

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

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REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
INSURANCE REGULATORY AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE 2014**



INSURANCE REGULATORY AUTHORITY

ANNUAL REPORT & FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

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

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INSURANCE REGULATORY AUTHORITY

KEY AUTHORITY INFORMATION

(a) Background information

The Authority is a State Corporation established under Section 3(1) of the Insurance (Amendment) Act 2006.

(b) Principal Activities

The principal activities of the Authority are to regulate, supervise and develop the insurance industry in Kenya and protect the interests of policyholders and insurance beneficiaries.

(c) Key Management

The Authority's management is vested on the Board of Directors.

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2014 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	CEO/Commissioner of Insurance	Mr. Sammy M. Makove
2.	Technical Manager	Mrs. Agnes Ndirangu
3.	Corporation Secretary	Mrs. Nkirote Mworira Njiru
4.	Finance Manager	Mr. Edward Opiayo
5.	Human Capital Development and Administration Manager	Mr. Godfrey Kiptum
6.	Policy , Research and Development Manager	Mr. Robert Kuloba

(e) Fiduciary Oversight Arrangements

The *Audit, Risk Management and Corporate Governance Committee* assists the Board in the oversight of the integrity of the financial operations of the Authority, the performance of the Authority's internal audit function and the external auditors and compliance by the Authority with legal and regulatory requirements.



INSURANCE REGULATORY AUTHORITY

KEY AUTHORITY INFORMATION

(f) Registered Office

Insurance Regulatory Authority
P.O BOX 43505 – 00100 GPO NAIROBI
Zep- Re Place Longonot Road - Upper Hill, Nairobi Kenya

(g) Contacts

Tel: (254)-020-4996000, Mobile: 0727 563110
Fax: (254) -020- 2710126
Email: commins@ira.go.ke
Website: <http://www.ira.go.ke>

(h) Authority's Bankers

National Bank of Kenya
Harambee Avenue
P.O Box 72866- 00200
Tel 2828000
Nairobi, Kenya

(i) Independent Auditors




Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GPO 00100
Nairobi, Kenya

(j) Principal Legal Adviser

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya




INSURANCE REGULATORY AUTHORITY

BOARD OF DIRECTORS

 <p>Dr. Steve O. Mainda EBS Chairman MA, BA, ACII</p>	<p>Dr. Mainda was appointed Chairman to the Board for a second term on 1st June 2011. He has broad and extensive experience in finance, insurance, investment, education and management. He has served in various capacities in several Boards including those of public, listed and private entities. Age 68. His term expired on 31st May 2014.</p>
 <p>Mr. Sammy M. Makove MBS, CEO & Commissioner of Insurance MBA, MA, B.Com, ACII, CIP, AIK, ACI Arb</p>	<p>Mr. Makove was re-appointed the Chief Executive Officer and Commissioner of Insurance on 1st May 2014. He has over 30 years' experience in insurance and management in both the private and public sectors. He is also credited with overseeing the successful transition from the Department of Insurance to the Insurance Regulatory Authority. Age 55.</p>
 <p>Dr. Edward Odundo MBS, Member PhD, MBA, B.Sc, FCPAK, FCPSK, FKIM</p>	<p>Dr. Odundo is an ex-officio member of the Board and is the Chief Executive Officer of the Retirement Benefits Authority. He is currently the President of the International Organisation for Pension Supervisors and has vast experience in management, tax, accounting and finance. Age 56.</p>

INSURANCE REGULATORY AUTHORITY

BOARD OF DIRECTORS (CONT'D)

 <p>Mr. Paul Muthaura, Member M.Phil, LLM (Banking & Finance), LLB</p>	<p>Mr. Muthaura is an ex- officio member of the Board and is the Acting Chief Executive Officer of the Capital Markets Authority. He is an Advocate of the High Court of Kenya with a wealth of experience in legal, management and finance. Age 36.</p>
 <p>Mr. Kennedy Abuga, Member LLB, B.Sc, ACIB, CPSK</p>	<p>Mr. Abuga is the Alternate of the Governor Central Bank of Kenya. He is a lawyer by profession and was admitted as an Advocate of the High Court of Kenya on 18th January, 1991. Currently, Mr. Abuga is the Director at the Governor's Office and has extensive experience in legal, management and financial services regulation. Age 49.</p>
 <p>Mr. Maina Murage, Member LLB, Dip. Law (KSL)</p>	<p>Mr. Murage was appointed as an independent Director to the Board on 2nd July 2012. He is a practicing Advocate of the High Court of Kenya with 31 years standing and has gained a wealth of experience in all areas of legal practice. At the commencement of his career he served at the State Law Office and thereafter at the Caltex Oil (Kenya) Limited before venturing into private practice. Age 57.</p>

BOARD OF DIRECTORS (CONT'D)



Ms. Grace Aswani Obati Ngigi
OGW,
Member
MBA, B.Com (Insurance), ACII, AIIK,
ACI Arb

Ms. Ngigi was appointed as an independent member of the Board for a second term on 1st April 2011 and is the Nominee of the Insurance Institute of Kenya where she is a member of the Executive Council. She is a seasoned insurance and risk management practitioner with vast experience in governance and leadership. Age 53. Her term expired on 31st March 2014.



Mr. Moses B. Obonyo,
Member
MBA, LLB, CPSK



Mr. Obonyo was appointed as an independent member of the Board for a second term on 1st April 2011. He is a practicing Advocate of the High Court of Kenya with 27 years standing with a specialty in commercial law and conveyancing. He has extensive experience in corporate governance strategies and management. Age 52. His term expired on 31st March 2014.



Ms. Chemutai Murgor,
Member
MBA, B.Com, ACCA, ICPAK

Ms. Murgor was appointed as an independent member of the Board for a second term on 1st April 2011. She is the Chief Finance Officer at the Standard Chartered Bank Kenya Limited where she has worked for 13 years. She has wide experience in accounting and finance having worked previously in various senior positions at Deloitte & Touche both in Kenya and the United Kingdom. Age 44. Her term expired on 31st March 2014.

BOARD OF DIRECTORS (CONT'D)

 <p>Capt. Abdulaziz Mohamed, Member B.Sc (Finance), R. Pilot</p>	<p>Capt. Mohamed was appointed as an independent member of the Board for a second term on 1st April 2011. He is a licensed pilot with over 14 years of experience in aviation and finance. He has worked at Corporate Insurance Company Limited, East African Safari Air and Jetlink Express Limited. Age 39. His term expired on 31st March 2014.</p>
 <p>Ms. Nkirote Mworia Njiru, Corporation Secretary MBA, LL.M (Commercial), LL.B, FCPSK</p>	<p>Ms. Njiru was appointed on 1st April 2009 as the Corporation Secretary. She is a Certified Public Secretary and an Advocate of the High Court of Kenya. She has twelve (12) years experience in regulatory affairs, having previously worked with the Retirement Benefits Authority. She also practiced commercial law in the private sector. Age 40.</p>

INSURANCE REGULATORY AUTHORITY

THE MANAGEMENT TEAM

**Chief Executive Officer and
Commissioner of Insurance**



Mr. Sammy Mutua Makove
MBA, MA, BCOM, ACII, CIP, CIARB

Technical Manager



Mrs. Agnes Ndirangu
MBA, BCOM

**Corporation Secretary and Legal
Affairs Manager**



Mrs. Nkirote Mworja Njiru
MBA, LLB, LLM, FCPS(K)

**Policy, Research and Development
Manager**



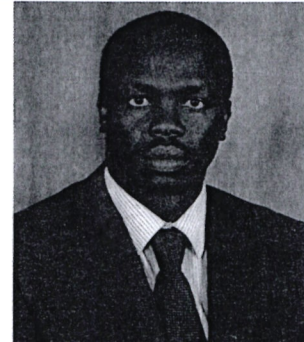
Mr. Robert Kuloba
MA, BA

Finance Manager



Mr. Edward Opiayo
MBA, B.Com, CPA(K), CPS(K)

**Human Capital Development and
Administration Manager**



Mr. Godfrey Kiptum
MBA, BA, Dip.HRM



INSURANCE REGULATORY AUTHORITY

CHAIRMAN'S STATEMENT

It is my pleasure to present the annual report and financial statements of the Insurance Regulatory Authority for the year ended 30th June 2014. During the year, the Authority recorded various milestones aimed at building industry stability, consumer education and protection and growing insurance penetration.

Over the year, the insurance industry registered double digit growth in gross written premium income propelled mainly by the non-life sector with insurance penetration growing to 3.4% of the Gross Domestic Product (GDP).

The domestic insurance market remains a highly attractive investment destination as the year under review saw entry of various players from other jurisdictions. The industry remained robust and resilient despite challenges such as low uptake of insurance.

While Kenya remains East Africa's largest insurance market, this position is expected to be further deepened with expansion of coverage and access to low-earning households through micro insurance products. With adoption of automated platforms for insurance distribution it is envisaged that this will improve service delivery to insurance customers while at the same time reducing operating costs for the players. This, coupled with regulatory reforms is bound to have positive effects on the industry and its consumers in the long run.

I therefore take this opportunity to appreciate the continued support of all board members during the year. Their strategic leadership and insights have contributed to the developments witnessed in the industry and Authority in the last one year. I also wish to acknowledge the support of the National Treasury, regulated entities and other stakeholders who have continued to support our programmes. A special recognition to the management team and the rest of the staff members without whose support, we would not have realized what we set out to.

Mr. Maina Murage
Ag. Chairman, Board of Directors



INSURANCE REGULATORY AUTHORITY

STATEMENT OF THE CHIEF EXECUTIVE OFFICER AND COMMISSIONER OF INSURANCE

At the start of the financial year 2013/2014, we set out a number of priorities for the Authority. These priorities did provide a useful framework for reporting on the work we have done this year, and which we plan to do more of in the year ahead.

Revenue from insurance premium levy which is the principal source of revenue for the Authority grew significantly during the year by 19% from Kes 950million to Kes 1.134billion. The asset base registered a marked shift in terms of total portfolio as well as portfolio mix. In this mix, the Authority's regulatory oversight as provided for in the Insurance Act has enabled foster a culture of stability which has in turn helped stimulate demand for insurance services.

Insurance penetration which is a measure of the contribution of insurance to national development also grew significantly to 3.4% during the year from 3.2% realized in the previous year. This growth trajectory is indeed a major tipping point for an industry such as ours that is keen on rolling out new products, reaching out to new segments of the uninsured market and generally leveraging on technology to enhance service delivery.

Strengthening our regulatory and supervisory oversight remained our key area of focus during the reporting period. It is expected that the Insurance Bill 2014 currently with the National Treasury will once passed by the National Assembly see Kenya as having one of the most updated and comprehensive regulatory frameworks in the region. The challenge that will be borne out of this process however, is the capacity building that will be needed to take place to enable the Authority meet the demands brought about by implementation of this bill.

To help spur operational excellence within the Authority, procedures and manuals were reviewed in line with ISO standards culminating into the certification of the Authority in June 2012. Since then, the Authority has continued to focus on maintaining the certification through routine internal and external quality audits. In addition, specific training courses have also been identified for staff to improve their knowledge and skills in the area of performance management, regulation and supervision.

The year also saw the Authority initiate a number of programs aimed at not only spurring industry growth but also enhancing service delivery to the regulated entities.



INSURANCE REGULATORY AUTHORITY

STATEMENT OF THE CHIEF EXECUTIVE OFFICER AND COMMISSIONER OF INSURANCE (CONT'D)

Some of the key initiatives undertaken by the Authority include:

Electronic Regulatory System (ERS); a web based data submission portal which is being used by all insurance companies and brokers to submit data and documents to the Authority online and on real-time thereby enhancing efficiency in information processing and sharing. The ERS has made insurance supervision easier, faster and more effective for the regulator and regulated entities. It has also strengthened supervision with data quality controls, reporting and accurate analysis.

Executive Certificate of Proficiency in Insurance (ECOP) Training Programme; The program aims at building capacity within the Counties for selling of insurance through training of agents. Through the program, the youth and women have been able to enter into gainful employment through the various job opportunities available in the insurance industry. This has helped enhance insurance penetration and access to insurance services.

Standardization of Insurance Policy Wordings; The Authority has standardized general insurance policy documents to simplify insurance contracts to enhance understanding amongst policy holders. The principle behind standardization of insurance policies is to protect the interests of policyholders and all stakeholders of the insurance industry thereby promoting consumer confidence and increasing insurance penetration.

Consumer Education and Outreach Activities; The Authority has conducted Consumer Education and Outreach activities in various parts of the country to increase public awareness and appreciation of insurance. The Authority has also transcribed the Information Education and Communication (IEC) Materials into Braille for the visually handicapped.

Stakeholder Relationships; The Authority has throughout the year continued to engage with its various stakeholders through regular meetings, seminars, workshops and conferences both locally and internationally. These engagements have been instrumental in helping the Authority discuss issues of mutual interest and concern in the sector.



INSURANCE REGULATORY AUTHORITY

STATEMENT OF THE CHIEF EXECUTIVE OFFICER AND COMMISSIONER OF INSURANCE (CONT'D)

Despite these milestones, the industry still faces a number of challenges that will form a key program focus area in the coming year. Some of these challenges include low uptake of insurance, low levels of awareness of insurance, insurance fraud, industry practices that limit growth as well as skills/capacity gaps to address emerging issues.

Going forward, the Authority seeks to focus both its attention and intention on addressing identified challenges while at the same time leveraging on its strengths to drive change in the industry.

I would like to thank the Board of Directors for their continued oversight and strategic leadership over the last year.

I am also grateful to members of staff whose dedication to results have enabled us realize our objectives.

Finally to our stakeholders as they have been supportive and walked with us all through.

A handwritten signature in black ink, appearing to read 'Sammy Makove', with a long horizontal flourish extending to the right.

Sammy Makove

Chief Executive Officer & Commissioner of Insurance



INSURANCE REGULATORY AUTHORITY

CORPORATE GOVERNANCE STATEMENT

The Insurance Regulatory Authority (the Authority) is a State Corporation established in 2007 under the Insurance Act (Amendment) 2006, CAP 487 of the Laws of Kenya.

Board Composition¹

The Authority's management vests in its Board of Directors as prescribed under Section 3B of the Insurance Act. The composition of the Board of the Authority in the year under review was as follows:

Name	Membership	Profession
Dr. Steve O. Mainda EBS	Chairman	Management & Insurance
Mr. Sammy M. Makove	Chief Executive Officer & Commissioner of Insurance	Management & Insurance
Dr. Edward Odundo	Chief Executive Officer, Retirement Benefits Authority	Management, Accounting & Finance
Mr. Paul Muthaura	Ag. Chief Executive Officer, Capital Markets Authority	Legal, Management & Finance
Mr. Kennedy Abuga	Alternate, Governor Central Bank of Kenya	Management & Legal
Ms. Grace Aswani Obati Ngigi	Member, Nominee Insurance Institute of Kenya	Insurance & Risk
Mr. Moses B. Obonyo	Member	Legal
Ms. Chemutai Murgor	Member	Accounting & Finance
Capt. Abdulaziz Mohamed	Member	Finance & Aviation

During the period under review the following changes took place:

- 1) Dr. Steve Omenge Mainda ceased to be the Board Chairman upon expiry of his term on 31st May 2014.
- 2) Ms. Grace Aswani Obati Ngigi, Ms. Chemutai Winsum Murgor, Mr. Moses Buyuka Obonyo and Capt. Abdulaziz Hussein Mohamed ceased to be Board Members upon expiry of their terms on 31st March 2014.

Members of the Board other than *ex-officio* members hold office for a period of three (3) years and are eligible for re-appointment for another term. The Board is currently not fully constituted but the Authority continues to engage with the National Treasury for appointment of Board Members who would represent an appropriate skill, experience, diversity and geographical mix to facilitate effective execution of its mandate.

Board Members are required to disclose any conflict of interest in relation to matters that are brought before them for deliberation. This requirement is not only stipulated in the Insurance Act, but also in the Authority's Board Charter.

¹ The Inspector of State Corporations (or his representative – currently Ms. Margaret Ratemo) may attend any meeting of the Board or Board Committees as in his opinion is necessary for the effective carrying out of the duties of his office in accordance with OP Circular No.OP.9/183A/ISC/I/47.



INSURANCE REGULATORY AUTHORITY

CORPORATE GOVERNANCE STATEMENT (CONT'D)

a) Board Committees

The Board has delegated its Authority to the standing Board Committees to enable it effectively carry out its mandate. These Committees of the Board are described below and each has its own Terms of Reference setting forth the purposes, goals and responsibilities of the Committee as well as qualifications for committee membership, procedures for committee member appointment and removal, committee structure, operations and its reporting to the Board. During the period under review, the Board Committee membership was reconstituted by resolution of the Board of Directors on 24th August 2013. The Committees meet at least four (4) times a year or at such other times as the Chairman of the Committee shall require. The Committees are:

(i) Technical, Research and Compliance Committee

The delegated role of the Committee is to review the fundamental technical basis of the Authority's operations in order to enable the Board of Directors to make informed, strategic operational decisions and vote on related matters. The Committee also reviews technical processes and procedures to ensure global best practice and world-class standards are developed, practiced and leveraged throughout the Authority.

During the period under review the Members of the Committee were:

1. Dr. Edward Odundo – Chairman
2. Mr. Moses Obonyo
3. Ms. Grace Aswani Obati Ngigi
4. Governor, Central Bank/Alternate (Mr. Kennedy Abuga)

(ii) Audit, Risk Management and Corporate Governance Committee

The delegated role of the Committee is to assist the Board in the oversight of the integrity of the financial statements of the Authority, the performance of the Authority's internal audit function and the external auditors and compliance by the Authority with legal and regulatory requirements.

During the period under review the Members of the Committee were:

1. Mr. Moses Obonyo – Chairman
2. Ms. Chemutai Murgor
3. Ms. Grace Aswani Obati Ngigi
4. Governor, Central Bank/Alternate (Mr. Kennedy Abuga)



INSURANCE REGULATORY AUTHORITY

CORPORATE GOVERNANCE STATEMENT (CONT'D)

(iii) Finance and Administration Committee

The terms of reference of the Committee are to review and make recommendations to the Board on the financial strategy of the Authority ensuring its adequacy and soundness in providing for the Authority's current operations and long-term stability. The Committee is also charged with facilitating the signing of an annual Performance contract with the Government of Kenya and to monitor its implementation.

During the period under review the Members of the Committee were:

1. Capt. Abdulaziz Mohamed - Chairman
2. Ms. Chemutai Murgor
3. Dr. Edward Odundo
4. Ms. Grace Ngigi
5. Governor, Central Bank/ Alternate (Mr. Kennedy Abuga)

(iv) Human Resource Committee

The delegated role of the Committee is to review various policies relating to the strategic positioning of human capital development in the Authority and to recommend to the Board of Directors appropriate responses to human capital matters.

During the period under review the Members of the Committee were:

1. Ms. Grace Aswani Obati Ngigi – Chairperson
2. Mr. Moses Obonyo
3. Dr. Edward Odundo
4. Mr. Paul Muthaura
5. Capt. Abdulaziz Mohamed

b) Board Attendance

During the Financial Year 2013/2014 eleven (11) Board Meetings and twenty one (21) Committee Meetings were held. Attendance to meetings by individual Members during the period under review is as indicated in the table below:

INSURANCE REGULATORY AUTHORITY

CORPORATE GOVERNANCE STATEMENT (CONT'D)

Director	Main Board Meetings		Committee Meetings	
	Held	Attended	Eligible	Attended
Steve O. Mainda	11	10	N/A	N/A
Sammy M. Makove ²	11	10	18	13
Edward Odundo	11	11	18	16
Kennedy Abuga	11	9	15	12
Margaret Ratemo ³	11	5	21	7
Grace A. Ngigi	11	7	16	16
Moses B. Obonyo	11	8	16	15
Paul Muthaura	11	6	N/A	N/A
Chemutai Murgor	11	4	8	4
Abdulaziz Mohamed	11	7	11	9
Maina Murage	11	11	11	9

*

c) Statement of Compliance

As a State Corporation, the Authority's operations are legally guided by the Constitution of Kenya - 2010, the provisions of the Insurance Act – Chapter 487 of the Laws of Kenya, the State Corporations Act - Chapter 446 of the Laws of Kenya and by the principles of good corporate governance, all of which it is committed to. The Board continues to abide by its Charter, the internal codes of conduct, the Authority's statutory mandate and the Terms of Reference of Board Committees. The Authority continues to comply with all the statutory requirements relevant to its operation as a body corporate and complies with relevant Government Circulars as issued from time to time. During the period under review, the board conducted an independent audit to review the status and extent of its compliance with constitutional and statutory obligations.

d) Board Oversight

The Board is responsible for the formulation, implementation and monitoring of the Authority's Strategic Plan thus providing appropriate strategic direction for the Authority. In the same vein, the Board defines the Vision, Mission and Core values to enable realisation of the set strategic plan. During the period under review, the

² The Chief Executive Officer is an ex-officio member of all Board Committees, save for the Audit, Risk Management and Corporate Governance Committee to which he may be in attendance.

³ The Inspector of State Corporations (or his representative – currently Ms. Margaret Ratemo) may attend any meeting of the Board or Board Committees as in his opinion is necessary for the effective carrying out of the duties of his office in accordance with OP Circular No.OP.9/183A/ISC/I/47.



INSURANCE REGULATORY AUTHORITY

CORPORATE GOVERNANCE STATEMENT (CONT'D)

Board evaluated the implementation of the Strategic Plan for the period 2009 – 2013 and approved the Authority's Strategic Plan for the period 2013 – 2018.

The Board has delegated the day to day operations of the Authority to the Management which is headed by the Commissioner of Insurance/Chief Executive Officer. The Board periodically monitors and evaluates the implementation of its plans and strategies through reports received from Management through its various Committees.

The Board ensures that the Authority espouses proper corporate governance practices by confirming that the requisite codes of conduct, procedures and practices are existent, relevant and adhered to. The Board also achieves this by ensuring that the Authority complies with all the statutory requirements.

The Board is responsible for managing the Authority's risks. In this regard the Board has set up its Enterprise Risk Management Framework which enables it to fully and effectively monitor the Authority's risks. The Board, Management and entire Staff of the Authority have been trained on risk management and the Board has embarked on formulation of a business continuity plan.

The Board recognises and honours its responsibility to its key stakeholder, the Government of Kenya, by ensuring that it meets its undertaking under the Performance Contract. In this case Board Members are fully aware of their responsibility to discharge their function in good faith, with prudence, diligence and due care. The performance contract for the period ending 30th June 2014 was duly executed, monitored and evaluated during the period under review.

e) Performance and Evaluation

The Board has put in place a performance evaluation system to enable it set its objectives and review its performance annually against these objectives. An evaluation exercise was conducted on Saturday, 31st August, 2013 at the Mombasa Beach Hotel. The evaluation was conducted by an independent evaluator and the results communicated to the Board through the approved process.

f) Board Development

Board development programmes were carried during the period under review in accordance with the needs identified and/or analysed for each Member and for the



INSURANCE REGULATORY AUTHORITY

CORPORATE GOVERNANCE STATEMENT (CONT'D)

Board as a whole. The Board was developed as per the Board Development Plan below:

No	Training/ Course	Training Institution
1.	Leadership and Corporate Accountability	Harvard Business School
2.	Managing Talent for Strategic Advantage	Stanford Graduate School of Business
3.	The Effective Director	Strathmore Business School
4.	Insurance and Pensions Supervisors	The Toronto Centre School
5.	Making Corporate Boards More Effective	Harvard Business School
6.	Audit Committees in a New Era of Governance	Harvard Business School
7.	Joint Programme for Corporate Governance & Board of Directors	Wharton University

g) Board Remuneration

The Board is remunerated in accordance with the approved Terms and Conditions of Service prescribed under Government Circular Number OP/CAB.2/12A (9) of 29th August 2003.

h) Corporation Secretary

The Corporation Secretary co-ordinates the Board activities and ensures, in conjunction with the Chairman and Chief Executive Officer, that the Board meetings are held procedurally. The Corporation Secretary links flow of information between the Management and the Board as well as ensures the Board receives adequate and timely information and that Management receives feedback in a similar manner.

All Board Members have direct access to the Corporation Secretary who also is responsible for implementing and monitoring good corporate governance practices at the Board.

The Secretary ensures that the business of the Board meets all statutory requirements, keeps all legal and regulatory requirements under review and briefs the Board accordingly about these developments.



INSURANCE REGULATORY AUTHORITY

CORPORATE GOVERNANCE STATEMENT (CONT'D)

i) Social Responsibility

Being conscious of the Authority's responsibility to the society, the Board invested in various social responsibility activities during the period under review, the details of which are set out in this report.

j) Certification

During the period under review, the Board ensured that it maintained its ISO 9001:2008 certification status which was achieved on 29th June 2012. The Board also ensured that the quality management system was monitored continuously by way of internal audits and management reviews with an aim of enhancing customer service.

INSURANCE REGULATORY AUTHORITY

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Our Corporate Social Responsibility Programme is an integral part of our business operations. We have, over the years built a strong reputation for social responsibility and we uphold high standards of corporate conduct with an aim to build value for our business and brand. The Authority is of the conviction that CSR helps in the building of stakeholder value, reputation enhancement and sustainable development. Our CSR activities are premised on our CSR Policy and a CSR committee comprising of staff from various divisions leads the processes of CSR engagements.

Our CSR programmes are aimed at providing long-term benefits to our employees, partners, stakeholders and the broader communities around us. We have succeeded in creating a network of CSR activities that let us act proactively in various parts of the country. We also encourage our staff members to contribute to some of the initiatives we are engaged in.

Some of the CSR activities conducted during the period under review include:

Sponsorship of the Annual Cerebral Palsy Charity Walk

For the 3rd consecutive year, the Authority was the title sponsor of the CPSK/IRA Cerebral Palsy Society of Kenya Walk held in June. This walk was officially flagged off by the health Cabinet Secretary for Health Mr. James Macharia. The walk is aimed at raising funds to support the Society carry out its activities.



Health Cabinet Secretary and the CEO, IRA prepare to flag off the Charity walk

Hospital Support Programme

In its efforts to supplement government efforts in health care, the Authority supports various public health facilities across the country. The support is in form of purchase of equipment, as identified by the institutions. Some of the hospitals that benefitted from this hospital support include the Kenyatta National Hospital, Coast Provincial General Hospital, Nyeri Provincial Hospital, Machakos Level 5

INSURANCE REGULATORY AUTHORITY

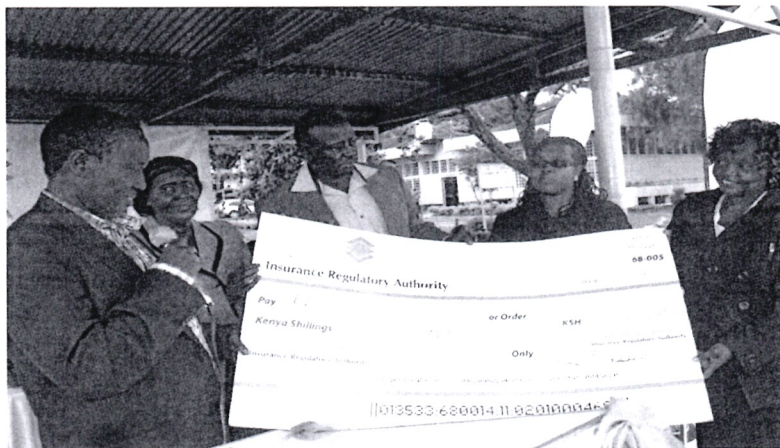
CORPORATE SOCIAL RESPONSIBILITY STATEMENT

hospital, Jaramogi Oginga Odinga Teaching and Referral Hospital, Kakamega Provincial Hospital and the Nairobi and Nyeri Hospices.

Some of the equipments purchased were for use in new born units, operating theatres, laboratories and physiotherapy units.



The CEO hands over the incubator purchased by the Authority to the Chief Hospital Administrator of the Coast Provincial General hospital



The CEO presenting a cheque of KES. 200,000/= to the CEO of the Nyeri Hospice's Seraphine Gichuhi. The funds are used in purchasing medication and other supplies to assist cancer patients.

Support to Learning institutions

The Authority supports learning institutions in various ways. Some of the institutions that have benefitted from this programme include Jomo Kenyatta

INSURANCE REGULATORY AUTHORITY

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

University of Agriculture and Technology (JKUAT), University of Nairobi (UoN) , Maseno University and St. Bakhita primary School.



Head of Corporate Communications leads other members of staff in presenting the chairs to the one of the teachers.

Support to Corporate Bodies

The Authority continues to partner with professional bodies in the organization and running of certain activities that it considered strategic. By partnering with such bodies, more synergies are created and resources are shared. Some of the bodies that the Authority partnered with in the last year include the Institute of Certified Public Secretaries of Kenya (ICPSK), Insurance Institute of Kenya (IIK), Association of Insurance Brokers of Kenya (AIBK), Law Society of Kenya (LSK) Institute of Certified Public Accountants of Kenya (ICPAK), and Association of Kenya Insurers.



INSURANCE REGULATORY AUTHORITY

REPORT OF THE BOARD OF DIRECTORS

The Directors submit their Report together with the Financial Statements of the Insurance Regulatory Authority (the Authority) for the period ending 30th June 2014.

1. INCORPORATION

The Authority is a State Corporation established under Section 3(1) of the Insurance (Amendment) Act 2006.

2. PRINCIPAL ACTIVITIES

The principal activities of the Authority are to regulate, supervise and develop the insurance industry in Kenya and protect the interests of policyholders and insurance beneficiaries.

3. RESULTS

The results are on page 25 of this report.

4. BOARD OF DIRECTORS

The Directors who served during the year are as follows:

-Mr. Steve O. Mainda	Chairman (upto 31 st May 2014)
-Mr. Moses Obonyo	Director (upto 31 st March 2014)
-Mr. Maina Murage	Director
-Ms. Chemutai Murgor	Director (upto 31 st March 2014)
-Capt. Abdulaziz Mohammed	Director (upto 31 st March 2014)
-Prof. Njuguna Ndung'u	Director-Governor Central Bank
-Ms. Grace Aswani Ngigi	Director-Nominee, Insurance Institute of Kenya (upto 31 st March 2014)
-Dr. Edward Odundo	Director-Chief Executive, Retirement Benefits Authority
-Mr. Paul Muthaura	Director- Ag. Chief Executive, Capital Markets Authority
-Mr. Kennedy Abuga	Alternate Director to the Governor Central Bank of Kenya
-Mr. Sammy M. Makove	Commissioner of Insurance and Chief Executive Officer

5. AUDITORS

The Authority's financial statements are audited by the Auditor General as provided for by the Public Audit Act, 2003 (Cap 12).

Issued by Order of the Board

Ms. Jemimah Mwaniki
For: Board Secretary



INSURANCE REGULATORY AUTHORITY

STATEMENT OF THE BOARD OF DIRECTORS RESPONSIBILITIES

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

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

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

The Financial Statements were approved by the Board of Directors on **10th September 2014** and signed on their behalf by:

Ag. Chairman

Chief Executive Officer

Date :

19th September 2014

REPUBLIC OF KENYA

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Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON INSURANCE REGULATORY AUTHORITY FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Insurance Regulatory Authority set out on pages 25 to 43, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 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.

Management's Responsibility for the Financial Statements

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

The Directors are also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on the financial statements based on the audit and report in accordance with the provisions of Section 15(2) and (3) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

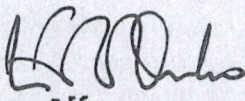
An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the

auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Authority as at 30 June 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards and comply with the Insurance Act, Cap 487 of the Laws of Kenya.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

26 March 2015



INSURANCE REGULATORY AUTHORITY
REPORT BY THE AUDITOR GENERAL



INSURANCE REGULATORY AUTHORITY
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30TH JUNE 2014

		2014	2013
	Notes	KES.	KES.
Revenue from non-exchange transactions			
Insurance premium levy	3	1,134,123,579	949,645,654
Re-insurance premium levy	4	112,315,337	143,294,599
Late payment penalties	5	1,354,967	96,044
Licence fees	6	<u>20,629,993</u>	<u>20,325,885</u>
		<u>1,268,423,876</u>	<u>1,113,362,182</u>
Revenue from exchange transactions			
Interest income	7	193,856,941	142,051,923
Miscellaneous income	8	<u>2,134,103</u>	<u>1,532,301</u>
		<u>195,991,044</u>	<u>143,584,224</u>
Total Revenue		<u>1,464,414,920</u>	<u>1,256,946,406</u>
EXPENDITURE			
Board members expenses	9	25,180,843	38,579,904
Personnel emoluments	10	300,747,184	275,356,035
Other personnel costs	11	80,006,201	64,681,469
Development of the Insurance industry	12	88,124,587	78,808,321
Office supplies and expenses	13	18,959,999	16,263,190
Transport and travel expenses	14	32,180,367	27,507,105
Public relations and consumer services	15	38,086,180	36,748,330
Telephone and ICT expenses	16	14,931,534	14,249,575
Office rent and office services	17	48,395,172	35,919,865
Consultancy and other professional services	18	15,223,529	26,473,962
Insurance Fraud Investigation Unit expenses	19	16,489,460	13,892,469
Depreciation	20	<u>37,806,515</u>	<u>30,632,402</u>
		<u>716,131,571</u>	<u>659,112,627</u>
SURPLUS FOR THE YEAR		748,283,348	597,833,779
Amount due to the Consolidated Fund	21	(656,225,008)	(502,578,122)
TRANSFERRED TO GENERAL RESERVE		<u>92,058,340</u>	<u>95,255,657</u>



INSURANCE REGULATORY AUTHORITY

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2014

	Notes	2014 KES.	2013 KES.
ASSETS			
CURRENT ASSETS			
Inventories	22	3,682,223	3,687,574
Receivable from exchange transactions	23	55,770,668	49,846,174
Short term Investments	24	793,942,950	545,603,650
Cash and bank balances	25	<u>41,709,918</u>	<u>65,033,738</u>
		<u>895,105,759</u>	<u>664,171,136</u>
NON CURRENT ASSETS			
Property, plant and equipment	20	85,834,719	104,496,784
Long term investment	27	178,369,505	148,317,171
Treasury bonds	28	<u>957,647,652</u>	<u>961,267,102</u>
		<u>1,221,851,876</u>	<u>1,214,081,057</u>
TOTAL ASSETS		<u>2,116,957,635</u>	<u>1,878,252,193</u>
CURRENT LIABILITIES			
Payables from exchange transactions	29	52,366,783	52,446,427
Provisions	30	<u>669,530,650</u>	<u>522,803,904</u>
		<u>721,897,433</u>	<u>575,250,331</u>
NET ASSETS		<u>1,395,060,202</u>	<u>1,303,001,862</u>
RESERVES			
General reserves		<u>1,395,060,202</u>	<u>1,303,001,862</u>
		<u>1,395,060,202</u>	<u>1,303,001,862</u>

The notes on page 30 to 43 form an integral part of these financial statements

Ag. Chairman

Chief Executive



INSURANCE REGULATORY AUTHORITY
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30TH JUNE 2014

GENERAL RESERVE	Notes	KES.
1 July, 2012		1,207,746,205
Changes in reserves for 2013		
Surplus for the year		<u>95,255,657</u>
Balance at 30 June, 2013		<u>1,303,001,862</u>
1 July, 2013		1,303,001,862
Changes in reserves for 2014		
Surplus for the year		<u>92,058,340</u>
Balance at 30 June, 2014		<u>1,395,060,202</u>

INSURANCE REGULATORY AUTHORITY

STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014	2013
		KES.	KES.
Cash flow from operating activities			
Surplus for the year		92,058,340	95,255,657
Adjustments for:			
Depreciation on property, plant & equipment	20	37,806,515	30,632,402
Amortisation		<u>3,619,450</u>	<u>971,798</u>
Surplus before working capital changes		133,484,305	126,859,857
(Increase) in receivables	22,23	(5,919,143)	(19,350,421)
(Decrease)/ Increase in payables	29,30	<u>146,647,102</u>	<u>(7,197,233)</u>
Net Cash from Operating Activities		274,212,264	100,312,203
Cash flow from investing activities			
Purchase of property, plant and equipment	20	(19,144,450)	(39,413,643)
Investment	27	(30,052,334)	(3,980,329)
Purchase of treasury bonds		<u>-</u>	<u>(962,238,900)</u>
Net cash used in investing Activities		<u>(49,196,784)</u>	<u>(1,005,632,872)</u>
Net(decrease) increase in cash & cash equivalents		225,015,480	(905,320,669)
Cash & cash equivalent at the beginning		<u>610,637,388</u>	<u>1,515,958,056</u>
Cash & cash equivalent at the end	26	<u>835,652,868</u>	<u>610,637,388</u>

INSURANCE REGULATORY AUTHORITY

STATEMENT OF COMPARISON OF ACTUAL AND BUDGET AMOUNTS

	2014 KES BUDGET	2014 KES ACTUAL	VARIANCE %
INCOME			
Insurance premium levy	950,000,000	1,134,123,578	20%
Re-insurance premium levy	-	112,315,337	100%
Late payment penalties	-	1,354,967	100%
Interest income	150,000,000	193,856,941	29%
Licence fees	20,000,000	20,629,993	3%
Miscellaneous income	<u>4,500,000</u>	<u>2,134,103</u>	<u>(53%)</u>
	<u>1,124,500,000</u>	<u>1,464,414,920</u>	<u>30%</u>
CAPITAL EXPENDITURE	9,000,000	19,144,450	(113%)
OPERATING EXPENDITURE			
Board members expenses	39,301,250	25,180,843	36%
Personnel emoluments	340,369,400	300,747,184	12%
Other personnel costs	93,600,000	80,006,201	15%
Development of the Insurance industry	119,000,000	88,124,587	26%
Office supplies and expenses	27,385,080	18,959,999	31%
Transport and travel expenses	32,100,000	32,180,367	0%
Public relations	68,131,449	38,086,180	44%
Telephone and ICT expenses	22,878,920	14,931,534	35%
Office rent and office services	50,678,500	48,395,172	5%
Consultancy and other professional services	44,080,000	15,223,529	65%
Insurance Fraud Investigation Unit expenses	33,909,880	16,489,460	50%
Depreciation	<u>18,500,000</u>	<u>37,806,515</u>	<u>(104%)</u>
TOTAL EXPENDITURE	898,934,479	735,266,021	18%
SURPLUS FOR THE YEAR	225,565,521	729,138,898	223%

INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2014

1. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Income recognition

i) Revenue from non-exchange transactions

Premium, Reinsurance Levy, Penalties and licence fees

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

ii) Revenue from exchange transactions

Interest income

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

(b) Budget information

The annual budget is prepared on accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Authority. As a result of the adoption of the accrual basis for budgeting purposes, there is no basis that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.



INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

(c) Property, plant, equipment and depreciation

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

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

The Depreciation rates used are as follows.

Motor Vehicle	25%
Partitions & Furniture	12.5%
Computer Equipment	33.3%
Computer Software	33.3%
Other Equipment	25%

(d) Taxation

Under section 13A of the Government Financial Management Act no. 5 Of 2004, the Authority was required to remit 90% of its surplus funds to the Consolidated Fund. As a result the Authority was exempted from paying income tax under the Act. The Government Financial Management Act has been repealed by the Public Finance Management Act no. 18 of 2012 which is silent on this matter. Provision has been made of the 90% surplus funds as we seek further clarification from Treasury.

(e) Retirement benefits

The Authority operates a defined contribution pension scheme for all its eligible employees. The scheme is funded from contributions from both the Authority and employees. The assets of this scheme are held in a separate trustee administered scheme.

The Authority also contributes to a statutory defined contribution plan, National Social Security Fund. The contributions are determined by local statute and are currently limited to Kes.200 per employee per month.

Contributions by the Authority to staff retirement benefit schemes are charged to the statement of financial performance as they fall due.



INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

(f) Related parties

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

(g) Financial instruments

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

Financial Assets

Receivables

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

Government securities

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

Short term deposits

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

Financial liabilities

Trade payables

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

INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

(h) Inventories

Initial recognition of inventory is done at cost and subsequently measured at the lower of cost and net realizable value.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Authority.

(i) Provisions

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

(j) Nature and purpose of reserves

The Authority maintains a general reserve.

(j) Cash and cash equivalents.

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, current account bank balances, short term fixed deposits and 91 day Treasury Bills.

(k) Comparatives

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

(l) Significant judgments and sources of estimation uncertainty

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Authority
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset



INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

Provisions

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

(m) Currency

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

(n) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

3. INSURANCE PREMIUM LEVY

	2014 KES	2013 KES
Premium levy	<u>1,134,123,579</u>	<u>949,645,654</u>
	<u>1,134,123,579</u>	<u>949,645,654</u>

As per section 197A (1) (2a) of the Insurance Act, Insurers are required to pay a levy on gross direct premiums written at a rate prescribed by the Cabinet Secretary. The rate is currently at 1%.

4. REINSURANCE PREMIUM

Reinsurance levy	<u>112,315,337</u>	<u>143,294,599</u>
	<u>112,315,337</u>	<u>143,294,599</u>

As per section 197A (1) (2b) of the Insurance Act, Reinsurers are required to pay a levy on reinsurance premiums paid or credited to reinsurance business outside Kenya. The rate of this levy is currently at 5%. The Act was amended in March 2014 and re insurers are no longer required to pay this levy.

5. LATE PAYMENT PENALTY

Penalties	<u>1,354,967</u>	<u>96,044</u>
	<u>1,354,967</u>	<u>96,044</u>

As per section 197A(6) of the Insurance Act, failure to pay the premium levy by the due date attracts a late payment penalty of 5% of the amount not paid for each month or part of the month that it remains unpaid.



INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

6. LICENCE FEE

	2014	2013
	KES	KES
Insurance companies	8,099,000	8,099,400
Brokers	2,460,000	2,300,000
Loss Assessors	618,000	578,000
Medical Insurance Providers	160,000	220,000
Agents	7,909,593	7,599,485
Other intermediaries	663,400	429,000
Branches	<u>720,000</u>	<u>1,100,000</u>
	<u>20,629,993</u>	<u>20,325,885</u>

This is an annual fee paid by all licensed industry players. The fees charged are kes.150,000 for insurance companies, kes.250,000 for reinsurance companies, kes.10,000 for brokers and medical insurance providers, kes. 3,000 for surveyors, loss adjustors, loss assessors, investigators, risk managers, claims settling agents and kes.1,000 for insurance agents. For annual renewals, the industry players are required to pay twice the amount if the application is received after the deadline, currently 30th September.

7. INTEREST INCOME

Treasury bonds	119,679,554	26,271,866
Treasury bills	28,972,776	81,318,821
Fixed deposits	43,122,462	31,783,573
Current accounts	<u>2,082,149</u>	<u>2,677,663</u>
	<u>193,856,941</u>	<u>142,051,923</u>

This comprises interest earned on investment in treasury bonds, treasury bills, fixed deposit accounts and current accounts. Interest on treasury bonds and treasury bills is recognized on a straight line basis over the maturity period of the investments.

8. MISCELLANEOUS INCOME

Miscellaneous income	<u>2,134,103</u>	<u>1,532,301</u>
	<u>2,134,103</u>	<u>1,532,301</u>

Miscellaneous income is realized mainly from the sale of tender documents.

INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

9. BOARD MEMBERS EXPENSES	2014 KES.	2013 KES.
Honoraria	880,000	960,000
Sitting allowances	6,200,000	9,320,000
Seminars, travel and accommodation	16,211,779	26,822,520
Others	<u>1,889,064</u>	<u>1,477,384</u>
	<u>25,180,843</u>	<u>38,579,904</u>

10. PERSONNEL EMOLUMENTS

Basic salary	174,025,500	149,785,371
House allowances	33,620,000	33,360,590
Transport allowances	32,636,000	32,011,430
Contract/part-time staff	12,902,960	11,139,065
Special duty and extraneous allowance	13,528,706	20,310,966
Pension and gratuity	<u>34,034,018</u>	<u>28,748,613</u>
	<u>300,747,184</u>	<u>275,356,035</u>

Number of employees at year end	75	75
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11. OTHER PERSONNEL COSTS

Medical	15,911,240	15,235,281
Group insurance-life and accident	2,173,603	2,374,536
Training and capacity building	51,092,687	37,389,793
Subscriptions	1,343,035	1,489,496
Staff uniforms and welfare	6,820,636	5,272,363
Leave allowance	<u>2,665,000</u>	<u>2,920,000</u>
	<u>80,006,201</u>	<u>64,681,469</u>

12. DEVELOPMENT OF THE INSURANCE INDUSTRY

Industry research	3,271,355	10,269,843
Seminars for insurance industry	4,245,905	6,549,057
Consumer Education	57,123,654	45,837,576
Scholarship for Actuarial students	<u>23,483,673</u>	<u>16,151,845</u>
	<u>88,124,587</u>	<u>78,808,321</u>

INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

13. OFFICE SUPPLIES AND EXPENSES

	2014	2013
	KES	KES
Stationery, postage and supplies	6,806,078	3,764,529
General office expenses	9,552,787	10,237,476
Newspapers, books and periodicals	<u>2,601,134</u>	<u>2,261,185</u>
	<u>18,959,999</u>	<u>16,263,190</u>

14. TRANSPORT AND TRAVEL EXPENSES

Travel-local	12,806,518	9,133,215
Travel-international	14,745,375	14,923,031
Fuel	1,502,965	1,314,065
Vehicle repair and service	1,249,554	774,350
Vehicle insurance and licences	<u>1,875,955</u>	<u>1,362,444</u>
	<u>32,180,367</u>	<u>27,507,105</u>

15. PUBLIC RELATIONS

Corporate subscriptions	2,149,561	1,678,765
Advertisement and publicity	7,636,643	16,998,062
Printing of public relations materials	3,836,121	5,243,183
Shows and exhibitions	5,152,032	4,680,941
Signages and billboards	2,366,400	
Tribunal/ EIASA expenses	4,449,780	50,109
Corporate social responsibility	9,785,643	6,837,270
Partnership with professional associations	<u>2,710,000</u>	<u>1,260,000</u>
	<u>38,086,180</u>	<u>36,748,330</u>

16. TELEPHONE & ICT EXPENSES

Fixed lines	2,492,022	3,095,571
Mobile phones	2,760,599	2,579,000
Bandwidth	1,947,876	1,149,843
Software licenses	6,493,997	5,309,941
Other expenses	<u>1,237,040</u>	<u>2,115,220</u>
	<u>14,931,534</u>	<u>14,249,575</u>



INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2014

17. OFFICE RENT AND OFFICE SERVICES

	2014	2013
	KES	KES
Rent	39,938,258	28,887,379
Security	424,380	129,920
Office cleaning	4,820,964	3,856,355
Insurance- property, fidelity & guarantee	602,560	557,596
Repair and service-office equipment	<u>2,609,010</u>	<u>2,488,615</u>
	<u>48,395,172</u>	<u>35,919,865</u>

18. CONSULTANCY AND OTHER PROFESSIONAL SERVICES

Consultancy	12,182,602	6,707,047
Legal fees	528,239	17,990,732
Audit fees	1,259,200	870,000
Bank charges	<u>1,253,488</u>	<u>906,183</u>
	<u>15,223,529</u>	<u>26,473,962</u>

19. INSURANCE FRAUD INVESTIGATION UNIT (IFIU) EXPENSES

These are the transport, monthly allowances and training expenses for the Insurance Fraud Investigation Unit (IFIU).

<u>16,489,460</u>	<u>13,892,469</u>
<u>16,489,460</u>	<u>13,892,469</u>

INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2014

20 . PROPERTY, PLANT AND EQUIPMENT

	Motor Vehicles	Computer Equipment	Computer Networking & Cabling	Partitions Furniture & Fittings	Equipment (Telephone, Fax, Other)	Total
	KES.	KES.	KES.	KES.	KES.	KES.
At 1 July,2012	34,712,541	34,801,362	26,739,606	97,528,520	4,037,696	197,819,725
Add: additions during the year	6,445,051	18,855,919	1,643,072	7,841,014	4,628,587	39,413,643
Less: disposals during the year	-	-	-	-	-	-
At 30 June 2013	41,157,592	53,657,281	28,382,678	105,369,534	8,666,283	237,233,368
Depreciation:						
At 1 July,2012	25,336,225	17,739,866	22,825,164	33,906,052	2,296,875	102,104,182
Charge for the year	4,203,583	9,314,100	2,352,917	13,127,622	1,634,180	30,632,402
Disposal	-	-	-	-	-	-
At 30 June,2013	29,539,808	27,053,966	25,178,081	47,033,674	3,931,055	132,736,584
Net book value: At 30 June 2013	11,617,784	26,603,315	3,204,597	58,335,860	4,735,228	104,496,784
At 1 July,2013	41,157,592	53,657,281	28,382,678	105,369,534	8,666,283	237,233,368
Add: additions during the year	-	4,670,896	1,381,328	415,696	12,676,530	19,144,450
Less: disposals during the year	(4,251,638)	-	-	-	-	(4,251,638)
At 30 June 2014	36,905,954	58,328,177	29,764,006	105,785,230	21,342,813	252,126,180
Depreciation:						
At 1 July,2013	29,539,808	27,053,966	25,178,081	47,033,674	3,931,055	132,736,584
Charge for the year	4,807,807	12,208,480	2,767,533	13,203,039	4,819,656	37,806,515
Disposal	(4,251,638)	-	-	-	-	(4,251,638)
At 30 June,2014	30,095,977	39,262,446	27,945,614	60,236,713	8,750,711	166,291,461
Net book value: At 30 June 2014	6,809,977	19,065,731	1,818,392	45,548,517	12,592,102	85,834,719

At 30th June 2014, Assets worth kes.72,187,174 were fully depreciated. The notional depreciation charge on these assets is kes.20,609,238(2013- kes. 17,563,243).

INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2014

21. AMOUNT DUE FOR TRANSFER TO THE CONSOLIDATED FUND

	2014 KES.	2013 KES.
Surplus for the year	748,283,348	597,833,779
Less purchase of assets	<u>(19,144,450)</u>	<u>(39,413,643)</u>
Realised surplus funds	729,138,898	558,420,136
90% of realised surplus funds	<u>656,225,008</u>	<u>502,578,122</u>

22. INVENTORY

Stationery	2,816,007	3,345,574
Toners	<u>866,216</u>	<u>342,000</u>
	<u>3,682,223</u>	<u>3,687,574</u>

23. RECEIVABLES FROM EXCHANGE TRANSACTIONS

Prepayments	3,755,868	4,850,019
Staff imprests /advances	2,654,736	2,108,989
Others	-	353,800
Deposits	10,851,273	6,779,024
Accrued Interest	<u>38,508,791</u>	<u>35,754,342</u>
	<u>55,770,668</u>	<u>49,846,174</u>

24. SHORT TERM INVESTMENTS

National bank of Kenya	290,000,000	230,000,000
NIC bank	-	130,000,000
Treasury bills	<u>503,942,950</u>	<u>185,603,650</u>
	<u>793,942,950</u>	<u>545,603,650</u>

The effective interest rate on the treasury bill as at 30th June 2014 was 9.5%.

25. CASH AND CURRENT ACCOUNT BALANCES

National bank of Kenya	40,000,045	61,452,122
NIC bank	1,509,873	3,381,616
Petty cash	<u>200,000</u>	<u>200,000</u>
	<u>41,709,918</u>	<u>65,033,738</u>

INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2014

26. CASH AND CASH EQUIVALENTS

This includes cash in hand, current account balances, short term fixed deposits and investments in 91 days Treasury Bills.

	2014	2013
	KES	KES
Cash and current account balances	41,709,918	65,033,738
Fixed deposits	290,000,000	360,000,000
Treasury Bills	<u>503,942,950</u>	<u>185,603,650</u>
	<u>835,652,868</u>	<u>610,637,388</u>

27. (a) LONG TERM INVESTMENTS

These are fixed deposits under lien.

National bank	32,140,537	31,600,044
Kenya commercial bank	146,228,968	111,717,127
NIC bank	-	<u>5,000,000</u>
	<u>178,369,505</u>	<u>148,317,171</u>

(b) RECONCILIATION OF LONG TERM INVESTMENTS

Opening balance	148,317,171	144,336,842
Invested during the period	<u>30,052,334</u>	<u>3,980,329</u>
Closing balance	<u>178,369,505</u>	<u>148,317,171</u>

The effective interest rate on the Treasury bill as at 30th June 2014 was 9.5%.

28. (a) TREASURY BONDS

Treasury bonds are stated at amortised value.

2 years maturity bond	<u>957,647,652</u>	<u>961,267,102</u>
	<u>957,647,652</u>	<u>961,267,102</u>

(b) RECONCILIATION OF TREASURY BONDS

Opening balance	961,267,102	-
Invested during the period	-	962,238,900
Amortisation	<u>(3,619,450)</u>	<u>(971,798)</u>
Closing balance	<u>957,647,652</u>	<u>961,267,102</u>

The effective interest rates on the treasury bonds as at 30th June 2014 was 12%.

INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2014

29. PAYABLES FROM EXCHANGE TRANSACTIONS

	2014	2013
	KES	KES
Sundry creditors	48,924,019	48,312,436
Others	<u>3,442,764</u>	<u>4,133,991</u>
	<u>52,366,783</u>	<u>52,446,427</u>

30. PROVISIONS

Audit fees	1,000,000	750,000
Gratuity	305,050	4,407,150
Legal fees	12,000,592	15,068,632
Amount due to the Consolidated Fund	<u>656,225,008</u>	<u>502,578,122</u>
	<u>669,530,650</u>	<u>522,803,904</u>

31. RELATED PARTY TRANSACTIONS

The following transactions took place with related parties

Board expenses	25,180,843	38,579,904
Top management remuneration	<u>50,209,200</u>	<u>48,549,000</u>
	<u>75,390,043</u>	<u>87,128,904</u>

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

The authorities's activities expose it to a variety of financial risks, including credit risk, liquidity risk and interest rates. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

The authority regularly reviews its risk management policies and systems to reflect changes in markets and emerging best practices. Risk management is carried out by the management under the supervision of the Board of Directors.

The Board provides policies for overall risk management, as well as policies covering specific areas such as liquidity risk, interest rate risk, credit risk, use of non-derivative financial instruments and investing excess liquidity.

a) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the company.

Credit risk arises from bank balances, trade receivables and amounts due from related parties. The company's management assesses the credit quality of each customer, taking into account its financial position, past



INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2014

experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

b) Market risk management **(i) Interest rate risk**

The authority interest rate risk arises from investments in short term deposits, Government securities and corporate bonds. These are fixed income instruments and would not be significantly affected by fluctuations in interest rates.

c) Liquidity risk management

Liquidity risk is the risk that the authority will not be able to meet its financial obligations when they fall due. The authority's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or at the risk of damaging the authority's reputation.

The authority ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. All liquidity policies and procedures are subject to review and approval by the board of directors. All capital investments are funded by general reserves.

33. COMMITMENTS

The Authority had issued local purchase orders and local service orders for various supplies for which goods/services had either not been received or had been partly received by 30th June, 2014.

Purchase/service orders	<u>11,109,722</u>	<u>17,718,813</u>
	<u>11,109,722</u>	<u>17,718,813</u>