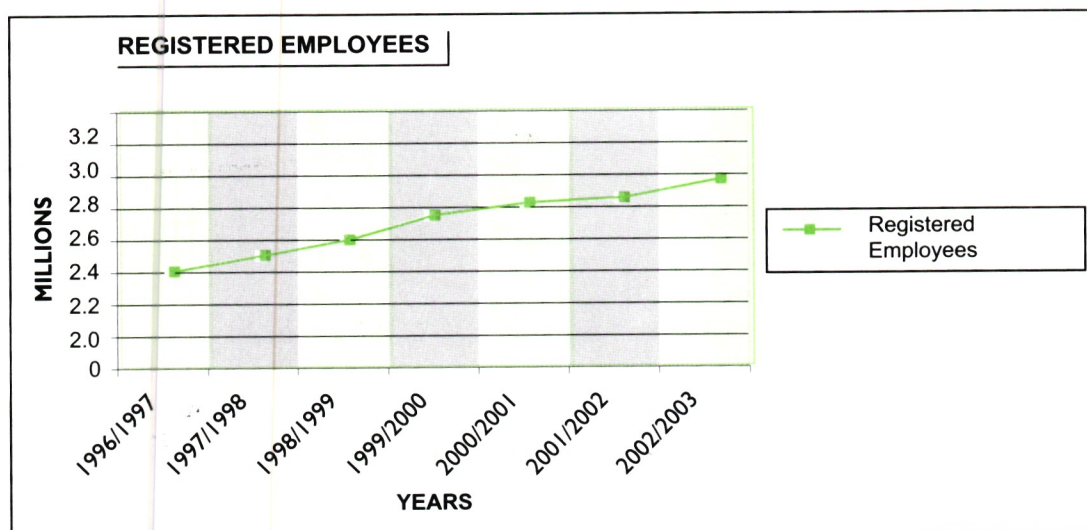
7) MEMBER'S FUND AND NET ASSETS

Financial Year ended 30th June,							
YEAR	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003
Members Funds (Kshs. Billions)	48.6	51.9	47.2	48.2	48.84	50.35	53.12
Net Assets (kshs. billions)	52.1	46.8	44.4	43	41.4	39.71	48.42



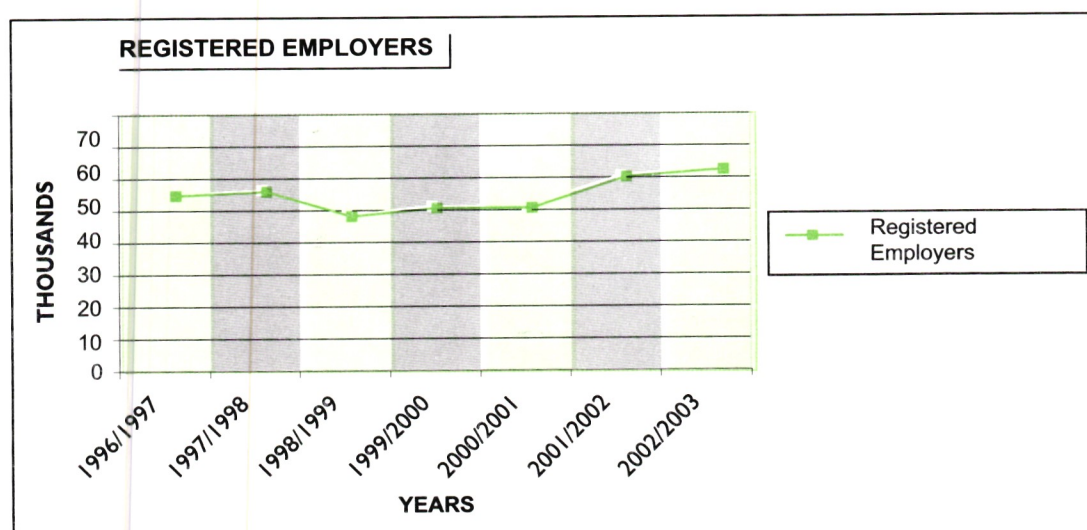
7) REGISTERED EMPLOYEES

YEAR	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003
Registered Employees (Millions)	2.43	2.52	2.64	2.78	2.86	2.88	2.99



8) REGISTERED EMPLOYERS

YEAR	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003
Registered Employers	56,278	57,240	49,290	50,013	51,014	61,528	63,369





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 showing in detail the assets and liabilities of the Fund, a Statement of Income and Expenditure and such other statements that the Trustees may deem necessary. It also requires the Trustees to ensure the Fund keeps proper books of account 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 generally accepted accounting practice and in the manner required by the National Social Security Fund 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 control.

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

Chairman:

Managing Trustee:

Date:

6/11/2005



REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF NATIONAL SOCIAL SECURITY FUND FOR THE YEAR ENDED 30th JUNE 2003

INTRODUCTION

The financial statements of the National Social Security Fund set out on pages 15 and 17 for the year ended 30th June 2003 have been audited on my behalf by the Fund's authorized auditors in accordance with Section 29 (1) (b) of the Exchequer and audit Act, (Cap 412). The authorized auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations, which to the best of my knowledge and belief were necessary for the purpose of audit, were obtained. The financial statements are in agreement with the books of accounts.

RESPECTIVE RESPONSIBILITIES OF TRUSTEES AND THE CONTROLLER AND AUDITOR GENERAL

As set out in the statement of Trustees' Responsibilities on page 10, the Trustees are responsible for the preparation of financial statements which give a true and fair view of National Social Security Fund's state of affair and of its operating results. My responsibility is to express an independent opinion on the financial statements based on my audit and to report to the Minister responsible for Social Security for presentation to the National Assembly the result thereof.

BASIS OF OPINION

The audit was conducted in accordance with International Standards on Auditing. Those standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free of material misstatement. An audit includes examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as evaluation of the overall presentation of the financial statements.

COMMENTS

1. FUND'S FINANCIAL PERFORMANCE

During the year, the Fund incurred a deficit of Kshs 758,871,000 which brought its accumulated deficit to Kshs 13,994,212,000 as at 30 June 2003. As pointed out in the previous year's report, the unfavourable result realized by the Fund in 2002/2003 was mainly attributed to various provisions amounting to Kshs 783,962,000 of which Kshs 5,759,000 was made to cater for losses in suspended projects, Kshs 27,824,000 for doubtful incomes relating to tenant purchase, Kshs 17,614,000 for accrued rentals, Kshs 256,511,000 for debtors and Kshs 260,789,000 for accrued interest receivable. Evidently, the Fund financial performance has been adversely affected by imprudent management investment decisions especially in properties and deposits.

2.0 NATIONAL BANK OF KENYA LIMITED (NBK)

2.1 Compliance with the Trustee Act (Cap 167)

As pointed out in the previous years report, National Bank of Kenya owed the Fund Kshs 1.1 billion being a long-term loan arising from the conversion of investment deposits in the bank to a term loan on 31 July 1999. Subsequent to the year end on 22 September 2003, the loan together with interest accrued from 1 January 2001 to that date amounting to Kshs 75 million was applied towards the purchase of 235 million non-cumulative preference shares at par value of Kshs 5 each in the bank.

However, the non-cumulative preference shares issued are not quoted on the stock exchange and National Bank of Kenya had not paid any dividend on its ordinary shares which ranked for dividend on each of the five years immediately preceding the year in which the investment in non-cumulative preference shares was made. The investment was therefore made in contravention of Section 4(d) of the Trustees Act, (Cap 167).



REPORT OF THE CONTROLLER AND AUDITOR GENERAL FOR THE YEAR ENDED 30 JUNE 2003....Cont.

2.2 Investment in National Bank of Kenya

As discussed in Note 29 to the financial statements, the Fund holds 48% of the ordinary share capital of the National Bank of Kenya. The investment has been carried at fair value (based on the NSE closing rate) of Kshs 1,441,583,000 (2002 – Kshs 249,874,000) which is not in compliance with the requirements of International Accounting Standards No.28 that provides for the investment to be initially recorded at cost, and the carrying amount to be subsequently adjusted by the proportionate share of profits or loss of the investee. However, the Standard provides that if an investor's share of losses of an associate equals or exceeds the carrying amount of an investment, the investor ordinarily discontinues including its share of further losses and the investment is reported at nil value.

Had such treatment been applied, the carrying value of the investment would have been nil since the proportionate share of losses at 31 December 2003 (the date of the latest audited accounts of NBK) was more than the carrying value of the investment.

As noted in 2.1 above, subsequent to the year ended, on 22 September 2003, the long-term loans to NBK together with accrued interest thereon amounting to Kshs 1.175 billion was applied toward the purchase of 235 million non-cumulative preference shares at a par value of Kshs 5 each, representing 23% of the preference shares issued.

However, based on the latest audited accounts of NBK as at 31 December 2003, the proportionate share of net assets of the bank attributed to the preference shares held was Kshs 376 million. Consequently, given that the preference shares are not quoted in the stock exchange and therefore the fair value of such shares cannot be reliably determined, I am unable to determine if the preference shares acquired are impaired and the extent of such impairment, if any.

3.0 INVESTMENTS

3.1 Valuation of Land

As noted in the audit report of the financial year ended 30 June 2002, and in accordance with the Fund's accounting policy, land and buildings are carried in the financial statements at cost.

However, the value of the real estate in the country has generally declined over the last few years.

Consequently, it is not possible to confirm whether the carrying values as stated in the financial statements reflect the fair values of the properties as at the balance sheet date.

3.2 Nyayo Estate – Embakasi

As noted in the audit report of the financial year ended 30 June 2002, the Fund entered into a fixed sum contract for the construction of the Nyayo Estate – Embakasi in 1995, at a cost of Kshs 14 billion. The project was supposed to be completed by 1997. However, as at 30 June 2003, only 1,156 out of the projected 4,774 units had been handed over to the Fund while the total cost incurred up to that date was Kshs 14.6 billion of which Kshs 12.36 billion had been paid to the contractor. The balances of 3618 units is at various stages of completion.

The project is still on going, although it is currently six years behind schedule. A provision of Kshs 2.9 billion has been made in the financial statements for the potential losses that the Fund would incur assuming all the units were completed at no additional costs to the Fund and that they were all sold at the current prices. It is not however possible to confirm whether this project will be completed in the near future or to determine the additional costs, if any that would be necessary to complete the project or the losses that the Fund would suffer in the event that the project is not completed. Consequently, it is not possible to give an opinion on the carrying value of the investments as reflected in the financial statement.

3.3 Installation of Sub Power Station at Nyayo Estate, Embakasi

On 5 March 2002, the Fund obtained a quotation from Kenya Power & Lighting Company Limited for installation of substation for supply of electricity to Nyayo Estate Embakasi. Although the plot on which the substation is built belongs to the Fund, the cost of the plot has been included in the quotation (inclusive of VAT). The Fund therefore stands to lose Kshs 8.85 million being the value of the plot and VAT thereon if KPLC does not issue a revised quotation.

In addition, as at 30 June 2003, there was an unpaid amount of kshs 19 million which has not been accrued in the books. Consequently, the completeness of liabilities in respect of the installation of the sub power station is in doubt.



3.4 Tassia Estate

Tassia Estate, which is carried in the books at a cost of Kshs 1.4 billion, has reportedly been encroached upon by squatters. Some of these squatters have even gone to court challenging the Fund's ownership of the property. Although the Fund's Management is confident that the Fund has proper title to the property, I am unable to confirm the extent of impairment of the value of the property, if any, due to encroachment by squatters.

3.5 Advances to Mugoya Construction and Engineering Limited

As at 30 June 2003, the Fund had advanced a total of Kshs 324,353,699 to Mugoya Construction and Engineering Limited, the Nyayo Estate – Embakasi project contractor, to enable the contractor to complete Phase 2 sub-sectors 2.1, 2.2, 2.3 and 2.5 of the project. The Fund has not yet obtained any collateral from the contractor as security for the advances given. It has also not been possible to confirm whether and if so, when the Fund will be able to recover the amounts advanced to the contractor. Any provision that would have been necessary in relation to this uncertainty has not been incorporated in these financial statements.

3.6 Contractual Claims from Contractors

As discussed in note 31, the Board of Trustees approved payments of Kshs 417 million and another Kshs 223 million relating to claims for suspension of works for Moktar Daddah Street and Kitisuru development projects respectively. Amounts paid as at 30 June 2003, with respect to the claims have, however, been capitalized to the cost of the projects whereas they do not constitute expenditure incurred on either materials or labour costs and cannot be considered as directly attributable to the acquisition of the assets or bringing the assets to its working condition. Consequently, the carrying value of Moktar Daddah Street and Kitisuru development projects as at the balance sheet date are overstated by Kshs 417 million and Kshs 223 million respectively.

3.7 Properties in Gazetted Areas

Recent media reports indicate that New Muthaiga LR No.209/12274 (located in Karura forest) and Ngong Road property next to Lenana High School (part of Ngong forest) are both in Gazetted forest areas and thus cannot be owned, possessed, utilized or accessed and any development on such land would be illegal.

The carrying values of these investments as at the balance sheet date is Kshs 296.6 million and Kshs 157.2 million respectively. No provision for impairment loss has been made in the financial statement. In light of the above, I am unable to confirm both the extent of impairment of the value of the properties and whether the Fund will be able to recover the cost of acquiring these properties.

3.8 Discounted Treasury Bills

As disclosed in note 18 to the financial statements, sundry debtors of Kshs 712,566,000 includes Kshs 251,508,582 relating to Treasury Bill number 1471, which the Fund discounted on 25 June 2002, 64 days before maturity with the intention of investing the proceeds in a Treasury Bond through a stock brokerage firm.

Although the brokerage firm had earlier indicated that the Treasury Bond had been identified, the bond did not become available and on 01 July 2002, the firm placed the money in a fixed deposit account with Euro Bank Limited to mature on 28 August 2002. Euro Bank Limited did not refund the deposits proceeds upon maturity and subsequently the Bank was placed under liquidation by the Central Bank of Kenya with effect from 21 February 2003.

The Fund has filed a suit against the brokerage firm, Euro Bank and Central Bank of Kenya. Full provision has been made in the financial statements, as recovery is deemed doubtful.

4. LEVY DUE TO THE RETIREMENT BENEFITS AUTHORITY (RBA)

In the prior year, the RBA gave notice to the Fund that the Retirement Benefits levy payable to the Authority, which fell due on 31 October 2001 had remained unpaid and so continued to attract interest at 5% per month. In a letter dated 18 November 2002, the RBA indicated that the outstanding levy for the years 2000, 2001 and 2002 was estimated at Kshs 24,731,968 per year.

Currently negotiations between the Fund and RBA are on going to resolve the issue and hence no provision has been made in the books for the levy demanded estimated at Kshs 74,195,904 for the years 2000, 2001 and 2002. Consequently, I am unable to express an opinion as to the completeness of liabilities in respect of the levy demanded.



REPORT OF THE CONTROLLER AND AUDITOR GENERAL FOR THE YEAR ENDED 30 JUNE 2003....Cont.

5. ADMINISTRATIVE FEE DUE TO SAVINGS & LOAN KENYA LIMITED

During the year, Savings & Loan demanded Kshs 41.8 million and Kshs 4 million as unpaid staff mortgage loans, administration fees and ledger fees respectively for the period from July 1999 to June 2003. The Fund has disputed the claim from Savings & Loan and negotiations are currently on going to resolve the issue. However, no provision has been made in respect of the amount demanded. Consequently, I am unable to express an opinion on the completeness of liabilities in respect of the administrative fee demanded.

6. TAX RECEIVABLE

The financial statements reflect tax recoverable from the Kenya Revenue Authority (KRA) of Kshs 298 million relating mainly to tax overpaid prior to 1 January 1997 before the Fund was exempted from taxation and withholding tax. Although negotiations between the Fund and KRA have been going on to secure the refund of the above amounts, KRA has written to the Fund claiming that any overpayment by the Fund had been utilized against unpaid penalties and interest and hence no amounts are refundable. I am therefore unable to confirm whether the Fund will be able to recover the tax receivable reflected in the statement and the timescale for such recovery.

7. CONTINGENT LIABILITY IN RESPECT OF SUSPENDED AND RESTRUCTURED PROJECTS

As discussed in Note 31, the Fund has received claims amounting to Kshs 8.6 billion in respect of projects that had previously been restructured or suspended, out of which Kshs 536 million has been paid as at 30 June 2003. The outstanding liabilities have not been recognized in the financial statement, as they have not been agreed upon.

In addition, NSSF has suspended a number of other projects, as indicated in Note 10 to the financial statements, where construction work had already commenced. No provision has been made in these financial statements for possible liabilities that may arise as a result of breach of contract with the respective contractors. It has not, however, been possible to ascertain the extent of the liability that may arise as a result of the suspension of these projects.

8. IRREGULAR PAYMENTS OF BOARD EXPENSES

As previously reported, expenditure on Board committees and conferences increased by Kshs 7,943,000 (82%) from Kshs 9,609,000 to Kshs 17,552,000 as at 30 June 2003. Apart from the high rate of Kshs 25,000 allowance paid per sitting, the escalated costs were attributed to:

- a) Allowances paid to two regular members of staff who are not Board Members.
- b) Sitting allowance paid based on number of meetings held in a day rather than on one sitting per day where a sitting should be seen as the duration equal to time taken to transact a day's business.
- c) Irregular Kshs 1,720,068.95 tax payment on behalf of the Board Members.

The Fund has again not provided justification for these payments

9. COMPLIANCE WITH THE RETIREMENT BENEFITS ACT

As detailed in Note 32 to the financial statements, the Fund has not complied with various aspects of the Retirement Benefit Act.

OPINION

Except for any adjustments that might be necessary arising from the matters discussed above, in my opinion, the financial statements give a true and fair view of the state of National Social Security Fund's financial affairs as of 30 June 2003 and its operating results and cash flows for the year then ended.

E. N. MWAI
CONTROLLER AND AUDITOR GENERAL

NAIROBI
29 April, 2005



INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 30TH JUNE, 2003

	Note	2003 Kshs.'000	2002 Kshs.'000
INCOME			
Dividend Income		482,651	341,995
Rental Income	2	427,509	541,018
Interest on Bank Deposits and Discount on Treasury Bills		498,993	486,394
Interest on Tenant Purchase Scheme		523,279	389,778
Gain on Disposal of Motor Vehicles		6,325	-
Other Income		<u>29,024</u>	<u>40,574</u>
		<u>1,967,781</u>	<u>1,799,759</u>
EXPENDITURE			
Staff Costs	3	1,476,530	1,403,094
Administrative Expenses	4	524,388	638,059
Depreciation Charge		32,415	19,637
Net Loss on Disposal of Land	5	142,688	-
Recoveries on Bad Debts		(539)	(24,699)
Recovery of Investment Previously Provided for	19(b)	(185,106)	(16,300)
Reversal of provision for Doubtful Rental Income		(12,186)	(7,519)
Reversal of Provision for Doubtful Interest Receivable	21(c)	(35,500)	-
Provision for Foreseeable Losses on Housing Projects	10(c)	215,465	350,515
Provision-for Loss on Suspended Projects		5,759	29,675
Provision for Doubtful TPS Income		27,824	18,983
Provision for Doubtful Accrued Rental Income		17,614	32,091
Provision for Doubtful Accrued Interest Receivable	21(c)	260,789	283,955
Provision for other Doubtful Debtors	6	<u>256,511</u>	<u>294</u>
		<u>2,726,652</u>	<u>2,727,785</u>
DEFICIT FOR THE YEAR	26	<u>(758,871)</u>	<u>(928,026)</u>

The notes set out on pages 18 to 40 form an integral part of these financial statements



BALANCE SHEET AS AT 30TH JUNE, 2003

	Note	2003 Kshs.'000	2002 Kshs.'000
PROPERTY, PLANT AND EQUIPMENT	8	<u>207,943</u>	<u>176,376</u>
INVESTMENTS			
Undeveloped Land	9	6,400,016	6,448,201
Land And Buildings	10	22,548,056	22,644,087
Long Term Loan	11	1,100,000	1,100,000
Tenant Purchase Scheme Debtors	12	3,556,897	3,622,026
Quoted Equities	13	11,278,458	3,313,006
Government Of Kenya Stocks	14	408,800	758,800
Unquoted Stocks and Equities	15	587,271	587,271
Treasury Bills	16	1,515,684	872,303
Treasury Bonds	17	812,010	0
Deposits With Financial Institutions	18	<u>3,011,005</u>	<u>3,104,910</u>
		51,218,197	42,450,604
Less: Provision For Doubtful Investments	19(a)	<u>(2,731,953)</u>	<u>(2,917,059)</u>
		<u>48,486,244</u>	<u>39,533,545</u>
Current Assets			
Debtors And Prepayments	20	507,835	751,995
Taxation	7	297,976	297,797
Accrued Income	21	242,583	309,335
Cash And Bank Balances		<u>311,175</u>	<u>121,516</u>
		<u>1,359,569</u>	<u>1,480,643</u>
Current Liabilities			
Bank Overdraft		286,693	150,213
Creditors and Accruals	22	<u>1,344,949</u>	<u>1,332,313</u>
		<u>1,631,642</u>	<u>1,482,526</u>
Net Current Liabilities		<u>(272,073)</u>	<u>(1,883)</u>
NET ASSETS		<u>48,422,114</u>	<u>39,708,038,</u>
FINANCED BY:			
Accumulated Members Funds	23	53,119,261	50,352,942
Revaluation Reserve	24	9,297,065	1,385,026
Accumulated Deficit	26	<u>(13,994,212)</u>	<u>(12,029,930)</u>
FUNDS EMPLOYED		<u>48,422,114</u>	<u>39,708,038</u>

The accounts on pages 15 to 17 were approved by the Board of Trustees on 6th January, 2005 and were signed on behalf by:



Chairman



Managing Trustee

The balance sheet is to be read in conjunction with the notes to and forming part of the financial Statements set out on pages 18 to 40.



CASH-FLOW STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2003

	2003	2002
Note	Kshs.'000	Kshs.'000
Cash outflow from operating activities	<u>(226,089)</u>	<u>(209,840)</u>
INVESTING ACTIVITIES		
Redemption of Government Stock	350,000	-
(Purchase)/redemption of treasury bonds	(812,010)	200,000
Redemption of deposits with financial institutions	93,905	259,696
Development of land and buildings	(740,973)	(529,748)
Proceeds from sale on land and buildings	128,157	34,315
Receipts from Tenant Purchase Scheme debtors	453,732	502,182
Purchase of property and equipment	(63,982)	(31,917)
Proceeds on disposal of motor vehicles	6,325	-
Cash flows from investing activities	<u>(584,847)</u>	<u>434,528</u>
FINANCING ACTIVITIES		
Members contributions	3,602,256	2,497,860
Benefit payments	(2,094,761)	(2,200,707)
Cash outflows from financing activities	<u>1,507,495</u>	<u>297,153</u>
Net (decrease)/increase in cash & cash equivalents	<u>696,560</u>	<u>521,841</u>

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 18 to 40.



NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE, 2003

I. SIGNIFICANT ACCOUNTING POLICIES

a) Accounting Convention

The Accounts are prepared under the historical cost convention as modified by the revaluation of certain assets.

b) Accounting for contributions

Contributions from employers/employees are accounted for on a receipt basis.

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. (2003, 2002, 2001 and 2000 – 2.5%)

c) Income Recognition

i) Dividends

Dividends are accounted for on a receipt basis.

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.

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30TH JUNE, 2003...Cont**



e) Depreciation

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

PARTICULARS	%
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

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 Income and Expenditure account.

Unquoted Equities

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

Treasury bills and bonds, and government bearer bonds

Treasury bills and bonds, 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.



NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE, 2003...Cont

j) 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 income statements as they are incurred. Any difference between the charge to the income statement and the annual contributions paid is recorded in the balance sheet under other liabilities/assets.

	2003	2002
	Kshs.'000	Kshs.'000
2 RENTAL INCOME		
Social Security House – Nairobi	255,401	265,347
Social Security House – Mombasa	37,721	42,160
Bruce House – Nairobi	52,647	81,969
Hazina Towers	17,769	18,003
View Park Towers	38,367	68,259
Hazina Plaza – Mombasa	915	840
Hazina Estate – Nairobi	1,393	43,895
Other Properties	23,296	20,545
	427,509	541,018
3. STAFF COSTS		
Salaries and wages	762,976	707,745
House allowance	300,721	277,911
Acting allowance	492	536
Entertainment allowance	4,885	4,861
Leave allowance	51,056	40,478
Hardship allowance	452	460
Staff pension and gratuity	137,426	141,147
Staff welfare	48,853	73,348
Medical expenses	54,721	49,272
Special accommodation allowance	308	509
NSSF contributions for staff	4,287	3,423
Transfer allowance	7,372	3,591
Transport allowance	97,203	94,736
Utility allowance	5,778	5,077
	1,476,530	1,403,094
The average number of employees engaged during the year were:		
Management	550	550
Unionisable	1,230	1,244

Also included in staff costs are contributions to the defined contribution plan for employees. During the year, the Fund expensed kshs.131,813,000 in contributions payable (2002- Kshs.122,451,000).

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30TH JUNE, 2003...Cont**



4. ADMINISTRATIVE EXPENSES

	2003	2002
	Kshs.'000	Kshs.'000
Rent and rates	216,273	303,683
Legal fees	20,647	39,985
Repairs and maintenance	16,043	22,808
Consultancy fees	8,076	40,577
Insurance	78,496	75,348
Telephone and postage	36,197	30,816
Transport expenses	23,745	25,560
Electricity, water and conservancy	23,100	17,871
Printing and stationery	14,516	17,478
Advertising	8,055	6,648
Travelling and subsistence allowance	21,266	13,388
Bank interest and charges	10,596	9,680
Audit fees	7,496	7,376
Exhibition expenses	4,324	4,756
Board, committees and conferences	17,552	9,609
Renovations	469	741
Books and publications	1,859	1,960
Subscriptions and donations	1,442	1,122
Training and seminars	6,930	2,538
Uniforms	13	382
Bad debts	-	1,625
Other expenses	2,285	353
Cash Losses	-	67
Management fees – Regent Management	5,008	3,057
Interest on late payment to Armstrong & Duncan	-	631
	<u>524,388</u>	<u>638,059</u>

Included in rent and rates is Kshs.80 million (2002-Kshs.80.9 million) being rent expense on space occupied by NSSF in Social Security House – Nairobi and Social Security House- Mombasa.

5. NET LOSS ON DISPOSAL OF LAND

This is made up of:

Loss on disposal of Lenana Road property (Note 10)	145,526	-
Gain on disposal of kajiado property (Note 9)	(385)	-
Gain on disposal of Likon Road property (Note 9)	<u>(2,453)</u>	-
	<u>142,688</u>	-

6. PROVISION FOR OTHER DEBTORS

Included in provisions for other debtors is Kshs.251,508,582 being a provision for amounts receivable on a fixed deposit placed with Euro Bank limited (in liquidation) as the amounts are deemed not recoverable. Refer to note 20 for further details.



NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE, 2003...Cont

7. 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) (Exemption) Rules, 2003 effective 1 July, 2003 the Fund will have to comply with certain regulations for it to remain exempt. These regulations mainly relate to maintenance of accounts and valuation of the Fund's assets.

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, 2003.

In addition the Fund lodged a further claim of Kshs.411 million for tax paid for the period July, to December, 1996 when the Fund was exempt from taxation according to Section 45 of the First Schedule of Income Tax Act. This amount has, however, not been accounted for in the books of the Fund.

Negotiations between the Fund and Kenya Revenue Authority (KRA) are ongoing. However, as at 30 June, 2003, KRA's position was that any amounts overpaid in the years 1992 to 1997 were utilized against penalties and interest that were outstanding which were in excess of amounts overpaid by the Fund, and as such there are no amounts that are refundable to NSSF.

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30TH JUNE, 2003...Cont**

8. PROPERTY AND EQUIPMENT

	LAND* KSHS.'000	COMPUTER & MICROFILM EQUIPMENT KSHS.'000	MOTOR VEHICLES KSHS.'000	OFFICE EQUIPMENT KSHS.'000	OFFICE FURNITURE KSHS.'000	FITTINGS & FURNISHINGS KSHS.'000	TOTAL KSHS.'000
Cost or Valuation At 1/07/2002	124,540	149,046	212,075	137,403	75,069	20,902	719,035
Additions	-	10,694	50,167	1,963	1,158		63,982
Disposals			(21,165)	-			(21,165)
At 30/6/2003	124,540	159,740	241,077	139,366	76,227	20,902	761,852
Depreciation At 1/7/2002	-	145,449	192,305	126,941	57,161	20,803	542,659
Charge for the Year	-	6,208	15,242	3,527	7,414	24	32,415
Disposals			(21,165)				(21,165)
At 30/06/2003	-	151,657	186,382	130,468	64,575	20,827	553,909
Net Book Value At 30/6/2003	124,540	8,083	54,695	8,898	11,652	75	207,943
Net Book Value At 30/6/2002	124,540	3,597	19,770	10,462	17,908	99	176,376

* Represents cost of undeveloped land and plots in Mavoko and Ngong Road, earmarked for own use development





**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30TH JUNE, 2003...Cont**

9 UNDEVELOPED LAND

Nairobi

	2003 Kshs.'000	2002 Kshs.'000
Tassia Estate*	1,397,405	1,396,860
Embakasi	753,731	753,731
Langata	383,778	383,778
Muthaiga	296,550	296,550
Bishops Road	228,411	228,411
Likoni Road*	204,659	228,049
Ngong Road	157,227	157,227
Belle Vue	152,522	152,522
Outering Road	129,050	129,050
Loita Street	70,095	70,095
Elgon Road	50,743	50,743
Upper Hill	42,385	42,385
Forest Edge Langata	40,566	40,566
Nairobi South B	32,814	32,814
Hospital Hill	31,222	31,222
	<u>3,971,158</u>	<u>3,994,003</u>

Coast

Mtwapa Project	551,957	551,957
Bamburi Project	188,373	188,373
Mombasa Town Project	127,322	127,322
	<u>867,652</u>	<u>867,652</u>

Other areas

Mavoko Projects	898,250	897,659
Athi River Project	594,946	594,946
Kajiado Project*	81,402	107,333
Eldoret Project	51,025	51,025
Syokimau	22,766	22,766
	<u>1,648,389</u>	<u>1,673,729</u>
Provision for losses on suspended projects	<u>(87,183)</u>	<u>(87,183)</u>
	<u>6,400,016</u>	<u>6,448,201</u>

*The significant movement in the properties during the year is as follows:-

Likoni Road Property

Balance at 1 July, 2002	228,049
Disposal during the year	<u>(23,390)</u>
Balance as at 30 th June, 2003	<u>204,659</u>

During the year 7.383 acres out of the total of 71.989 acres of Likoni property were disposed of realizing shs.25,841,000 resulting in a gain on disposal of shs.2,453,000.

Kajiado Projects

Balance at 1 July, 2002	107,333
Disposal during the year	<u>(25,931)</u>
Balance at 30 th June, 2003	<u>81,402</u>

During the year 43.86 acres out of the total 181.55 acres of Kajiado property were disposed of realizing Kshs.26,316,000 resulting in a gain on disposal of Kshs.385,000.

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30TH JUNE, 2003...Cont**



	2003	2002
	Kshs.'000	Kshs.'000
10. LAND AND BUILDINGS		
a) Analysis of balances at 30 June:		
<u>Commercial properties</u>		
Social Security House – Nairobi	4,533,525	4,533,525
Social Security House – Mombasa	141,901	135,084
Bruce House – Nairobi	588,002	588,002
Moktar Daddah Street – Nairobi*	2,887,752	2,373,646
Social Security House Annex – Nairobi**	541,531	541,531
Hazina Towers	590,864	590,864
View Park Towers	918,620	918,620
Hazina Plaza – Mombasa	458,791	458,791
Kenyatta Avenue Development	<u>1,020,298</u>	<u>1,020,298</u>
	<u>11,681,284</u>	<u>11,160,361</u>
<u>Residential properties</u>		
Lenana Road Development**	-	264,394
Hospital Road Development**	132,174	129,997
Nyayo Estate – Embakasi*	11,761,951	11,698,351
Machakos Development	83,574	83,094
Ojijo Road – Nairobi	181,081	181,081
Kangemi Development**	700,218	734,718
Hazina Estate	1,109,664	1,346,201
Killeshwa Development**	50,596	49,256
Kitisuru Development*	1,307,076	1,261,871
Kibera Highrise Estate – Nairobi	-	950
State House Road	471,901	471,901
Milimani Flats	103,562	103,562
Karen Development**	512,971	512,971
Kapsoya Estate	<u>6,475</u>	<u>21,495</u>
	<u>16,421,243</u>	<u>16,859,842</u>
<u>Land and Buildings Total</u>	<u>28,102,527</u>	<u>28,020,120</u>
Less: Provision for foreseeable losses	(4,911,856)	(4,696,392)
Provision for losses on suspended projects	<u>(642,615)</u>	<u>(679,724)</u>
	<u>22,548,056</u>	<u>22,644,087</u>

* Development in progress ** Project Suspended



**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30TH JUNE, 2003...Cont**

b) Significant movement in the year in various projects is as follows:

**Developed Land and Buildings - Commercial
Moktar Daddah**

	Kshs.'000
At 1 July 2002	2,373,646
Additions	514,106
At 30 June, 2003	<u>2,887,752</u>

Developed land and buildings – residential:

	Nyayo Estate Embakasi Kshs'000	Kangemi Development Kshs'000	Hazina Estate Kshs'000	Kitisuru Development Kshs'000	Kibera Highrise Estate Kshs'000	Kapsoya Estate Kshs'000	Others Kshs'000	Total Kshs'000
Cost/Valuation								
At 1 July 2002	11,698,351	734,718	1,346,201	1,261,871	950	21,495	1,796,256	16,859,842
Additions	73,850	-	30,463	111,155	-	-	3,997	218,915
TPS sales	(10,250)	(34,500)	(267,000)	(65,950)	(950)	(15,020)	-	(393,670)
Direct sales	-	-	-	-	-	-	*(264,394)	(264,394)
At 30 June 2003	11,761,951	700,218	1,109,664	1,307,076	-	6,475	1,535,859	16,421,243

*This represents disposal of Lenana Road Property in the year realizing Ksh.76 million. A provision of Kshs.42,868,000 made in prior years on the cost of this property was released resulting to a loss on disposal of Kshs.145,526,112.

c) Provision for foreseeable losses on housing projects

	2003 Kshs'000	2002 Kshs'000
Mountain view Kangemi	-	1,608
Nyayo Estate Embakasi	73,846	136,007
Hazina Estate	30,464	914
Kitisuru Estate	<u>111,155</u>	<u>211,986</u>
	215,465	350,515

The above provision relates to additional costs incurred during the year on the respective housing projects.

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30TH JUNE, 2003...Cont**



11. LONG TERM LOAN

	2003	2002
	Kshs.'000	Kshs.'000
National Bank of Kenya	1,100,000	1,100,000

The long-term loan was initially granted by the Fund to the Bank in August, 1999. Interest was to be chargeable on a monthly basis at two-thirds of the Bank's base lending rate while the principal was to be redeemed in equal semi annual installments.

Subsequent to the year end, on 22 September, 2003, the Fund and the Bank mutually agreed to apply the loan for the purchase of 220 million fully paid up non-cumulative preference shares of Kshs.5 each in the Bank. In addition a further 15 million fully paid up non-cumulative preference shares of kshs. 5 each was allotted to compensate the Fund for the interest on the loan that had accrued from 1 January, 2001 to 22 September, 2003 amounting to kshs.75 million.

The preference shareholders are entitled to receive out of the profits of the company a non- cumulative preferential dividend at a negotiable rate not exceeding 6% per annum whenever the dividends are declared.

12. TENANT PURCHASE SCHEME(TPS) DEBTORS

	2003	2002
	Kshs.'000	Kshs.'000
Embakasi Estate	1,743,416	1,924,556
MountainView Estate	443,653	450,964
Hazina Estate	775,379	658,793
Kibera Highrise Estate	263,984	270,580
Prudential Estate	2,498	2,410
Tassia Estate	167,358	191,700
Kitisuru	81,873	45,217
Kapsoya Estate	60,761	55,314
	3,538,922	3,599,534
Accrued TPS income	97,412	74,105
Less: provision for doubtful TPS income	(79,437)	(51,613)
	3,556,897	3,622,026
	3,556,897	3,622,026

Under the Tenant Purchase Scheme (TPS), the Fund's strategy is to raise funds as well as significantly reduce its investment in land and buildings by selling some of its properties to the public.

The selling price of each property is recoverable through monthly installments over a period not exceeding 15 years (20 years for members of staff). The purchasers make equal monthly installments comprising principal and interest. The principal repayment is applied against the balance outstanding at the beginning of the month at a rate, currently 15%, which is variable and is at the discretion of the NSSF's Board of Trustees.

Title to the property transfers upon the full payment of the sale price.



**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30TH JUNE, 2003...Cont**

13 QUOTED EQUITIES

	2003 Kshs.'000	2002 Kshs.'000
Kenya Power & Lighting Company Limited	273,701	73,985
8,553,168 Ordinary Kshs. 20 Shares	21	21
3,550 4% Kshs.20 Preference Shares	6	6
750 7% kshs.20 Cumulative Preference Shares	<u>273,728</u>	<u>74,012</u>
East African Breweries Limited 6,474,287 kshs.10 Ordinary Shares	1,463,189	534,129
B.A.T. (K) Limited 20,000,000 Kshs. 10 Ordinary shares	1,960,000	950,000
Brooke Bond (K) Limited 1,437,500 Kshs. 10 Ordinary Shares	110,688	81,219
Bamburi Portland Cement Company Limited 57,317,178 Kshs. 5 Ordinary shares	4,585,134	988,670
E.A. Portland Cement Company Limited 24,300,000 Kshs.5 ordinary Shares	1,117,800	303,750
Kenya Commercial Bank Limited 1,333,333 Kshs. 10 Ordinary Shares	62,667	13,533
Housing Finance Company of Kenya Limited 12,961,901 Kshs. 5 Ordinary Shares	142,581	47,959
Firestone (EA) 1969 Limited 8,176,800 Kshs.5 Ordinary Shares	106,298	66,641
National Bank of Kenya Limited 96,105,519 Kshs. 5 Ordinary Shares	1,441,583	249,874
Athi River Mining Company Limited 870,000 Ordinary Shares Kshs. 5 Ordinary Shares	<u>14,790</u>	<u>3,219</u>
	<u>11,278,458</u>	<u>3,313,006</u>

14. GOVERNMENT OF KENYA STOCKS

10.75% Kenya Stock 2003	-	350,000
10% Kenya Stock 2010	<u>408,800</u>	<u>408,800</u>
	<u>408,800</u>	<u>758,800</u>

The above investments in government stocks, which were previously being held by the Central Bank of Kenya (CBK) under lien to secure borrowings by National Bank of Kenya Limited from CBK, were released to the Fund in the year.

15. UNQUOTED STOCKS AND EQUITIES

	2003 Kshs.'000	2002 Kshs.'000
Consolidated Bank of Kenya Limited		
8,050,000 4% kshs. 20 Cumulative Preference Shares	161,000	161,000
2,225,000 Ordinary Kshs. 20 Shares	44,500	44,500
8.25% Nairobi City Council Stock 1990	17,497	17,497
8.5% Nairobi City Council Stock 1993	25,665	25,665
12.25% Nairobi City Council Stock 1994	<u>338,609</u>	<u>338,609</u>
	<u>587,271</u>	<u>587,271</u>

The Nairobi City Council defaulted on the payment of the above stock upon maturity. NSSF obtained a court judgment on 17 July, 1995 for recovery of the above amount from the council. The court also directed that the amount should earn interest at the rate of 12% annually until fully recovered. The investment amounts are fully provided for as per Note 19a.

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30TH JUNE, 2003...Cont**



	2003	2002
	Kshs '000	Kshs '000
16. TREASURY BILLS		
Due within 90 days	<u>1,515,684</u>	<u>872,303</u>
17. TREASURY BONDS		
Due within 1 year	20,017	-
Due between 1 and 5 years	780,534	-
Due after 5 years	<u>11,459</u>	-
	<u>812,010</u>	-
18. DEPOSITS WITH FINANCIAL INSTITUTIONS		
National Bank of Kenya Limited	73,000	-
Savings and Loan Kenya Limited*	344,252	411,162
Savings and Loan Kenya Limited – Revolving funds	94,333	81,460
Savings and Loans Kenya Limited – Short Term deposit	159,738	-
Kenya Commercial Bank Limited	70,000	60,000
Housing Finance Company of Kenya Limited	125,000	160,000
Co-operative Bank of Kenya Limited	-	50,000
Industrial Development Bank Limited	-	12,500
Consolidated Bank of Kenya Limited	-	165,000
Continental Credit Limited (in liquidation)	57,188	57,188
Middle Africa Finance Company Limited (in liquidation)	3,668	3,668
Nairobi Finance Corporation Limited (in liquidation)	3,368	3,368
Pioneer Building Society (in liquidation)	34,915	34,915
Post Bank Credit Limited (in liquidation)	553,138	573,244
Prudential Building Society	990,000	990,000
Rural Urban Credit Finance Limited (in liquidation)	131,765	131,765
Thabiti Finance Company Limited (In Liquidation)	167,040	167,040
Trade Bank Limited (In Liquidation)	197,000	197,000
Trade Finance limited (in liquidation)	<u>6,600</u>	<u>6,600</u>
	<u>3,011,005</u>	<u>3,104,910</u>

*These deposits are held by Savings and Loan Kenya Limited under lien to secure staff mortgages.



**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30TH JUNE, 2003...Cont**

	2003	2002
	Kshs.'000	Kshs.'000
19. PROVISION FOR DOUBTFUL INVESTMENTS		
(a) Deposits with Financial Institutions:-		
Consolidated Bank of Kenya Limited	-	165,000
Prudential Building Society	990,000	990,000
Post Bank Credit Limited	553,138	573,244
Trade Bank Limited	197,000	197,000
Thabiti Finance Company Limited	167,040	167,040
Rural Urban Credit Finance Limited	131,765	131,765
Continental Credit Limited	57,188	57,188
Pioneer Building Society	34,915	34,915
Middle Africa Finance Company Limited	3,668	3,668
Nairobi Finance Corporation Limited	3,368	3,368
Trade Finance Limited	6,600	6,600
	<u>2,144,682</u>	<u>2,329,788</u>
Other Investments:-		
Nairobi City Council Stocks	381,771	381,771
Consolidated Bank of Kenya Limited –Unquoted Securities	<u>205,500</u>	<u>205,500</u>
	<u>587,271</u>	<u>587,271</u>
(b) Recovery of Investments Previously provided for:		
Consolidated Bank of Kenya Ltd.	165,000	-
Post Bank Credit Ltd.	<u>20,106</u>	<u>16,300</u>
	<u>185,106</u>	<u>16,300</u>
20 DEBTORS AND PREPAYMENTS		
Sundry debtors	712,566	688,411
Deposits and prepayments	9,808	10,985
Legal debtors	298,451	298,451
Staff debtors	120,191	132,062
Other debtors	<u>2,374</u>	<u>2,374</u>
	1,143,390	1,132,283
Less: Provision for doubtful debtors	<u>(635,555)</u>	<u>(380,288)</u>
	<u>507,835</u>	<u>751,995</u>

a) Included in sundry debtors is kshs.251,508,582 in relation to Treasury bills discounted with the intention of investing them in a Treasury bond. The Bond did not become available and Shah Munge & Partners, the Fund's former stock broking agents, invested the funds in a fixed deposit account with Euro Bank Limited. The deposit proceeds were not refunded to the Fund upon maturity on 28 August, 2003. Central Bank of Kenya has since placed Euro Bank Limited under liquidation effective 22 February, 2003. A full provision has been made for this amount, as recovery is now deemed doubtful.

b) Also included in sundry debtors is Kshs.324,353,699, due from Mugoya Construction Company Limited, being advances made to the contractor to enable completion of Phase I and some sections of Phase II of the Nyayo Embakasi Estate. Recoverability of these advances cannot be determined. No provision has, however, been made in these financial statements for any amount that would be considered irrecoverable.

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30TH JUNE, 2003...Cont**



	2003 Kshs.'000	2002 Kshs.'000
21 INCOME RECEIVABLE		
a) Rental Income Receivable		
Rent – Social Security House, Nairobi	134,789	123,581
Rent – Social Security House, Mombasa	39,624	39,122
Rent – Bruce House, Nairobi	32,317	28,038
Rent – Hazina Towers, Nairobi	23,426	22,785
Rent – View Park Towers, Nairobi	38,226	39,729
Rent – Hazina Estate, Nairobi	7,360	16,442
Rent – Hazina Plaza, Mombasa	237,892	237,543
Rent - Other Houses	<u>7,431</u>	<u>7,065</u>
	521,065	514,305
Less:		
Provision for doubtful rent receivable	<u>(323,397)</u>	<u>(317,969)</u>
	197,668	196,336
b) Interest receivable		
Interest on Government of Kenya Stocks	10,192	24,117
Interest on Treasury Bills	13,959	14,019
Interest on Treasury Bonds	3,101	-
Interest on Term Deposits	<u>1,935,447</u>	<u>1,767,358</u>
	1,962,699	1,805,494
Less:		
Provision for doubtful interest receivable	<u>(1,917,784)</u>	<u>(1,692,495)</u>
	44,915	112,999
Total Income Receivable	242,583	309,335

	Balance at 1st July 2002 Kshs.'000	Provision during the year Kshs.'000	Recoveries during the year Kshs.'000	Balance at 30 June, 2003 Kshs.'000
c) Movement in Provisions for Doubtful Interest Receivable				
Consolidated Bank Limited	495,905	-	(30,500)	465,405
Prudential Building Society	899,291	195,800	(5,000)	1,090,091
Nairobi City Council	249,674	45,813	-	295,487
Housing Finance Company of Kenya Limited	6,766	-	-	6,766
Industrial Development Bank Limited	395	-	-	395
Co-operative Bank of Kenya	708	-	-	708
National Bank of Kenya Limited guarantee fees	<u>39,756</u>	<u>19,176</u>	<u>-</u>	<u>58,932</u>
	1,692,495	260,789	(35,500)	1,917,784

Additional provision relates to interest income accrued during the year



NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE, 2003...Cont

22. CREDITORS AND ACCRUALS

	2003 Kshs.'000	2002 Kshs.'000
House Purchase Deposits	60,197	144,867
Sundry Creditors and Accruals	935,034	881,456
Project Creditors	115,438	19,337
Statutory and Other Deductions	26,884	123,698
Unclaimed Benefits	206,491	161,486
Unclaimed Refunds	905	1,469
	<u>1,344,949</u>	<u>1,332,313</u>

23. MEMBERS' FUND ACCOUNT FOR THE YEAR ENDED 30TH JUNE, 2003

	2003			2002		
	Contributions Kshs.'000	Interest Kshs.'000	Total Kshs.'000	Contributions Kshs.'000	Interest Kshs.'000	Total Kshs.'000
Balance brought forward at 1 July	<u>24,106,276</u>	<u>26,246,666</u>	<u>50,352,942</u>	<u>22,347,594</u>	<u>26,495,805</u>	<u>48,843,399</u>
Receipts for the year:						
Standard contributions	3,310,103	-	3,310,103	2,208,093	-	2,208,093
Special contributions	250,760	-	250,760	244,978	-	244,978
Penalties	41,260	-	41,260	44,689	-	44,689
Sale of duplicate membership cards	123	-	124	54	-	54
Other income	10	-	10	46	-	46
	<u>3,602,256</u>	<u>-</u>	<u>3,602,256</u>	<u>2,497,860</u>	<u>-</u>	<u>2,497,860</u>
Payments in the year:						
Age	229,750	418,406	648,156	204,349	400,741	604,820
Survivors	102,561	173,487	276,048	108,389	182,686	291,075
Invalidity	13,587	24,878	38,465	17,347	30,340	47,687
Withdrawal	375,002	739,821	1,114,823	396,935	840,706	1,237,641
Emigration	5,706	6,461	12,167	6,318	7,326	13,644
Refund	5,102	0	5,102	5,840	-	5,840
	<u>(731,708)</u>	<u>(1,363,053)</u>	<u>(2,094,761)</u>	<u>(739,178)</u>	<u>(1,461,529)</u>	<u>(2,200,707)</u>
Excess of receipts over payments for the year	2,870,548	(1,363,053)	1,507,495	1,758,682	1,461,529	297,153
Provision for accrued interest on contributions	-	<u>1,258,824</u>	<u>1,258,824</u>	-	<u>1,212,390</u>	<u>1,212,390</u>
Balance carried forward at 30 June	<u>26,976,824</u>	<u>26,142,437</u>	<u>53,119,261</u>	<u>24,106,276</u>	<u>26,246,666</u>	<u>50,352,942</u>

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30TH JUNE, 2003...Cont**



24. REVALUATION RESERVE

	<u>Quoted Equities</u> Kshs.000	<u>Property</u> Kshs.000	<u>Total</u> Kshs.000
Balance as at 1 st July, 2003	1,049,454	335,572	1,385,026
Surplus realized on disposal	-	(53,413)	(53,413)
Surplus on Revaluation of quoted equities	<u>7,965,452</u>	<u>-</u>	<u>7,965,452</u>
Balance as at 30th June, 2003	<u>9,014,906</u>	<u>282,159</u>	<u>9,297,065</u>

25. REVALUATION OF QUOTED EQUITIES

Quoted Equities were revalued as follows:-

	2003 Kshs.'000
Market value of Quoted Equities of 30 th June, 2003	11,278,458
Less : Cost of Quoted Equities at 30 th June, 2003	<u>(2,263,552)</u>
Surplus at 30 th June, 2003	9,014,906
Less: Surplus at 30 th June, 2002	<u>(1,049,454)</u>
Surplus Transferred to Revaluation Reserve	<u>7,965,452</u>

26. ACCUMULATED DEFICIT

	2003 Kshs.'000	2002 Kshs.'000
Balance at 1 July	(12,029,930)	(9,889,514)
Deficit for the year	(758,871)	(928,026)
Revaluation Surplus realized in the year	53,413	-
Interest on Members' Funds	<u>(1,258,824)</u>	<u>(1,212,390)</u>
Balance at 30th June	<u>(13,994,212)</u>	<u>(12,029,930)</u>

Interest on members' funds has been provided at the rate of 2.5%



**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30TH JUNE, 2003...Cont**

	2003	2002	
	Kshs.'000	Kshs.'000	
27 NOTES TO THE CASH FLOW STATEMENT			
a) Reconciliation of deficit for the year to cash flows from operating activities			
Deficit for the year	(758,871)	(928,026)	
Adjustments for :			
Depreciation	32,415	19,637	
Reversal of provision for doubtful investments	(185,106)	(16,300)	
Provision on suspended projects	5,759	29,675	
Provision for foreseeable losses on housing projects	215,465	350,515	
Gain on disposal of motor vehicles	(6,325)	-	
Net loss on disposal of land	<u>142,688</u>	<u>-</u>	
Operating deficit before working capital changes	(553,975)	(544,499)	
Change in working capital			
(Increase) in accrued TPS income	4,517	(4,354)	
Decrease/(increase) in debtors and prepayments	244,160	(398,256)	
Decrease in income receivable	66,752	17,682	
Increase in creditors and accruals	<u>12,636</u>	<u>146,564</u>	
	328,065	(238,364)	
Tax refunded by Kenya Revenue Authority	-	573,167	
Withholding tax deducted at source	<u>(179)</u>	<u>(144)</u>	
Cash flows from operating activities	(226,089)	(209,840)	
b) Movement in cash & cash equivalents			
	2003	2002	Change in
	Kshs'000	Kshs'000	year
			Kshs'000
Cash and bank balances	311,175	121,516	189,659
Treasury Bills	1,515,684	872,303	643,381
Bank overdraft	<u>(286,693)</u>	<u>(150,213)</u>	<u>(136,480)</u>
	<u>1,540,166</u>	<u>843,606</u>	<u>696,560</u>

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30TH JUNE, 2003... Cont**



28 FINANCIAL INSTRUMENTS

Interest rate risk

The table below summarizes the interest rate profile of the Fund's financial assets and liabilities using the balance sheet date and the periods in which they re-price, whichever is earlier

	Effective interest rate	Within 1 month Kshs.'000	More than 1 month and less than 3 months Kshs.'000	More than 3 months and less than 12 months Kshs.'000	Due between 1 and 5 years Kshs.'000	Due after 5 years Kshs.'000	Non interest bearing Kshs.'000	Total Kshs.'000
Long term loan	-	-	-	-	1,100,000	-	-	1,100,000
Tenant Purchase Scheme debtors	15%	17,975	-	-	3,538,922	-	-	3,556,897
Quoted equities	-	-	-	-	-	-	11,278,458	11,278,458
Government of Kenya Stocks	-	-	-	-	408,800	-	-	408,800
Unquoted stocks and equity	12%	-	-	-	587,271	-	-	587,271
Treasury bills	-	766,225	1,005,179	-	-	-	-	1,771,325
Treasury bonds	-	10,022	-	9,995	780,535	11,458	-	812,010
Deposits with financial institutions	-	143,000	159,738	-	125,000	2,583,267	-	3,011,005
Debtors	-	-	-	-	-	-	507,835	507,835
Income receivable (net)-rent	-	-	-	-	-	-	199,427	199,427
Income receivable (net)-interest	-	66,528	-	-	-	-	-	66,528
Cash and bank balances	-	-	-	-	-	-	295,051	295,051
Bank overdraft	-	-	-	-	-	-	(526,210)	(526,210)
Creditors and accruals	-	1,022,926	1,164,917	9,995	2,005,535	7,129,718	10,409,612	21,723,448

The overdraft reflected in the financial statements is a book overdraft



**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30TH JUNE, 2003...Cont**

29 BASIS OF NON-CONSOLIDATION OF ASSOCIATE INTEREST

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 asset and liabilities of the Fund. As a result, although NSSF owns 96,105,519 ordinary shares in National Bank of Kenya Limited (NBK) result, although NSSF owns 96,105,519 shares in National Bank of Kenya Limited (NBK) representing 48% shareholding of the bank, the operations of the bank have not been consolidated in the Fund's accounts as required by the International Accounting Standards. Had consolidated financial statements been prepared based on the latest audited financial statements of NBK as at 31 December, 2003, NSSF's share in the operations of NBK would have been as follows:-

	Kshs.'000	NSSF'S share Kshs.'000
Profit after taxation	<u>198,758</u>	<u>95,404</u>
Net liabilities of the bank	<u>(3,520,904)</u>	<u>1,690,034</u>

30. RELATED PARTY TRANSACTIONS

a) Income earned from related parties

	2003 Kshs.'000	2002 Kshs.'000
National Bank of Kenya Limited – Interest income	1,011	-
National Bank of Kenya Limited – Guarantee fees	19,176	19,176
NASSEFU Savings and Credit Society Limited – Rental income	<u>282</u>	<u>282</u>
	<u>20,469</u>	<u>19,458</u>

b) Expenses incurred from related parties

	2003 Kshs.'000	2002 Kshs.'000
Hymans Robertson – Actuarial study for proposed conversion of the Fund into a Social Welfare scheme	-	<u>29,500</u>
Mwangi, Sumbeiywo and Associates – preparation of legal opinion on Sololo Outlets case	<u>2,500</u>	-

c) Balances due from related parties

	2003 Kshs.'000	2002 Kshs.'000
TPS Debtors	724,475	-
National Bank of Kenya Limited	<u>1,100,000</u>	<u>1,100,000</u>
	<u>1,824,475</u>	<u>1,100,000</u>

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30TH JUNE, 2003...Cont**



31. CONTINGENT LIABILITIES

❖ **Sololo Outlets Limited vs NSSF**

As at 30 June 2002 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 2000 for an alleged breach of contract in the development of Hazina Estate in South B. NSSF filed its defence and counter claim of Kshs 3.9 billion. The case has been ongoing since 1993 and a final ruling is yet to be reached. During the current year, the plaintiff amended the claim downwards to Kshs 3.81 billion, by eliminating the interest element on the amounts demanded.

Claims arising out of the suspended projects

In 1998, the development of some of the projects was suspended contrary to contractual agreements entered into between the Fund and the respective contractors. In addition, some of the projects were scaled down from the originally agreed project design as per the contract. Subsequently some of the contractors have submitted claims to NSSF demanding compensation for breach of contract as follows:-

❖ **Moktar Daddah Development**

The project contractor, Ms Mavji Construction Limited, have submitted various claims based on losses incurred amounting to Kshs 1,867,627,887 as follows:-

	Kshs.
Loss arising from projects scope reduction	554,020,746
Loss for suspension of works and delay on completion	986,663,797
Substitution of finishes	91,088,115
Loss and expense claim	62,977,141
Interest on delayed payment	156,547,020
Claim for VAT penalties and interest suffered by contractor	16,331,068
	<u>1,867,627,887</u>

In the prior year, the Fund paid an amount of Kshs 80 million with respect to contractual claims submitted by the contractor. A further Kshs 300 million was approved and paid during the current year.

The electrical subcontractors, Relcon Power Systems Limited, have also submitted a claim for loss associated with suspension and extension of works amounting to Kshs 45,542,879 and an additional amount of Kshs 10,611,028 being interest on delayed payments.

Aqua Plumbing Company Limited, plumbing subcontractors have submitted claims for loss incurred as a result of suspension and extension of works amounting Kshs 52,125,821 and interest on delayed payments amounting to Kshs 2,317,713.

Another subcontractor Halls Equatorial has submitted a claim for loss incurred as a result of suspension of works of Kshs 888,330 and interest on delayed payments amounting to Kshs 597,133.

On 2 October 2002, the project contractor Ms Pan African Builders Limited submitted a revised financial claim computed up to 11 September 2002 for Kshs 980,183,391 of which Kshs 546,944,436 have been evaluated by the project quantity surveyors, Ms Integrated YMR Partnership. The Fund approved the payment of Kshs 189,340,000 of which Kshs 156,355,719 had been settled by 30 June 2003 and capitalised as cost of the project.

On 19 June 2001 the project architects, Harbans Singh Associates had presented a fee note of Kshs 30,350,314 for supervision fees.



NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE, 2003...Cont

On 5 November 2003, the project quantity surveyors, Ms Integrated YMR Partnership presented a fee note of Kshs 32,583,492 being additional post contract quantity surveying fee arising from delays in building operations and changes in instructions.

In addition, two subcontractors, Ms Allied Plumbers Limited and Ms E.A. Electrical Company Limited have submitted claims of Kshs 108,357,941 and Kshs 126,355,626 respectively being cost associated with restructuring of the project. The Fund approved the payment of Kshs 14 million and Kshs 18 million respectively of which kshs 5,250,000 and Kshs 6,750,000 respectively has been paid and capitalised as project costs.

❖ **Karen Development**

In April 2003, the proposed project contractor Ms Mugoya Construction Company Limited submitted a revised claim of Kshs 1,015,428,307 arising from the suspension of the proposed project and accumulated interest, which is being accrued at 30% per annum.

In addition, as at 30 June 2002 there were unpaid fee notes dated 3 September 1998 and 25 October 2001 for Kshs 14,811,952 and Kshs 10,304,752 respectively due to the quantity surveyors Ms Muambi & Associates.

On 29 June 1998, the architects of Karen Housing project, Hughes & Polkinghorne, raised two fee notes for architectural services of Kshs 29,623,903 for stage A and B, outline proposals, and Kshs 44,435,855 for stage C, scheme design. These fee notes have not been paid and are in dispute.

❖ **Nyayo Estate, Embakasi**

On 6 March 2001, NSSF received a fee note for structural design consultancy work with respect to Embakasi Estate, Phase I, from Otieno Odongo & Partners, consulting engineers, amounting to Kshs 27,657,463. This amount has not been settled to date as the Fund Management contends that the work was not commissioned to the engineers.

❖ **Africa Planning and Design Consultants (APDC) vs NSSF**

Sololo Outlets Limited engaged APDC 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 court hearing of the case is yet to commence.

❖ **James Nderitu Gachugua vs NSSF**

On 26 January 2000, 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. In addition, on 15 April 1999, Ms Wambugu Mathews Associates demanded Kshs 54.9 million for architectural services rendered in respect of the same project. The Fund has yet to respond to their demand.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE, 2003...Cont



Levy due to the Retirement Benefits Authority

In the prior year, the RBA gave notice to the Fund that the Retirement Benefits levy payable to the Authority, which fell due on 31 October 2001 had remained unpaid and so continued to attract interest at 5% per month. In a letter dated 18 November 2002, the RBA indicated that the outstanding levy for the years 2000, 2001 and 2002 was estimated at Kshs 24,731,968 per year. Currently, negotiations between the Fund and RBA are on-going to resolve the issue and hence no provision has been made in the books for the levy demanded estimated at Kshs 74,195,904 for the years 2000, 2001 and 2002.

In addition, during the year, the Retirement Benefits Authority (RBA) gave notice that the Fund's audited accounts for the years 1998/1999, 1999/2000 and 2001/2002 had not been filed with them.

Bishops Road Plot

There is a claim against the Fund filed in a prior year by AJ Limited & Ronald Shompa, to cancel transfer of the Bishops Road Plot to NSSF. The cost in the Fund's books is Kshs 228.4 million.

Azari Insurance Brokers

There is a claim against the Fund of Kshs 8 million from Azari Insurance Brokers for cancellation of an insurance contract thereby resulting to a breach of contract.

Tassia Estate

Rachel Njoki Wainaina has filed a representative suit against the Fund on her behalf and on behalf of all members of Embakasi Fedha Self Help Group – Civil Case No.529 of 2003, claiming that the Tassia land had been allocated to them. The case has not been heard. The Fund expects to win this case as they have proper title to the land, which the plaintiffs do not have.

Marketing Support Services

There is a claim against the Fund of Kshs 15 million from Marketing Support Services who are suing the Fund for breach of contract in respect of educational radio programs, developed for the Fund which the Fund did not accept.

Barclays Bank of Kenya Limited Trustees of the Rattansi Educational Trust

There is a claim against the Fund by Rattansi Educational Trust of Kshs 12 million for damages suffered to walls and floor slabs of Rattansi property from excavation works during the construction of the Monrovia Road project.



NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE, 2003...Cont

32. COMPLIANCE WITH RETIREMENT BENEFITS ACT

The NSSF Amendment Act came into operation on 23 February, 2002. 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:-

- a) S 38 (1) (b) provides that no scheme funds shall be invested contrary to any guidelines specified for that purpose. The retirement benefits rules provided that investment in land and buildings should not exceed 30% of the fund value. However, as at 30 June 2003, investment in land and buildings accounted for 60% of the fund value.
- b) S 38 (1) (c) provides that no scheme funds shall be invested with a bank, non-banking financial institution, insurance company, building society or other similar institution with a view to securing loans, including mortgages, at a preferential rate of interest or for any other consideration to the sponsor, trustees, members or the managers of the scheme. However as at 30 June 2003, the following instances had not been resolved:
 - ❖ The Fund's investments in deposits amounting to Kshs.344 million are held under lien to secure staff mortgages with Savings and Loan Kenya Limited.
 - ❖ The Fund has outstanding car loans advanced to employees of Kshs.10 million and is owed Kshs.84 million by Savings and Loans which represents reimbursements due on amounts originally advanced to its employees as staff mortgages. Ex-staff car loans amount to Kshs.10 million while advances and imprests amount to kshs.8 million.
- c) Rule 36 (Occupational retirement benefit schemes) requires the Fund to account for any unremitted contributions in its financial statements. However, the Fund is currently accounting for contributions on a receipt basis.
- d) 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 2003, NSSF has Kshs.8.7 billion of contributions held in suspense.
- e) Rule 34 (1) of the occupational rules for a retirement benefit scheme provides that assets of the scheme should be carried at values not exceeding the net realizable values or the market values. Also, the value of land should not exceed the value determined by a registered valuer once every three years. However, the last valuation for investment in land and buildings was carried out in 1996. As a result, the Fund should obtain an updated valuation.

33. 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.

34. CURRENCY

The financial statements are presented in Kenya shillings (Kshs).