

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 20/9/19 2018 DAY: Wed

TABLED BY: Hon. Achen Dute
ho. M

CLERK-AT-THE-TABLE: Minam Njoro

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
ASIAN OFFICERS FAMILY PENSION FUND**

**FOR THE YEAR ENDED
30 JUNE 2018**

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY
2.9 SEP 2018
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PENSION FUND NAME: ASIAN OFFICERS FAMILY PENSIONS FUND

THE NATIONAL TREASURY

FUND IDENTIFICATION NUMBER: 901

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018**

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

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1. NATIONAL TREASURY INFORMATION AND MANAGEMENT

(a) Background Information

The National Treasury was established via the Executive Order No. 2 of May, 2013. The basis for establishment of the National Treasury is found in Article 225(i) of the Constitution of Kenya which states that an Act of Parliament shall provide for the establishment, functions and responsibilities of the National Treasury. This has been actualized in Section 11 and 12 of the Public Finance Management (PFM) Act, 2012.

At Cabinet level, the National Treasury is represented by the Cabinet Secretary for Finance, who is responsible for the general policy and strategic direction of the Ministry.

Vision

An institution of excellence in economic and public financial management.

Mission

To promote economic transformation for shared growth through formulation, implementation and monitoring of prudent economic and financial policies at national and county levels of government.

Core Values

The National Treasury is committed to providing quality services to all and is guided by the following core values: Customer Focus, Results Oriented, Stakeholder participation, professionalism, Accountability, Integrity and Transparency, Teamwork and Staff as key asset and Equity, Fairness and Inclusion.

Mandate of the National Treasury

The National Treasury derives its mandate from Article 225 of the Constitution, Public Finance management Act, 2012 and the Executive Order No.2/2013. The National Treasury will be executing its mandate in consistency with any other legislation as may be developed or reviewed by Parliament from time to time.

The core functions of the National Treasury as derived from the above legal provisions include:-

- Formulate, implement and monitor macroeconomic policies involving expenditure and revenue;

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- Manage the level and composition of national public debt, national guarantees and other financial obligations of national government;
- Formulate, evaluate and promote economic and financial policies that facilitate social and economic development in conjunction with other national government entities;
- Mobilize domestic and external resources for financing national and county government budgetary requirements;
- Design and prescribe an efficient financial management system for the National and County Governments to ensure transparent financial management and standard financial reporting.
- In consultation with the Accounting Standards Board, ensure that uniform accounting standards are applied by the national government and its entities;
- Develop policy for the establishment, management, operation and winding up of public funds;
- Prepare the Annual Division of Revenue Bill and the County Allocation of Revenue Bill;
- Strengthen financial and fiscal relations between the National Government and County Governments to develop their capacity for efficient, effective and transparent financial management; and
- To prepare the National Budget, executive/implement and control approved budgetary resources to MDAs and other Government Agencies/Entities.

Role of the National Treasury in the Devolved System of Government

The National Treasury is mandated by law to:

- Strengthen financial and fiscal relation between the National Government and County Governments and encourage support for County Governments in performing their functions;
- Assist County Governments to develop their capacity for efficient, effective and transparent financial management;
- Prepare the Annual Division of Revenue Bill and the County Allocation of Revenue Bill;
- Provide logistical support to intergovernmental institutions overseeing intergovernmental fiscal relations;
- Coordinate the development and implementation of financial recovery plans for County Governments that are in financial distress;
- Coordinate capacity building of County Governments on public finance management matters.

(b) Key management

The National Treasury day-t-day management is under the following key offices:

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Office of the Principal Secretary

This office is responsible for the administration of the National Treasury for efficient delivery of public services that have been assigned to this Ministry. The Principal Secretary is also charged with the responsibility of rendering advice to the Cabinet Secretary in order to enhance efficiency and collective responsibility of the National Treasury.

Organizational Structure of the National Treasury

The National Treasury is organized into four (4) technical Directorates headed by Directors General and One (1) Administrative and Support Service Directorate headed by the Principal Administrative Secretary. Each Director General is responsible for a Directorate comprising a cluster of Departments responsible for related policy functions. The Directorates and Departments are as follows:-

(i) Directorate of Budget, Fiscal and Economic Affairs

The Directorate is headed by a Director General, reporting to the Principal Secretary, National Treasury. It is organized into the following five (5) Technical Departments each headed by a Director:

- Budget Department;
- Macro and Fiscal Affairs Department
- Financial and Sectoral Affairs Department
- Inter-Governmental Fiscal Relations Department
- Public Procurement Department

(ii) Directorate of Accounting Services and Quality Assurance

The Directorate is headed by a Director General reporting to the Principal Secretary, National Treasury. It is organized into the following four (4) Technical Departments each headed by a Director:-

- Government Accounting Services;
- Internal Audit Services Department;
- Financial Management Information System (FMIS)
- National Sub-County Treasuries

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(iii) Directorate of Portfolio Management

The Directorate is headed by a Director General reporting to the Principal Secretary, National Treasury. It is organized into the following four (4) Technical Departments each headed by a Director:-

- Government Investment and Public Enterprises;
- National Assets and Liabilities Management;
- Pensions Department;
- Public Private Partnership Unit.

(iv) Directorate of Public Management Office

The Directorate is headed by a Director General reporting to the Principal Secretary, National Treasury. It is organized into the following three (3) Technical Departments each headed by a Director:-

- Resource Mobilization (Front Office)
- Debt Policy, Strategy and Risk Management (Middle Office)
- Debt Recording and Settlement (Back Office)

(v) Directorate of Administrative and Support Services (Common Shared Services)

The Directorate is headed by a Director General reporting to the Principal Secretary, National Treasury. It is organized into twelve (12) specialized functions offering common shared services. The common shared services of the National Treasury consist of functions that are not core to the national Treasury but officer critical support services to the National Treasury. The functions include:-

- Accounting;
- Finance;
- Human Resource Management and Development;
- Central Planning and Project Monitoring;
- Supply Chain Management;
- Legal;
- Public Communication;
- General Administration;
- Records Management;
- Internal Audit;
- ICT;
- Government Clearing Agency.

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(c) Fiduciary Management

The key management personnel who held office during the financial year ended 3th June, 2017 and who had direct fiduciary responsibility were:

NO	DESIGNATION	NAME
1.	Chief Administrative Secretary	Hon. Nelson Gaichuhie
2.	Principal Secretary	Dr. Kamau Thugge, EBS
3.	Secretary Administration	Mr. Musyimi S.K. CBS
4.	Principal Administrative Secretary, CBS, SS	Mr. Mutua Kilaka, CBS, SS
5.	Director General, BFEA	Dr Geoffrey Mwau, EBS
6.	Director General, Accounting Services	Mr. Bernard Ndung'u, MBS
7.	Director General, PIPM	Ms. Esther Koimett, CBS
8.	Director, Macro and Fiscal Affairs Department	Mr. Musa Gathanje
9.	Director, Budget Department	Mr. Francis Anyona, OGW
10.	Director, Financial and Sectoral Affairs Department	Mr. Christopher Oisebe
11.	Director, Public Procurement Department	Mr. Eric Korir
12.	Director, Intergovernmental Fiscal Relations Department	Mr. Albert Mwenda, HSC
13.	Internal Auditor General	Mr. Alfayo Mogaka
14.	Ag Director, Government Accounting Services Department	Mr. Jona Wala
15.	Ag Director, National Sub County Treasuries	Mr. Francis Kariuki
16.	Director, Government Digital Payment	Mr. Harry Mwangi
17.	Ag Director, Financial Management Information System	Mr. Mr. Stanley Kamanguya
18.	Director, Public Private Partnership Unit	Eng. Stanley Kamau
19.	Director, National Assets and Liability Management	Mrs Beatrice Gathirwa
20.	Director, Government Investment and Public Enterprises	Mr. Kennedy Ondieki
21.	Director, Pensions Department	Mr Shem Nyakutu
22.	Director, Resource Mobilization Department	Mr. Jackson Kinyanjui, OGW
23.	Director, Debt Policy, Strategy and Risk Management Department	Mr. Daniel Ndolo
24.	Ag Director, Debt Recording and settlement Department	Mrs Felister Kivisi
25.	Head, Accounts Division	Mr. George Gichuru
26.	Head, Finance	Mr. Kimathi Mugambi, HSC
27.	Head, SCM	Mr. Peter Momanyi
28.	Head, Internal Audit Unit	Mr. John Kariuki
29.	Director, Human Resource Management and Development	Ms. Susan Mucheru
30.	Ag Director, Information Communication and Technology	Mr. George Kariuki
31.	Head, Central Planning and Project Monitoring Unit	Mr. Antony Muriu
32.	Head, Public Communications	Mr. Maina Kigaga
33.	Programme Coordinator, Public Financial Management Reform Secretariat	Mr. Julius Mutua
34.	Head, Government Clearing Agency	Mr. Felix Ateng

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(d) Fiduciary Oversight Arrangements

To manage the fiduciary risk, the National Treasury has put in place fiduciary oversight arrangements including setting up committees. The key oversight arrangements include:

(i) Internal Audit Unit

The National Treasury has a well-resourced internal Audit Unit. The unit is charged with the responsibility of identifying risks in the management and day to day operations of the Ministry through the risk based audits. The Unit reports directly to the accounting officers on a regular basis.

(ii) Audit Committee

The National Treasury established an audit committee comprising officers from all departments of the Ministry, under the chairmanship of the Chief Finance Officer. The Committee reviews and analyses all audit queries and makes recommendations on how to reduce fiduciary risks. In addition, the committee prepares responses to all audit queries for presentation to the relevant committees of parliament.

(iii) Project Implementation Committee

To monitor the implementation of the Government's Infrastructure Projects, the National Treasury has established a Project Steering Committee comprising Principal Secretaries from implementing Ministries and appointed a technical committee comprising officers from the technical departments of the Ministry. The Committees review and analyse the progress made by ministries in the implementation of domestically and externally funded projects and advises accordingly.

Other fiduciary oversight arrangements include the following committees with specific objectives;

(iv) Senior Management Committee

To monitor the implementation of the Ministry's programmes and performance, the National Treasury has appointed a Senior Management Committee comprising of Directors General and Heads of Departments. The Committee receives reports from departments, builds consensus on National Treasury responses to emerging issues, challenges and risks and ensures that the decisions of top management are implemented in a timely manner.

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(v) Public Financial Management Sector Working Group

To facilitate the implementation of Financial Management Reform, the National Treasury had appointed senior officers to the Public Financial Management Sector Working Group. The Committee plays an oversight role in the implementation of financial reforms in the public service in collaboration with the development partners.

(vi) Budget Implementation Committee

To monitor the implementation of the Ministry's budget, programmes and activities, the National Treasury has appointed a committee comprising of officers from all the Departments of the Ministry. The Committee reviews and analyses the progress made by Departments in the implementation of budget and the planned programmes and activities and advises the management accordingly.

(vii) Monitoring and Evaluation

The Ministry undertakes monitoring and evaluation exercises to establish progress made in the implementation of various programmes and projects including those that are funded by the development partners.

(a) The National Treasury

P. O. Box 30007-00100,
Treasury Building,
Harambee Avenue
Nairobi, Kenya
Telephone: (54)020-2252299
Email: info@treasury.go.ke
Website: www.treasury.go.ke

(b) The National Treasury Bankers

Central Bank of Kenya
Haile Selassie Avenue
P. O. Box 60000
City Square 00200
Nairobi, Kenya

(c) Independent Auditors

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

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(d) Principal Legal Adviser

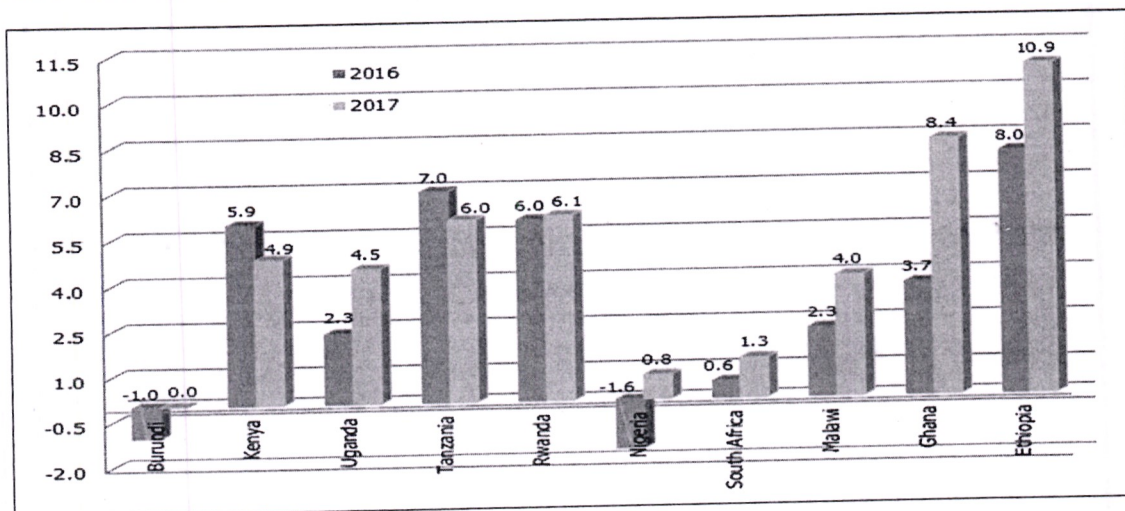
The Attorney General
State Law Office
Harambee Avenue
P. O. Box 0112
City square 00200
Nairobi, Kenya

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2. FORWARDED BY THE CABINET SECRETARY

The National Treasury is mandated to coordinate economic and financial management of the country in accordance with section 12 of the Public Finance Management Act, 2012. Overall, the National Treasury has strived to maintain a policy environment that is conducive to economic growth and development of the country. As a result of consistent implementation of bold economic policies, structural reforms and sound macroeconomic management, the economy remained resilient in 2017 despite uncertainty associated with the prolonged political elections period coupled with the effects of adverse weather conditions. The Economy grew by 4.9 percent compared to a revised growth of 5.9 percent in 2016. In the first quarter of 2018, the economy recovered and grew by 5.7 percent compared to a growth of 4.8 percent in the same quarter last year. This growth was mainly attributed to improved weather conditions and rebound in business and consumer confidence following political stability in the country. The 4.9 percent economic growth in 2017 generated 898,000 new jobs up from 833,000 new jobs in 2016 and is above 2.8 percent average growth for the sub-saharan Africa.

GDP Annual Growth Rates (2016 and 2017)



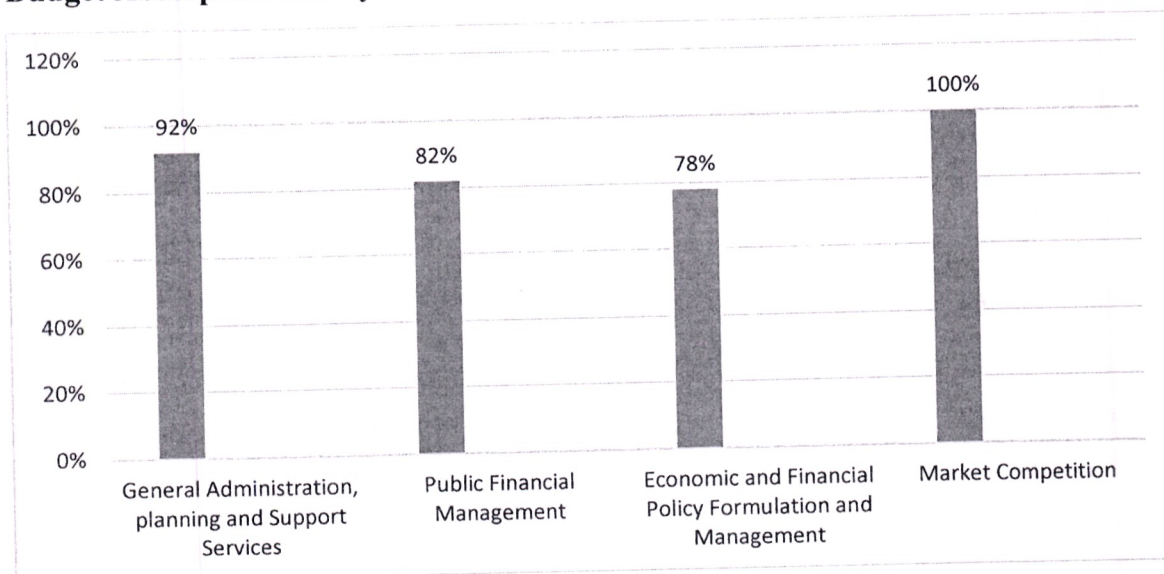
Despite the difficult circumstances faced last year, the Country was able to preserve macroeconomic stability with inflation, interest rates and exchange rates remaining largely stable throughout 2017. This serves as a clear demonstration to domestic as well as foreign investors of our commitment to maintain macro-economic stability, which is key in enhancing investor confidence. The Country made notable progress in 2017 in improving the ease of doing business, thereby providing a conducive business environment for both domestic and foreign investors. These reforms have seen Kenya being ranked favourably in the ease of doing business and as a top investment destination. For two consecutive years (2016 and 2017 World Bank's Doing Business Reports), Kenya emerged as the third most reformed country in the world, and in the 2018 Report, as the third best in sub-Saharan Africa and position 80 overall.

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The 2017 Ernst & Young (EY) Africa Attractiveness Index ranked Kenya second top investment hub in Africa, after Morocco. The Report also classifies Kenya as the top most preferred investment destination in East Africa, with the majority of investors being attracted by the good infrastructure, ease of doing business, and strong economic growth and prospects.

In terms of budget performance, the National Treasury expenditure stood at Kshs.39.416m against an approved budget of Kshs.42.540m in Recurrent while Development expenditure stood at Kshs.9.761m against an approved budget of Kshs.11.862m giving an overall absorption rate of 90.5%. The National Treasury implemented the 2017/18 budget within four economic classification/programmes. These were General Administration, Planning and Support Services, Public Financial Management, Economic and Financial Policy Formulation and Management and Market Competition. As demonstrated in the bar graph below, the Market Competition Programme had the highest absorption at 100% followed by General Administration, Planning and Support Services at 92%, Public Financial Management at 82%, and Economic and Financial Policy Formulation and Management at 78%.

Budget Absorption rate by Economic Classification/Programmes



Other key achievements during the period under review are:-

- The National Treasury continued to implement its mandate of supporting the devolved system of Government. In terms of payments, the County Governments received a total of Kshs.327 billion in 2017/2018 up from Kshs.302.2 billion in 2016/2017. Since their establishment in March 2013, County Governments have received more than Kshs.1.3 trillion from the National Government.
- In line with its commitment to enhance the County Governments capacity, the National Treasury developed the County Governments (Revenue Raising Regulation Process) Bill. The Bill is geared towards addressing the challenges County Governments are

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encountering in revenue collection, mitigating their negative effects and assisting the Counties to optimize own-sources revenue.

- The National Treasury successfully priced a new \$2 billion Eurobond Transaction. This issue was 7 times oversubscribed thus making it one of the highest order book for an issue from Africa, and providing a dollar yield curve stretching out to 30 years. This made Kenya one of a handful of Governments to achieve this. Specifically with the 30 year yield, international investors demonstrated their long term belief that Kenya is a stable economy in which long-term investments are safe.

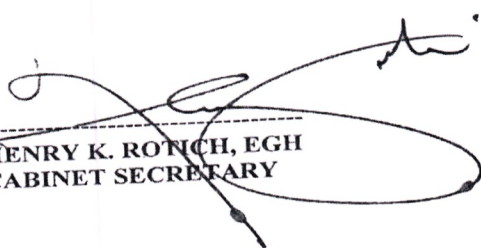
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Some of the challenges the National Treasury faced while implementing the 2017/18 budget include:-

1. Lack of adequate funds/exchequer to finance all the budget requests by Ministries, Departments and Agencies.
2. Low absorption of Official Development Assistance (ODA).
3. Uncertainty associated with the political elections that slowed down economic activity thus affecting revenue performance.
4. Slow enactment of relevant regulations and related legal instruments to facilitate financial sector deepening.

To surmount the above challenges and ensure successful implementation of the National Treasury goals and objectives, the Ministry will:-

1. Maintain macroeconomic stability by ensuring that inflation, interest rates and exchange rates remain largely stable.
2. Continue to improve the environment for businesses to thrive, deal decisively with corruption and address the governance and performance challenges at our parastatals and State-linked companies, as well as improve efficiency in our financial sector in order to boost investments and create jobs.
3. Manage the level and composition of national public debt, national guarantees and other financial obligations of national government effectively;
4. Continue to maintain a prudent fiscal stance consistent with the medium-term debt targets while pursuing a shift in the composition of expenditure towards development priorities.
5. Strengthen capacity in public financial management to MDAs and County Governments to improve oversight of Public resources and strengthen financial and fiscal relations between the national government and county governments.
6. Enhance the Government's cash management system to avoid undue pressure on payment flows and interest rates, and reduce borrowing costs for the government and the private sector.
7. Promote the Public Private Partnership initiatives to finance government capital projects.
8. Engage other development partners for concessional loans and grants as well as pursue strategies to facilitate issuance of international bonds to finance government projects.
9. Ensure constant collaboration between the National Treasury and all the Stakeholders.
10. Strengthen monitoring and evaluation framework.


HENRY K. RONICH, EGH
CABINET SECRETARY

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3. STATEMENT OF THE PENSION FUND MANAGEMENT RESPONSIBILITIES

The *Principal Secretary* for the National Treasury and Principal Accountant for *the Asian Officers Family Pension Fund* are responsible for the preparation and presentation of the Pension Fund's financial statements, which give a true and fair view of the state of affairs of the Pension Fund for Asian officers Family Pension Fund and as at the end of the financial year ended on June 30, 2018.

This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Pension Fund; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Pension Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The *Principal Secretary* for the National Treasury and the Principal Accountant for *the Asian Officers Family Pension Fund* accept responsibility for the Pension Fund's financial statements, which have been prepared on the Accrual Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

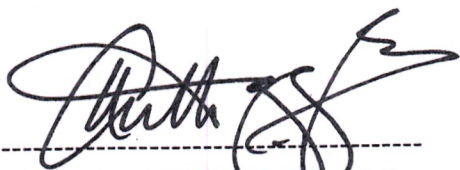
The *Principal Secretary* for the National Treasury and the Principal Accountant for *the Asian Officers Family Pension Fund* are of the opinion that the Pension Fund's financial statements give a true and fair view of the state of Pension Fund's transactions during the financial year ended June 30, 2018, and of the Pension Fund's financial position as at that date. The *Principal Secretary* for National Treasury and the Principal Accountant for *the Asian Officers Family Pension Fund* further confirm the completeness of the accounting records maintained for the Pension Fund, which have been relied upon in the preparation of the Pension Fund financial statements as well as the adequacy of the systems of internal financial control.

The *Principal Secretary* for the National Treasury and the *Pension Fund for the Asian Officers Family Pension Fund* confirm that the Pension Fund has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Pension Fund funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

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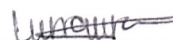
Approval of the Pension Fund financial statements

The Pension Fund financial statements were approved by the *Principal Secretary* for the National Treasury and the Principal Accountant for the *Asian Officers Family Pension Fund* on 30th September, 2018 and signed by them.



DR KAMAU THUGGE, CBS
Principal Secretary

30th Sept. 2018
Date



LILIAN W. DISHON
Principal Accountant
ICPAK 10442

30th September 2018
Date



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON ASIAN OFFICERS FAMILY PENSION FUND FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Asian Officers Family Pension Fund set out on pages 17 to 25 which comprise the statement of financial position as at 30 June 2018, 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 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of Asian Officers Family Pension Fund as at 30 June, 2018, and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards Cash Basis and do not comply with Public Finance Management Act 2012.

Basis for Opinion

1. Previous Year Report

i) Failure to Provide Record for Verification

As was reported in the previous report for 2016/2017, the department continues make payments to pensioners whose pension files cannot be traced for audit verification.

During the period under review, the Pension Department made payments amounting to Kshs.1,600,842 as pensions to pensioners/dependants under the Fund. Included in the schedule are two payments totaling to Kshs.84,000 paid to two pensioners with reference pension numbers BPN/PB 589 & BPN/PB 1688 but whose pension files were not availed for audit review. The department may be paying non existing pensioners and the payments could be irregular and invalid.

ii) Irregular Payment of Pension

As was reported during the previous years, the department had made pension payments amounting to Kshs.519,800 to two beneficiaries between the year 2007 and 2015 who were later confirmed to have been deceased but the department had continued to make the payments. A further Kshs.42,000 was paid between July 2015 and Jan 2016 despite the families of the two beneficiaries having notified the department of their demise in September 2007 and February 2008 respectively. The above notwithstanding, the Fund continued to make the payments until Jan 2016. Although the Fund management has so far recovered an amount of Kshs.418,710 which was disbursed to the bank, an amount of Kshs.143,090 has remained outstanding. The Department may not recover the irregular remittance to the banks.

2. Un Supported Balance

The statement of financial assets and liabilities under note 9.4 reflects receivables balance of Kshs.15,200,000 relating to cash owed by the defunct Cereals and Sugar Finance Corporation (CSFC) that is undergoing a winding up process. The balance is however not supported by deposit certificates or other documentary evidence required for audit verification. The accuracy and validity of the receivable balance of Kshs.15,200,000 cannot be confirmed.

3. Transactions in the Cash Book not in Bank Statement

The reconciliation for the month of June 2018 reflects payroll payments for the months of May and June 2015 totaling Kshs.237,646 in the cashbook but not in the bank statement. Further, the cash book also reflects receipts of Kshs.6,575.20 which have not been banked for more than five years. In absence of any reconciliation or explanations, it has not been possible to ascertain the accuracy of the balances reflected in the financial statements.

4. Failure to Capture Ledger Figures in the Financial Statement

The Trial Balance presented includes debit/credit balances which have been omitted from financial statement as indicated below;

Item(s) Description	Debits Kshs.	Credits Kshs.
Depreciations/ Appreciations	337,703.00	
Expenses of management	10,613,702.35	
Interest on Investment-Asian	592,078,739.65	
Government Contributions		1,219,565.05
Interest on Investment Asian		1,075,831,824.85

No explanatory notes have been provided by management indicating what the figures represent.

In addition, the Trial Balance totals credits of Kshs.1,491,614,679.30 and debits of Kshs.1,042,467,389.05 do not agree. The difference of Kshs.449,147,290.25 has not been explained. Consequently, the Financial Statement may not reflect a true and fair position of the Fund as at 30 June 2018.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Asian Officers Family Pension Fund in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, I do not confirm that public resources have been applied lawfully and in an effective way.

Basis of Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, I do not confirm that, that internal controls, risk management and governance were effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standard (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to cease operations of the Fund, or have no realistic alternative but to do so.

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

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from

fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

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

Nairobi

06 February 2019

Report of the Auditor-General on the Financial Statements of Asian Officers Family Pension Fund for the year ended 30 June 2018


**Asian Officers Family Pension Fund
Reports and Financial Statements
For the year ended June 30, 2018**

5. STATEMENT OF RECEIPTS AND PAYMENT FOR THE YEAR ENDED 30TH JUNE, 2018

	Notes	2017/2018	2016/2017
		Kshs.	Kshs.
RECEIPT			
Dividend Income: Preference shares	9.1	2,999	2,134,685
Ordinary shares	9.1	5,291,730	-
		5,294,729	2,134,685
PAYMENT			
Payment of pensions	9.2	1,600,842	1,635,696
		1,600,842	1,635,696
SURPLUS/DEFICIT FOR THE YEAR		3,693,887	498,989

* Dividend receivable due from Kenya Power & Lighting Co. Ltd = **Kshs. 5,291,730.00**


The Accounting policies and explanatory notes to these financial statements are an integral part of the financial statements. The financial statements were approved on 30th September, 2018 and signed by:



DR. KAMAU THUGGE, CBS
Principal Secretary

30th Sept. 2018

Date



LILIAN W. DISHON
Principal Accountant
ICPAK 10442

30th September 2018

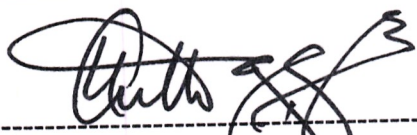
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**Asian Officers Family Pension Fund
Reports and Financial Statements
For the year ended June 30, 2018**

6. STATEMENT OF ASSETS AND LIABILITIES AS AT 30TH JUNE, 2018

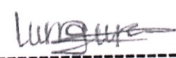
		Notes	2017/2018	2016/2017
			Kshs.	Kshs.
ASSETS				
NON-CURRENT ASSETS				
Investments	9.3		37,178,830	37,178,830
CURRENT ASSETS				
Receivables	9.4		20,491,730	15,300,680
Cash Equivalent	9.5		<u>449,147,290</u>	<u>450,912,125</u>
TOTAL FINANCIAL ASSETS			506,817,850	503,391,635
LIABILITIES				
Members contributions	9.6		37,680,778	37,680,778
Payables			-	267,672
TOTAL NET ASSETS			<u>469,137,072</u>	<u>465,443,185</u>
FINANCED BY:				
Capital Account (Ledger)	9.7		122,295,935	122,295,935
Accumulated Surplus Income B/forward	9.8		343,147,250	342,648,261
Surplus/Deficit for the year			3,693,887	498,989
NET FINANCIAL POSITION			<u>469,137,072</u>	<u>465,443,185</u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 30th September, 2018 and signed by:



DR. KAMAU THUGGE, CBS
Principal Secretary
30th Sept. 2018

Date



LILIAN W. DISHON
Principal Accountant
ICPAK 10442
30th September 2018

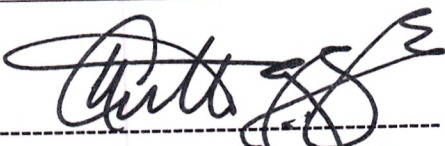
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**Asian Officers Family Pension Fund
Reports and Financial Statements
For the year ended June 30, 2018**

7. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE, 2018


	Note	2017/2018	2016/2017
Dividend Income	9.1	2,999	2,134,685
Payment of Pensions	9.2	(1,600,842)	(1,635,696)
Net Cash flow from operating activities		(1,597,843)	<u>498,989</u>
Other Receipts	9.9	-	267,672
Other Payment	9.10	-	100,680
CASHFLOW FROM INVESTING	9.4	-	1,995,282
Reduction of receivable		(1,597,843)	2,661,263
Cash and cash equivalent at the beginning of the year		450,912,125	448,250,862
Cash and cash equivalent at the end of the year		<u>449,147,290</u>	<u>450,912,125</u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 30th September, 2018 and signed by:



DR. KAMAU THUGGE, CBS
 Principal Secretary
30th Sept. 2018

 Date



LILIAN W. DISHON
 Principal Accountant
 ICPAK 10442
30th September 2018

 Date

**Asian Officers Family Pension Fund
Reports and Financial Statements
For the year ended June 30, 2018**

8. SIGNIFICANT ACCOUNTING POLICIES

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

8.1 Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) with particular emphasis on Accrual Basis Financial Reporting under the Accrual Basis of Accounting. The financial statements comply with and conform to the form of presentation prescribed by the Accounting Standards Board of Kenya.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the Pension Fund and all values are rounded to the nearest one Shilling. The accounting policies adopted have been consistently applied to all of the years presented.

The financial statements have been prepared on the accrual basis following the Government's standard chart of accounts.

8.2 Recognition of revenue and expenses

The Pension Fund recognises all revenues from the various sources when the event occurs and the related cash has actually been received by the Pension Fund. In addition, the Pension Fund recognises all expenses when the event occurs and the related cash has actually been paid out by the Pension Fund.

8.3 In-kind donations

In-kind donations are contributions made to the Pension Fund in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value of in-kind donations can be reliably determined, the Pension Fund includes such value in the statement of receipts and payments both as revenue and as an expense in equal and opposite amounts; otherwise, the donation is not recorded.

8.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year/period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which had not been surrendered or accounted for at the end of the financial year.

**Asian Officers Family Pension Fund
Reports and Financial Statements
For the year ended June 30, 2018**

8.5 Pending Bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year/period or in past years/periods. As pending bills do not involve the payment of cash in the reporting period, they are simply disclosed as an Annex to the financial statements. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

8.6 Budget

The budget is developed on the same accounting basis (accrual basis), the same accounts classification basis, and for the same period as the financial statements. The Pension Fund's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. A high-level assessment of the Pension Fund's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

8.7 Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Pension Fund operates, Kenya Shillings. Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions.

Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of receipts and payments.

8.8 Comparative figures

Where necessary comparative figures for the previous financial year/period have been amended or reconfigured to conform to the required changes in financial statement presentation.

8.9 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, 2018.

**Asian Officers Family Pension Fund
Reports and Financial Statements
For the year ended June 30, 2018**

9. NOTES TO THE FINANCIAL STATEMENTS

9.1 DIVIDEND INCOME

RECEIPTS	2017/2018	2016/2017
	Kshs.	Kshs.
Dividend Income: Preference shares	2,999	2,134,725
Ordinary shares	5,291,730	-
	5,294,729	2,134,725

The dividend income relates to dividend on the KPLC ordinary shares, preferences shares 4% and KPLC cumulative preference shares at 7%.

9.2 PAYMENT OF PENSIONS

	2017/2018	2016/2017
PAYMENT		
Government pensions & retirement Benefits	1,600,842	1,635,696

9.3 INVESTMENTS

	2017/2018	2016/2017
	Kshs.	Kshs.
Investment in Shares	37,178,830	37,178,830

9.4 RECEIVABLE

	2017/2018	2016/2017
	Kshs.	Kshs.
Sundry Debtors interest receivables	-	-
Cash owed by Joint Consolidate	-	-
Adjustment of Dividend of 2015/2016	-	(76,026,408.65)
Cash received from Treasury – 2015/2016	-	(1,995,282.40)
Pension from European Widows & Orphans Fund	-	(100,680)
Cash owed by Cereals & Sugar Finance Corp. (CSFC)	15,200,000	15,200,000
Ordinary share dividend due from KPLC	5,291,730	-
	20,491,730	15,300,680

**Asian Officers Family Pension Fund
Reports and Financial Statements
For the year ended June 30, 2018**

9.5 CASH AND CASH EQUIVALENT

	2017/2018	2016/2017
	Kshs.	Kshs.
Cash (PMG) Annex1	449,147,290	450,912,125

9.6 PERSONAL CONTRIBUTION

	2017/2018	2016/2017
	Kshs.	Kshs.
Personal contribution E.A.C	530,610	530,610
Personal contribution E.A.C Customs	5,006	5,006
Government Contribution	1,219,565	1,219,565
Fines	1,082,904	1,082,904
Profits	33,393,016	33,393,016
	37,680,778	37,680,778

9.7 CAPITAL ACCOUNT

Initial member contribution to the pension fund	122,295,935	122,295,935
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9.8 ACCUMULATED SURPLUS

	2017/2018	2016/2017
	Kshs.	Kshs.
Surplus b/f	343,147,250	418,674,670
Journal to receivables A/C		(76,026,408)
	343,147,250	342,648,262

9.9 OTHER RECEIPTS

Provident Fund	-	18,232
National Treasury	-	<u>249,440</u>
		<u>267,672</u>

9.10 OTHER PAYMENTS

Monthly pension payment for European Widows & Orphans Scheme	-	100,680
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**Asian Officers Family Pension Fund
Reports and Financial Statements
For the year ended June 30, 2018**

9.11 FINANCIAL RISK MANAGEMENT

(i) Credit Risk

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
At 30 June 2018				
Receivables from non exchange transactions	-	-	Past due	None
Bank balances	<u>449,147,290</u>	<u>449,147,290</u>	-	None
Total	<u>449,147,290</u>	<u>449,147,290</u>	-	None
At 30 June 2017				
Receivables from non exchange transactions	-	-	-	None
Bank balances	<u>450,912,125</u>	<u>450,912,125</u>	-	None
Total	<u>450,912,125</u>	<u>450,912,125</u>	-	None

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The entity has significant concentration of credit risk on amounts due from KPLC.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

9.12 RELATED PARTY BALANCES

Nature of related party relationships

There were no related parties involved in this entity.

9.13 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

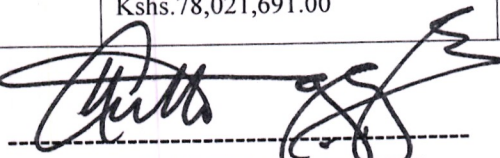
The entity did not have any contingent liabilities.

**Asian Officers Family Pension Fund
Reports and Financial Statements
For the year ended June 30, 2018**

10. PROGRESS ON FOLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

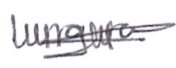
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)
57	Investment held in insolvent C&SFC-Ksh.15,200,000.00	Recoverability of the amount will be determined when winding process will be finalized	Shem Nyakutu
58	Irregular Pension payment-Ksh.519,800.00	Bank has continued to pay back the money. We have since written to the bank to remit the balance of Khs.101,090.00	Shem Nyakutu
59	Failure to provide records for verification	Effort to retrieve the files from the archives is being made	Shem Nyakutu
60	Un-supported. Kshs.78,021,691.00	Figure of Ksh.78,021,691.00 has been cleared	Shem Nyakutu



DR. KAMAU THUGGE, CBS
Principal Secretary

Date

30th Sept. 2018



LILIAN W. DISHON
Principal Accountant
ICPAK 10442

Date

30th September 2018

