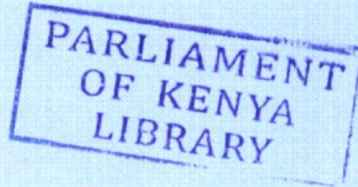


REPUBLIC OF KENYA



*Paper laid LOM  
on 28/7/2015  
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**KENYA NATIONAL AUDIT OFFICE**



**REPORT**

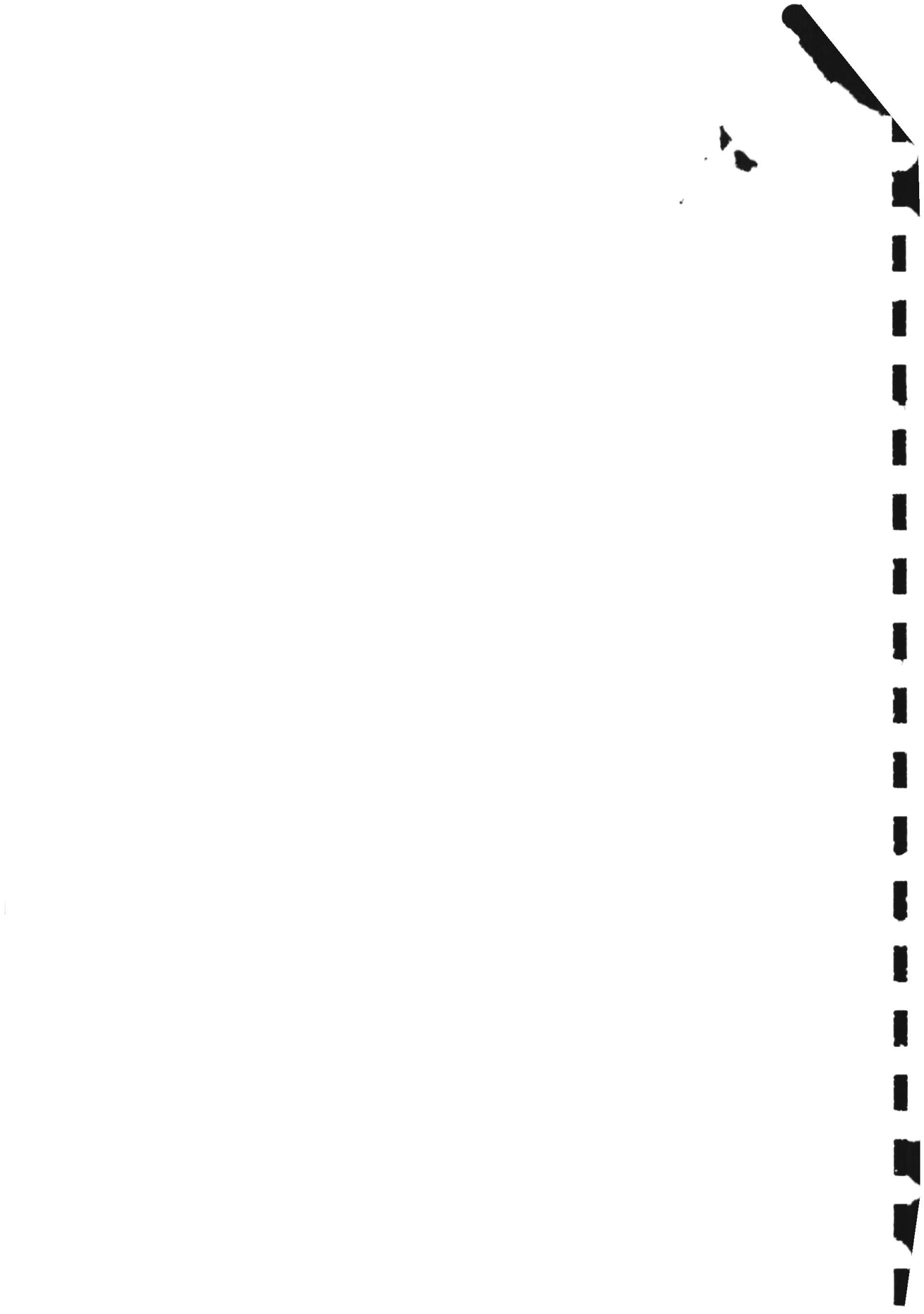
**OF**

**THE AUDITOR GENERAL**

**ON**

**FINANCIAL STATEMENTS OF  
NATIONAL SOCIAL SECURITY FUND**

**FOR THE YEAR ENDED  
30 JUNE 2014**



# NATIONAL SOCIAL SECURITY FUND



## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

*National Social Security Fund  
P.O. Box 30599 - 00100,  
Nairobi, Kenya  
Tel: (020) 2729911, 27210552  
Email: [info@nssfkenya.co.ke](mailto:info@nssfkenya.co.ke)*

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## CORPORATE INFORMATION

### 1. Principal Activity

NSSF was incorporated under the NSSF Act, Chapter 258 Laws of Kenya, that was repealed after the NSSF Act no 45 of 2013 was enacted, which came into effect on 10<sup>th</sup> January 2014. NSSF mandate is to register members, receive their contributions, prudent management of Funds, process and ultimately pay out benefits to eligible members or dependants.

### 2. Board of Trustees

NSSF operates under a Board of Trustees. The Board is a body with representation from the most representative workers' organization, most representative employers' organization and the Government of Kenya (through the Ministries of Labour and National Treasury). The composition of the Board of Trustees is meant to accommodate the views and aspirations of the three social partners in policy formulation and running of the organization. Current members are as shown below:-

- |                             |   |   |
|-----------------------------|---|---|
| a) Mr. Adan D. Mohamed, EBS | - | Chairman  |
| b) Eng. Erastus Mwongera    | - | Trustee   |
| e) Mr. Cornelius Nyang'un   | - | Trustee   |
| f) Mr. Ali Ismail Noor      | - | Trustee, Representing Ministry of Labour,<br>Social Security & Services |
| g) Mr. KamauThugge          | - | Trustee, Representing Treasury  |
| h) Eng. Andrew Muigai       | - | Trustee   |
| i) Mrs. Veska Kangogo       | - | Trustee   |
| j) Mr. Richard K. Langat    | - | CEO, Secretary to the Board   |







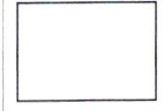

### 3. Senior Management

The following are members of the senior management:-

- |                          |   |  |
|--------------------------|---|--|
| a) Mr. Richard K. Langat | - | CEO/Managing Trustee   |
| b) Mr. Joseph Kimote     | - | General Manager (Research and<br>Strategy)                       |
| c) Mr. Austin Ouko       | - | Ag. General Manager (Corporate<br>Affairs/Corporation Secretary) |
| d) Mr. Gideon Kyengo     | - | Ag. General Manager (Finance &<br>Investment)                    |
| e) Mr. Pius Metto        | - | Ag. General Manager (Social Security)                            |
| f) Dr. Anthony Omerikwa  | - | Ag. General Manager (Operations)                                 |

- 4. Main Lawyers**  
**Wetangula, Adan, Makokha & Co Advocates,**  
12<sup>th</sup> Floor Bruce House,  
P. O. Box 10741-00100,  
Nairobi.  
Tel: +254-20-316455/220498
- Ngatia & Associates Advocates,**  
Bishops Gardens Towers, 2nd Floor, 1st Ngong Ave,  
P.O. Box: 56688-00200,  
Nairobi.  
Tel: +254-202733652
- Cootow & Associates Advocates,**  
NSSF House, 11<sup>th</sup> Floor, Pent House, Nkrumah Road,  
P. O. Box 16858 – 80100,  
Mombasa.  
Tel: 041-2221243, 2220442
- 4. Main Bankers**  
Kenya Commercial Bank of Kenya Limited,  
Moi Avenue,  
P.O. Box 48400, 00100  
Nairobi.
- National Bank of Kenya.  
Hill Branch, NHIF Building,  
P. O. Box 45151 – 00100,  
Nairobi.
- 6. Registered Office,**  
National Social Security Fund,  
NSSF Building Bishops Road,  
P.O. Box 30599, 00100  
Nairobi.  
Tel: 2729911  
Fax: 2727882.  
Email: [info@nssfkenya.co.ke](mailto:info@nssfkenya.co.ke)  
Website: [www.nssf.or.ke](http://www.nssf.or.ke)
- 7. Auditors**  
Office of the Auditor General,  
Kenya National Audit Office,  
Anniversary Towers, University way  
P.O. Box 30084-00100  
Nairobi.  
Tell: 254-20-342330/2227383  
[Oag@Oagkenya.go.ke](mailto:Oag@Oagkenya.go.ke)  
Fax +254-20-311482
- 8. Fund Managers**  
ICEA Lion Asset Management Ltd.,  
ICEA Lion Centre,  
Riverside Park, Chiromo Road, Westlands,  
P.O. Box 46143-00100,  
Nairobi.

### BOARD OF TRUSTEES

S/N	Name	Status	Date Appointed	Year of Birth	Key Profession / Academic Qualification	Experience
1	 Mr. Adan D. Mohamed,	Chairman	20 <sup>th</sup> Feb 2012	1963	<ul style="list-style-type: none"> <li>• Master of Arts</li> <li>• Advocate of the High Court of Kenya</li> </ul>	<ul style="list-style-type: none"> <li>• Has practiced law in USA</li> <li>• Certified Anti Money Laundering Specialist.</li> <li>• Litigation Lawyer in both commercial and criminal matters.</li> </ul>
2	 Eng. Erastus Mwangera	Trustee	12 <sup>th</sup> Jan 2014	1949	<ul style="list-style-type: none"> <li>• BSc-Civil Eng</li> <li>• Registered Engineer</li> <li>• Fellow of the Institute of Engineers</li> <li>• Chief of the Order of the Burning Spear.</li> </ul>	<ul style="list-style-type: none"> <li>• Over forty years as a professional practitioner.</li> <li>• Served as a Permanent Secretary in various Ministries in Kenya</li> </ul>
5	 Mr. Cornelius Nyang'un	Trustee	April 2012	1954	<ul style="list-style-type: none"> <li>• Trade Unionist</li> <li>• Diploma in Labour Economy</li> <li>• Treasurer General</li> </ul>	<ul style="list-style-type: none"> <li>• Over 15 years</li> </ul>
6	 Mr. Ali Ismail Noor	Trustee, Representative of Min of Labour	26 <sup>th</sup> June 2013	1959	<ul style="list-style-type: none"> <li>• LLB</li> <li>• MSc-HRD</li> <li>• B.A Sociology &amp; Government</li> </ul>	<ul style="list-style-type: none"> <li>• Worked with Ministry of Health</li> <li>• KP&amp;TC</li> <li>• National Bank of Kenya</li> <li>• Principal Secretary</li> </ul>
7	 Dr Kamau Thugge	Trustee, Representative of Treasury	26 <sup>th</sup> June 2013	1959	<ul style="list-style-type: none"> <li>• PhD-Economics</li> <li>• Master in Economics</li> <li>• BA Economics</li> </ul>	<ul style="list-style-type: none"> <li>• Currently Principal Secretary –National Treasury</li> <li>• Worked as Head of Fiscal &amp; Monetary Affairs Department</li> <li>• Worked with IMF as Economist</li> </ul>
8	 Eng. Andrew Muigai	Trustee	12 <sup>th</sup> Jan 2014	1964	<ul style="list-style-type: none"> <li>• BSc-Civil Eng</li> <li>• Post graduate dip procurement management</li> <li>• Post Graduate Certificate, Project Planning, Appraisal &amp; Financing</li> </ul>	<ul style="list-style-type: none"> <li>• Over 20 years experience as a Civil Engineer</li> <li>• Director in several companies.</li> </ul>
9	 Mrs. Veska Kangogo	Trustee	13 <sup>th</sup> Jan 2014	1976	<ul style="list-style-type: none"> <li>• MBA</li> <li>• BED (Arts)</li> <li>• CPS (K)</li> <li>• HND, HRM</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate Affairs &amp; Marketing Manager (LAPFUND)</li> <li>• HRM LAPFUND</li> <li>• HRO KBC</li> </ul>
10	 Mr. Richard Langat	CEO, Secretary Board of Trustees	3 <sup>rd</sup> April 2014	1966	<ul style="list-style-type: none"> <li>• MBA</li> <li>• B Com</li> <li>• CPA (K)</li> <li>• Member ICPAK</li> </ul>	<ul style="list-style-type: none"> <li>• Worked in NSSF as Finance Manager</li> </ul>

Genesis Kenya Investment Management Ltd.,  
14 Riverside Business Park, 1<sup>st</sup> Floor,  
P.O. Box 79127-00200,  
Nairobi.

Pinebridge Investments E.A. Ltd.,  
Africa Re Centre, 5th Floor,  
P.O. Box 67262-00200,  
Nairobi.

Stanlib Kenya Limited,  
CfC House, Nyerere Road,  
P.O. Box 30550-00100,  
Nairobi.

Old Mutual Asset Management (K) Ltd.,  
Old Mutual Building, Mara/Hospital Road,  
P.O. Box 11589-00400,  
Nairobi.

Co-op Trust Investment Services Ltd.,  
Co-operative House, 13<sup>th</sup> Floor,  
P.O. Box 48231-00100,  
Nairobi.

**9. Custodians**

Standard Chartered Securities Services Kenya,  
48 Westlands Road,  
P.O. Box 40984-00100 Gpo,  
Nairobi

Kenya Commercial Bank Custody Services,  
P.O. Box 30664-00100,  
Nairobi.

**10. Actuary**

Alexander Forbes Financial Services,  
P.O. Box 52439-00200,  
Nairobi.

**11. Our Vision**

To be a trusted centre of excellence in the provision of Social Security.

**12. Our Mission**

To provide social security to members through enhanced coverage, efficient registration and collections, prudent fund management, competitive benefits and exemplary governance.

## CHAIRMAN'S STATEMENT

### Introduction

I take great pleasure to present to you the Annual Report and Financial Statements for the year ended 30 June 2014.

### Operating Environment

Kenya maintained a stable economic environment and fiscal discipline despite the heightened security concerns due to acts of terrorism which continue to put a dent on the country's investment environment.

In 2013, the Kenyan economy grew marginally to 4.7% from 4.6% in 2012. We expect 2014 Gross Domestic Product (GDP) growth to stand at 4.8% mainly supported by increased government spending and resource absorption capacity in the counties but impeded by insecurity and unfavourable weather conditions. However, the government remains optimistic that the country will record a 5.8% growth in 2014.

The Nairobi Securities Exchange (NSE) and Nairobi All Share Index (NASI) gained 4.5% in June 2014, giving a respectable return of 10.0% for the first six months of 2014. This performance was much higher than the major global equity markets return of 4.8% over the same period as measured by the Morgan Stanley Capital International (MSCI) World Index. Market turnover at the NSE was up by 44% to Ksh.54 billion (approximately US\$620 million) when compared to a similar period in 2013.

### Financial Performance

I am therefore delighted to note that in line with our tagline "Growing you for Good" we recorded a surplus of **Kes. 17.56 billion**. Our Net asset base grew from **Kes. 134 billion** in 2012/2013 to **Kes. 153.03 billion** in 2013/2014, a **14%** increase. The improved performance is as result of prudent investment, operational efficiency, consistent improvements in technology and innovation

### Outlook

The economy is expected to grow at between 5.8 and 6.2 percent this year, even after the temporary shock of the September 21, 2013 terrorist attack in Nairobi, according to projections by the World Bank and the International Monetary Fund (IMF). We at NSSF will endeavour to leverage on our strength, the conducive business environment to continue championing the socio economic welfare of our people to deliver sustainable performance and contribute to the nation's economic development.







### Conclusion

Finally, I wish to express my sincere appreciation for the teams that have enabled us to make these great strides over the years. Many thanks to my fellow members of the Board of Trustee, the management and staff of NSSF for their hard work, the Government through the line Ministry of Labour and Social Services, employers, employees, our customers for their untiring support and last but not least to all our stakeholders who have kept faith in us throughout this journey.



**AL NOOR ISMAIL, OGW**  
**FOR: CHAIRMAN**

### SENIOR MANAGEMENT TEAM

S/N	Name	Year of Birth	Key Professional/ Academic Qualification	Key Responsibilities
1	 <b>Mr. Richard Langat</b> CEO/Managing Trustee	1966	<ul style="list-style-type: none"> <li>MBA</li> <li>B Com</li> <li>CPA (K)</li> <li>Member ICPAK</li> </ul>	<ul style="list-style-type: none"> <li>Provide strategic leadership</li> <li>Implement Board decisions</li> <li>Accounting Officer of the Fund</li> <li>Facilitate preparation of corporate policies</li> <li>In charge of all staff in the Fund</li> <li>Advise the Board from time to time</li> <li>Ensure contributions and benefits are paid in time</li> </ul>
2	 <b>Mr. Joseph Kimote</b> General Manager (R& S)	1971	<ul style="list-style-type: none"> <li>MBA Strategic Mgt, Project Management</li> <li>BA (Economics)</li> </ul>	<ul style="list-style-type: none"> <li>Strategy formulation and implementation, research, monitoring and evaluation</li> <li>Performance contracting, business process improvement, organizational development, quality management system and business continuity development</li> </ul>
3	 <b>Dr. Anthony Omerikwa</b> Ag. General Manager (O)	1977	<ul style="list-style-type: none"> <li>PhD</li> <li>Ed.S</li> <li>MSc HRD</li> <li>BA Econ</li> <li>Dip MIS</li> </ul>	<ul style="list-style-type: none"> <li>Identification &amp; implementation of the Fund's operations</li> <li>Oversee functions of ICT, HR, Administration and Procurement.</li> </ul>
4	 <b>Mr. Gideon Kyengo</b> Ag. General Manager (F&I)	1964	<ul style="list-style-type: none"> <li>MBA (Finance &amp; Strategy)</li> <li>CPA(K)</li> <li>BSC (Business Administration)</li> </ul>	<ul style="list-style-type: none"> <li>Leadership of Finance &amp; Investment Division</li> <li>Identification &amp; implementation of the Fund's finance &amp; investment strategic objectives</li> <li>Managing the finance and investment portfolio and formulating strategies to maximize return on Members' funds</li> <li>Develop, implement and continuously review the organization's financial and investment strategies, policies, and safeguard assets of the Fund</li> </ul>
5	 <b>Mr. Pius Metto</b> Ag. General Manager(SS)	1968	<ul style="list-style-type: none"> <li>MBA</li> <li>B.Ed</li> </ul>	<ul style="list-style-type: none"> <li>Formulate policies and strategies to increase member coverage</li> <li>Develop strategies for market penetration</li> <li>Ensure completeness of revenue from both mandatory and voluntary</li> </ul>
6	 <b>Mr Austin Ouko</b> Ag. General Manager (CA/CS)	1981	<ul style="list-style-type: none"> <li>Master of Laws (LLM)</li> <li>Bachelor of Laws (LL.B) Degree</li> <li>Postgraduate Dip.(KSL)</li> <li>Adv. Dip. (Bus. Admin).</li> <li>Dip. MIS</li> </ul>	<ul style="list-style-type: none"> <li>Carry out the Trustees' instructions</li> <li>Help ensure that the company obeys the law and its own constitutional rules</li> <li>Prepare and maintain the associated Funds documents</li> <li>Formulation of the Fund's Corporate Strategy and Operating Plans</li> </ul>

## Conclusion

The excellent performance of the Fund during the year was due to the support we received from all our esteemed contributors and business partners. We thank them for this support and look forward to working closely with them in future.

I would also like to express my gratitude to the Board of Trustee, Senior Management Team, Staff and other business partners for their hard work, dedication and commitment to the Fund during the year. This commitment has gone a long way in ensuring that the Fund continues to prosper for the benefit of all our stakeholders.



**ANTHONY OMERIKWA**  
**AG. CEO/MANAGING TRUSTEE**

## CHIEF EXECUTIVES' STATEMENT

### Performance

I'm pleased to present to you the Fund's performance for the year ended 30 June, 2014. This gives me and my staff great joy and confidence that our understanding and implementation of the strategic path set by the Board of Trustee is yielding the intended result. Member contributions, return on investment and benefits paid to members all showed a commendable growth in the year 2014.

This impressive growth is a reflection of deliberate effort by the Board of Trustee and management of NSSF in modernising and professionalizing the operations of the fund. The Fund has a huge responsibility to contribute to the achievement of the vision 2030 set by our government and give a descent and comfortable retirement to Kenyan workers.

### Financial Results

During the year, member contributions grew by 8% from **Kes. 7.80 billion** in 2013 to **Kes. 8.41 billion** in 2014. Benefits paid to members grew by 6% from **Kes. 2.14 billion** paid in 2013 to **Kes. 2.27 billion** paid in 2014. The net return on investment declined from **Kes. 27.3 billion** in 2013 to **Kes. 16.20 billion** in the year 2014 due to decline in activity in the Nairobi Securities Market which controls over 65% of our investments.

Total operating expenses declined by 26.15% to **Kes. 4.7 billion** in 2014 from **Kes. 6.3 billion** in 2013. This decline is attributed to impact of implementing the Voluntary Early Retirement (VERs) in 2012.

### Overall Performance

A net increase in Scheme Fund of **Kes. 17.56 billion** was achieved in 2014 compared to **Kes. 26.5 billion** achieved in 2013. The Fund's net assets, therefore, increased by 13% from **Kes. 134.9 billion** in 2013 to **Kes. 153.03 billion** in 2014.

### Investments

We continue to exert our presence in the Nairobi Securities Exchange as it develops and brings forth new products and investment opportunities. We have engaged the leading investment managers in the region to invest our funds and help us achieve well diversified and balanced portfolio that will increase the return on investment even further.

### Technology

In 2014 we achieved major milestones in the implementation of our ambitious IT led business transformation strategy. The Strategy recognises the critical role of ICT in supporting the business for growth and the provision of excellent services to our customers and our stakeholders.

The main focus in 2014 was on actualizing the IT transformation journey whose objective is to enable the Fund to be a fully automated organisation. The key milestones achieved in 2014 include completion of installation of a back office system SAP and a front office system, Social Security and Pension Administration System (SSPAS).

These committees meet under well defined Terms of Reference set up by the Full Board. This is intended to facilitate efficient decision making by the Board of Trustees in discharging its duties and responsibilities.

### **Annual General Meeting**

The Fund held its second Annual General Meeting (AGM) on 26<sup>th</sup> September, 2014 as part of its corporate governance practice and in compliance with the law and regulations as set up by the Retirement Benefits Authority (RBA).

## CORPORATE GOVERNANCE STATEMENT

At the National Social Security Fund, we are committed to the highest standards of corporate governance and business ethics. Recognizing that good corporate governance is key to the enhancement of our business performance, the Board of Trustees seek to discharge their duties and responsibilities in the best interest of the Fund, its shareholders, customers, business partners and the wider community. Our corporate values and ethics are entrenched in our strategic corporate plan and business objectives and are focused on transforming and accelerating growth in value for the benefit of all our stakeholders.

The Board of Trustees has delegated the authority for day-to-day management of the Fund to the CEO/ Managing Trustee. However, it retains overall responsibility for the Fund's financial performance, compliance with laws and regulations, and monitoring of its operations as well as ensuring competent management of the business.

### Board of Trustees

The Board of Trustees comprises nine Trustees' and the CEO/Managing Trustee each of whom brings a wide range of skills and experience, independent judgement and a considerable knowledge to the board's discussions. The members of the BOT are drawn from:-

- a) Principal Secretary in the Ministry for the time being responsible for matters relating to Labour and social security;
- b) Principal Secretary responsible for matters relating to finance;
- c) Seven persons appointed by the Cabinet Secretary as follows -
  - i) Two persons, one of whom shall be of opposite gender, nominated by the most representative employers organization with knowledge and experience in matters relating to employers to represent employers in Kenya;
  - ii) Two persons, one of whom shall be of opposite gender, nominated by the most representative workers organization by virtue of their knowledge and experience in matters relating to employees to represent employees in Kenya;
  - iii) Three persons one of whom shall be of opposite gender, not being public officers nor employees or directors of any public company, appointed by the Cabinet Secretary by virtue of their knowledge and experience in matters relating to administration of scheme funds, actuarial science, insurance, accounting and auditing or law. The Cabinet Secretary appoints the Chairperson from amongst these three Trustees.

### Board Meetings

The Board of Trustees hold meetings on regular basis while special meetings are called when deemed necessary.

### Committees of the Board

The Board of Trustees has set up three (3) principal Committees namely:

1. Finance, Investments and Social Security;
2. Human Resource, Legal and Strategy; and
3. Audit and Risk Committee

## BOARD OF TRUSTEES STATEMENT OF TRUSTEES' RESPONSIBILITIES

The National Social Security Fund Act No.45 of 2013 requires the Trustees to prepare financial statements for each financial year which include, a balance sheet (statement of assets available for benefits) showing the assets and liabilities of the Fund, a statement of income and expenditure (statement of changes in net assets available for benefits) and such other statements that the Trustees may deem necessary. It also requires the Trustees to ensure that the Fund keeps proper books of account and other books and records in relation to the Fund, and, to all the undertakings of Fund's investments.

The Trustees accept responsibility for the annual financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the National Social Security Fund Act as well as the Retirement Benefits Act. The Trustees are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Fund and of its operating results. The Trustees further accept responsibility for keeping proper books of accounts

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



.....  
**ANTHONY OMERIKWA**  
**AG. CEO/MANAGING TRUSTEE**

10<sup>th</sup> JUNE 2015

.....  
Date



.....  
**ALI NOOR ISMAIL, OGW**  
**FOR: CHAIRMAN**

15<sup>th</sup> JUNE, 2015

.....  
Date

## STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY

NSSF commitment to corporate social responsibility proves that there are tremendous opportunities for innovation and growth in tackling social problems as part of its core business objectives. We also understand that addressing societal pain points through innovative initiatives, serves to unlock the economic transformation of entire communities.

Our long term strategy is to engage in strategic CSR which we believe will not only benefit our stakeholders but will also reinforce the Fund's corporate strategy and leverage on key focus areas.

### CSR Activities We Undertook in the Year 2014

As a caring corporate, NSSF last year supported various CSR activities, among them;

1. NSSF participated in the MaishaPoa Campaign by donating Kes. 2.5 million towards the campaign;
2. NSSF donated Kes 500,000 towards the Nairobi School Endowment Fund. The money will be used to support the education of needy but academically gifted boys in the school;
3. NSSF participated in the National Malaria Walk. The main objective of the walk was to raise awareness and funds in support of fight against malaria;
4. Donation to MadrassatulMuadh Welfare Group;
5. Donation towards 2013 Sportsman of the Year –SOYA;
6. Sponsorship to Rusinga Cultural Ceremony;
7. Sponsorship to Joyful Women Organization;
8. Sponsorship to NOC-K; and
9. Sponsorship to Wema Centre.

The Fund will continue to contribute to a better society and a cleaner environment by integrating social and environmental concerns in our business operations and interacting with stakeholders.

# REPUBLIC OF KENYA

Telephone: +254-20-342330  
Fax: +254-20-311482  
E-mail: oag@oagkenya.go.ke  
Website: www.kenao.go.ke

P.O. Box 30084-00100  
NAIROBI



## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON NATIONAL SOCIAL SECURITY FUND FOR THE YEAR ENDED 30 JUNE 2014

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the National Social Security Fund (NSSF), set out on pages 15 to 40, which comprise the statement of net assets, and the statement of changes in net assets available for benefits, statement of changes in accumulated members funds and statement of cash flows 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**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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. The management is 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 these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the report in compliance with Article 229(7) of the Constitution. 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 audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal 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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, 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 qualified audit opinion.

### **Basis for Qualified Opinion**

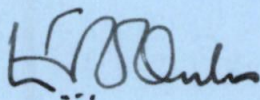
#### **Members Contribution in Suspense Account**

Members contribution in the year under review were Kshs.8,405,813,000 as at 30 June 2014. However, Note 34 to the financial statements indicates that contributions totalling Kshs.2.4 billion were held in a suspense account as at 30 June 2014. The suspense account balance was explained as relating to contributions received with improper members' details stated by their employers in the returns to NSSF. Although management has reduced the suspense from Kshs.2.6 Billion as at 30 June 2013, the suspense account should be brought to zero.

In the circumstance, corrective action should be taken including liaising with the respective employers to eliminate the cumulative suspense balance.

### **Qualified Opinion**

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects the financial position of the National Social Security Fund as at 30 June 2014 and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards and comply with the National Social Security Act, No. 45 of 2013.



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

**Nairobi**

**18 June 2015**

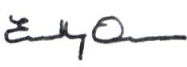
**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS  
 FOR THE YEAR ENDED 30 JUNE 2014**


	Note	2014 Kes. '000	2013 Kes. '000
<b>DEALINGS WITH MEMBERS</b>			
Contributions Receivable	2	8,405,813	7,800,358
Benefits Payable	3	(2,265,857)	(2,139,015)
<b>Net Dealings with Members</b>		<b><u>6,139,956</u></b>	<b><u>5,661,343</u></b>
<b>RETURN ON INVESTMENTS</b>			
Investment Income	4	9,278,936	8,658,903
Realised Gain on Sale of Investments	5	248,807	245,640
Unrealised Gain on Investments	10	6,737,271	18,354,776
Investment Management Expenses	6	(131,410)	(98,175)
Other Income	7	42,100	63,512
<b>Total Return on Investments</b>		<b><u>16,175,704</u></b>	<b><u>27,224,656</u></b>
<b>TOTAL REVENUE</b>		<b><u>22,315,660</u></b>	<b><u>32,885,999</u></b>
<b>EXPENSES</b>			
Staff Costs	8	3,236,767	3,698,602
General Administration costs	9	1,398,289	2,567,170
Depreciation	11	97,951	77,046
Amortization of Intangible Assets	12	15,791	-
Impairment Loss	15	6,185	-
<b>Total Expenses</b>		<b><u>4,754,983</u></b>	<b><u>6,342,818</u></b>
<b>NET INCREASE/(DECREASE) IN SCHEME FUNDS DURING THE PERIOD</b>		<b><u>17,560,676</u></b>	<b><u>26,543,182</u></b>

**STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS**

	Note	2014 Kes. '000	2013 Kes. '000
<b>Non Current Assets:</b>			
Property Plant & Equipment	11	622,204	268,575
Intangible Assets	12	552,699	0
Assets Under Construction	13	<u>963,001</u>	<u>2,259,900</u>
		<b><u>2,137,905</u></b>	<b><u>2,528,475</u></b>
<b>Investments:</b>			
Undeveloped Land	14	8,938,128	8,685,097
Land and Buildings	15	20,613,582	20,295,925
Tenant Purchase Schemes	16	9,853,841	11,087,990
Quoted Stocks	17	56,376,282	51,131,015
Unquoted Stocks	18	1,422,694	1,575,018
Treasury and Infrastructure Bonds	19	36,668,646	30,876,240
Commercial Papers	20	450,406	138,876
Corporate Bonds	21	3,330,027	2,854,788
Long Term Deposits	22	329,178	70,274
<b>Total investments</b>		<b><u>137,982,784</u></b>	<b><u>126,715,223</u></b>
<b>Total Non Current Assets</b>		<b><u>140,120,689</u></b>	<b><u>129,243,699</u></b>
<b>Current Assets:</b>			
Inventory	23	17,108	6,212
Receivables and Prepayments	24	2,487,638	2,311,534
Taxation	25	904,904	904,904
Accrued Income	26	1,767,439	1,023,991
Short Term Deposits	27	7,669,042	4,750,820
Cash and Bank	28	1,289,353	884,758
<b>Total Current assets</b>		<b><u>14,135,485</u></b>	<b><u>9,882,219</u></b>
<b>Current Liabilities</b>			
Payables	29	1,227,339	4,193,043
<b>Total Current Liabilities</b>		<b><u>1,227,339</u></b>	<b><u>4,193,043</u></b>
<b>Net Current Assets</b>		<b><u>12,908,146</u></b>	<b><u>5,689,177</u></b>
<b>Net Assets</b>		<b><u>153,028,834</u></b>	<b><u>134,932,875</u></b>
<b>Total Funds Employed</b>		<b><u>153,028,834</u></b>	<b><u>134,932,875</u></b>

The financial statements were approved by the Board of Trustees on 15/09/ 2014 and signed on its behalf by:

  
**ANTHONY OMERIKWA**  
**AG. CEO/MANAGING TRUSTEE**  
 10<sup>th</sup> JUNE 2015  
 Date

  
**ALI NOOR ISMAIL, OGW**  
**FOR CHAIRMAN**  
 15<sup>th</sup> JUNE, 2015  
 Date

**STATEMENT OF CHANGES IN ACCUMULATED MEMBERS' FUNDS AS AT 30 JUNE, 2014**

Particulars	Member's Funds Kes. '000	Accumulated Reserves Kes. '000	Reserve Fund Kes. '000	Total Kes. '000
<b>Balance at 30 June, 2012</b>	<b>80,325,192</b>	<b>20,838,764</b>	<b>9,297,064</b>	<b>110,461,021</b>
At 1st July, 2012				
Reversal of Accrued Contributions 2011/2012	(392,480)			(392,480)
Reversal of CCN accrued interest		(1,678,848)		(1,678,848)
Interest on Members' Accounts	4,578,880	(4,578,880)		0
Net Increase/(Decrease) in Assets in the period		26,543,182		26,543,182
<b>Balance at 30 June, 2013</b>	<b>84,511,593</b>	<b>41,124,218</b>	<b>9,297,064</b>	<b>134,932,876</b>
At 1st July, 2013				
Adjustment of accounts with credit balance		545,487		545,487
Adjustment (CCN Stocks accrued interest & Land Rates)		(10,205)		(10,205)
Interest on Members' Accounts	8,468,113	(8,468,113)		0
Net Increase/(Decrease) in Assets in the period		17,560,676		17,560,676
<b>Balance at 30 June, 2014</b>	<b>92,979,706</b>	<b>50,752,062</b>	<b>9,297,064</b>	<b>153,028,834</b>

The Fund has declared interest of 12.5% on members' accounts.

**STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2014**

	Note	2014 Kes. '000	2013 Kes. '000
<b>Cash flows from operating activities</b>			
Net Increase in Assets		<b>17,560,676</b>	<b>26,543,182</b>
<b>Adjustments for:</b>			
Depreciation on property, plant and equipment	11	97,951	77,046
Amortization of Intangible Assets	12	15,791	0
Increase/(Decrease) in provision	29	71,440	0
Gain on Sale of property, plant and equipment		41,950	(13,092)
Reversal of Accrued Contributions		(439,276)	(392,480)
Market Loss/Gain on Investments	10	(6,737,271)	(18,354,776)
<b>Operating Surplus /(Deficit) before working capital changes</b>		<b><u>10,611,262</u></b>	<b><u>7,859,880</u></b>
<b>Changes in Working Capital:</b>			
Decrease/(Increase) in Stores Debtors & Prepayments		(10,896)	(6,212)
Decrease/(Increase) in Debtors & Prepayments		(176,104)	(1,353,895)
Decrease/(Increase) in Accrued Income		(743,448)	(681,403)
Increase/(Decrease) in Creditors & Accruals		(2,965,703)	338,911
		<b><u>(3,896,152)</u></b>	<b><u>(1,702,598)</u></b>
<b>Net cash generated from operating activities</b>		<b><u>6,715,110</u></b>	<b><u>6,157,282</u></b>
<b>Cash flows from investing activities</b>			
(Acquisition) /Redemption of Stocks	10	(661,810)	(1,909,018)
(Acquisition) /Redemption of Treasury Bonds	10	(5,708,412)	(3,983,960)
(Acquisition) /Redemption of Treasury Bills	10	(1,318,908)	940,041
(Acquisition) /Redemption of Corporate Bond	10	(480,363)	(958,277)
Placement of Deposits with Financial Institutions		(329,178)	(787,235)
Development of Land & Buildings		(843,329)	(1,810,849)
Proceeds from Sale of Land/Plots/Houses		996,733	679,548
Receipts from Tenant Purchase Scheme		2,487,278	1,999,719
(Acquisition)/Sale of Property, Plant and Equipment	11	(452,527)	(317,613)
<b>Net Cash flow from Investing Activities</b>		<b><u>(6,310,516)</u></b>	<b><u>(6,147,644)</u></b>
<b>Net increase in cash &amp; cash equivalents in the Year</b>		<b>404,594</b>	<b>9,639</b>
<b>Cash and cash equivalents at 30 June 2012</b>		<b>884,758</b>	<b>875,119</b>
<b>Cash and cash equivalents at 30th June 2013</b>	28	<b><u>1,289,353</u></b>	<b><u>884,758</u></b>

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

### 1. SIGNIFICANT ACCOUNTING POLICIES

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

#### a) Basis of preparation

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

The financial statements have been prepared in accordance with the Public Finance Management Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

#### b) Accounting for contributions and Benefits

Contributions from employers/employees and benefit payments to members are accounted for on accrual basis in the year due.

Benefit payment cheques going stale before they are presented to the bank are written back in the cash book and a liability thereof recognized in the Financial Statements.

Interest payable on members accumulated contributions (standard contributions plus interest) is accrued annually at the agreed rate in accordance with section 19(2) and (3) of the National Social Security Fund Act (2012 – 7.5 % and 2013 - 12.5%).

#### c) Revenue Recognition

##### i) Dividends

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

##### ii) Interest on Deposits with Financial Institutions

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

##### iii) Interest/Discounts on Treasury Bills and Treasury Bonds

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

##### iv) Coupon Interest on Government Securities

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

**d) Tenant Purchase Scheme and loan Advances**

Loans and advances are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when Fund provides loans, money or services directly to debtor with no intention of trading the receivables. All loans and receivables fall under this category are stated at amortized costs. Receivables which do not carry interest rate are stated at their invoice price.

**e) Property, plant and equipment**

**i) Recognition and measurement**

Items of property and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses arising on disposal of an item of property and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the item and are recognised net within 'other operating income' in profit or loss.

**ii) Depreciation and impairment of property, plant and equipment**

Investment assets and capital work in progress are not depreciated. Asset under construction relates mainly to the cost of ongoing but incomplete works on building and ICT projects.

Depreciation is recognised in the income statement on a straight-line basis to write down the cost of each asset or the revalued amount to its residual value over its estimated useful life. The annual rates in use are:

Particulars	%
Freehold and Long Term Leasehold Land	Nil
Low Value Assets	100
Motor Vehicles	20
Computer and Microfilming Equipment	33.33
Amortization of Intangible Assets	33.33
Office Furniture	10
Office Equipment	12.5
Fittings and Furnishings	20

A full depreciation charge is recognised both in the year of asset purchase and in the year of disposal.

**iii) Subsequent Costs**

Subsequent expenditure is capitalized only when it is probable that future economic benefits of the expenditure will flow to the Fund. Recurrent repairs and maintenance are expensed as incurred.

**f) Intangible Assets**

Intangible assets comprise purchased computer software licenses, which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than the estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

**g) Investments**

**(i) Quoted Equities**

Equities are stated at market value. Differences between cost and market value are debited/ (credited) to the revenue statement. Upon sale of the investment, the surplus/ (deficit) relating to the transaction is dealt within the revenue statement.

**(ii) Unquoted Equities**

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

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

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

**h) Investments in Land and Buildings and Plots**

Land and buildings and undeveloped land/plots are stated at valuation/fair value. Investment properties under construction are measured at cost.

**i) Cash and Cash Equivalents**

For purposes of presentation in the cash flow statement, cash and cash equivalents comprise bank balances, short-term deposits maturing within 3 months.

**j) Impairment and Un-collectability of Financial Assets**

The carrying amounts of the Fund's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. The carrying amount of the asset is reduced to its estimated recoverable amount through the use of provision for bad debts and doubtful debts account.

**k) Valuation of Assets**

Valuation of Investments in land and buildings, and undeveloped land was done during the year by professional valuers and a report issued as at 30 June 2014.

l) **Employee Benefits**

Majority of the Fund's employees are eligible for retirement benefits under a defined contribution plan. Contributions to the defined contributions plan are charged to the statement of changes in net assets as they are incurred. Any difference between the charge to the statement of changes in net assets and the annual contributions paid is recorded in the Statement of Net Assets under other liabilities/assets.

m) **Foreign Currencies**

Monetary assets and liabilities expressed in foreign currencies are translated into Kenya shillings at the rates of exchange ruling at year end. Transactions during the year in foreign currencies are translated at the rates ruling at the dates of the transactions. Gains and losses on exchange are included in the statement of changes in net assets available for benefit.

n) **Actuarial Valuation 2013**

An actuarial valuation was carried out by Professional Actuaries and a report issued as at 30 June 2014. The valuation was done on an attained Age method. The actuarial report indicates that the value of liabilities of the scheme was **Kes. 111, 678 million** compared to the value of assets amounting to **Kes. 117, 204 million** giving rise to a surplus of **Kes. 5, 526 million** resulting to a **Funding level of 104.9%**. On accounting basis, the assets are over accrued liabilities by Kes. 23.633 billion and a funding ratio of 121%.

o) **Provision for Staff Leave Pay**

Employees' entitlements to annual leave are recognised as they accrue at the employees. A provision is made for the estimated liability for annual leave at the reporting date.

p) **Comparative Figures**

Comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

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

	2014 Kes. '000	2013 Kes. '000
<b>2. Contributions Receivable</b>		
Contributions Receivable-Employer	4,623,197	4,290,197
Contributions Receivable-Employee	<u>3,782,616</u>	<u>3,510,161</u>
<b>Total Contributions Receivable</b>	<b><u>8,405,813</u></b>	<b><u>7,800,358</u></b>
<b>3. Benefits Payable</b>		
Age Benefit	912,112	808,693
Survivors Benefit	312,542	241,463
Invalidity Benefit	18,564	21,276
Withdrawal Benefit	1,009,867	1,053,391
Emigration Benefit	8,810	9,106
Refunds	693	1,164
Funeral Grant	<u>3,269</u>	3,922
<b>Total Benefit Payable</b>	<b><u>2,265,857</u></b>	<b><u>2,139,015</u></b>
<b>4. Investment Income</b>		
Dividend	1,976,544	1,985,799
Rent	938,323	909,538
Interest	4,994,921	4,958,800
Interest TPS	1,286,962	804,767
Other investment Income	82,186	0
<b>Total Investment Income</b>	<b><u>9,278,936</u></b>	<b><u>8,658,903</u></b>
<b>5. Realized gain on Sale of Investments</b>	<b><u>248,807</u></b>	<b><u>245,640</u></b>
<b>6. Investment Management Expenses</b>		
Fund Managers Fees	91,238	77,312
Fees paid to Custodians	<u>40,172</u>	<u>20,863</u>
	<b><u>131,410</u></b>	<b><u>98,175</u></b>
<b>7. Other Incomes</b>		
Profit on Sale of Non Financial Assets	0	13,092
Sale of TPS and Tender Application Forms	16,713	19,443
Interest on Staff loans	13,785	21,289
Fines and Penalties	1,767	5,917
Other Miscellaneous Receipts	<u>9,835</u>	<u>3,770</u>
	<b><u>42,100</u></b>	<b><u>63,512</u></b>
<b>8. Staff Costs</b>		
Salaries and Allowances	2,769,860	3,059,473
Pension and Gratuity Expenses	40,158	173,346
Training	61,072	49,867
Medical Expenses	187,757	255,835
Staff Welfare	37,706	33,896
Insurance	60,240	117,243
Other Staff Expenses	9,053	8,941
Leave Pay and Gratuity Provisions	<u>70,920</u>	<u>0</u>
	<b><u>3,236,767</u></b>	<b><u>3,698,602</u></b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Kes. '000	2013 Kes. '000
<b>9. General Administration Costs</b>		
Trustees' Emoluments	29,523	32,233
Travelling & Subsistence	120,946	100,384
Transport Expenses	41,005	40,813
Rent Expenses	196,671	188,881
Land Rent and Rates	260,399	63,105
Printing, Stationery and Photocopying	45,889	35,593
Postage Telephone & Network Expenses	52,305	64,950
Electricity, Water, Security & Conservancy	41,714	50,328
Repairs and Maintenance	20,855	64,975
Consultancy & Professional Expenses	115,938	126,109
Legal Expenses	71,928	120,864
Audit Fees	6,000	4,900
Social Security Policy Development	100,048	3,314
General Insurance	25,352	29,736
Advertising & Publicity	91,803	156,895
Donations and CSR	40,305	40,245
Finance Expense	9,747	11,912
Project Claims	0	146,609
Rationalisation Expenses	82,224	1,234,066
Other Administrative Expenses	45,637	51,257
	<b>1,398,289</b>	<b>2,567,169</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. Change in Market Value of Investments	Note	2014	Additions	Disposals	Impairment	Redemption	Fair Value Gain/(Loss)	2013
a) Investments		Kes. '000	Kes. '000	Kes. '000	Kes. '000	Kes. '000	Kes. '000	Kes. '000
Undeveloped Land	5(a)	8,938,128	0	1,105,000	0	-	1,358,031	8,685,097
Land and Buildings		20,613,582	1,599,663	1,991,589	6,185	-	715,768	20,295,925
Unquoted Stocks		1,422,694	0	152,323	0	-	0	1,575,018
Quoted Stocks		56,376,282	2,302,685	1,642,021	0	-	4,584,603	51,131,015
Treasury Bonds		36,668,646	9,379,665	2,028,252	0	1,643,000	83,994	30,876,240
Corporate & Infrastructure Bonds		3,330,027	612,000	17,000	0	114,638	(5,124)	2,854,788
<b>Change in Market in Value Transferred to Statement of Changes in Net Assets</b>		<b>127,349,359</b>	<b>13,894,013</b>	<b>5,831,186</b>	<b>6,185</b>	<b>1,757,638</b>	<b>6,737,271</b>	<b>115,418,084</b>

11. Property Plant and Equipment	ICT HARDWARE	MOTOR VEHICLES	OFFICE EQUIPMENT	OFFICE FURNITURE	FITTINGS & FURNISHINGS	TOTAL
Cost/Valuation	Kes. '000	Kes. '000	Kes. '000	Kes. '000	Kes. '000	Kes. '000
Opening carrying value	778,040	363,795	258,695	201,783	39,368	1,641,681
Additions during the year	402,455	-	20,222	26,564	3,286	452,527
Disposals	-	-	(239)	-	(78)	(317)
<b>At 30 June, 2014</b>	<b>1,180,494</b>	<b>363,795</b>	<b>278,679</b>	<b>228,347</b>	<b>42,576</b>	<b>2,093,891</b>
<b>Depreciation</b>						
At 30 June, 2013	738,927	271,465	207,974	120,437	34,304	1,373,105
Disposals	-	-	-	-	0	0
Adjustments	-	-	284	353	2	630
Charge for the year	34,265	33,471	11,653	15,175	3,386	97,951
<b>At 30 June, 2013</b>	<b>773,182</b>	<b>304,936</b>	<b>219,911</b>	<b>135,966</b>	<b>37,692</b>	<b>1,471,687</b>
<b>Net Book Value</b>						
At 30 June, 2014	407,313	58,859	58,767	92,381	4,884	622,204
At 30 June, 2013	39,113	92,331	50,722	81,346	5,064	268,601

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Kes. '000	2013 Kes. '000
<b>12. Intangible Assets</b>		
<b>Cost</b>		
At July 1	0	0
Additions	568,490	0
Disposals	0	0
At June 2013	<u>568,490</u>	<u>0</u>
<b>Amortisation</b>		
At July 1	0	0
Charge for the year	15,791	0
Disposals		0
Impairment		0
At June 2014	<u>15,791</u>	<u>0</u>
<b>Net Book Value</b>		
At June 2014	<u>552,699</u>	<u>0</u>
<b>13. Assets Under Construction</b>		
	2014 Kes. '000	2013 Kes. '000
SAP System	0	300,706
SSPAS System	0	148,345
Mavoko Project	1,806	1,806
Tassia Scheme	37,295	37,295
Nyayo Estate Embakasi Projects	0	1,217,893
Buildings Refurbishment Projects	0	221,594
Parking Silo Completion Project	331,615	67,623
Hazina Trade Centre Office Tower	286,086	264,637
Kitisuru Roads	8,154	0
Milimani Flats	296,747	0
Field Offices Refurbishment	1,298	0
	<u>963,001</u>	<u>2,259,900</u>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2014 Kes. '000	2013 Kes. '000
<b>14. Undeveloped Land</b>		
Tassia Estate	88,128	88,128
Outering Road Plot	0	170,000
Mavoko Plots	3,295,000	3,083,000
Upper Hill Plot	110,000	100,000
Mtwapa Plot (Bamburi)	580,000	460,000
Bamburi Plots	970,000	860,000
Forest Edge Langata	160,000	160,000
Bishops Road Plot	0	520,000
Machakos Plot	300,000	225,000
Mountainview Plots	0	15,000
Kenyatta Avenue Plot	3,275,000	2,825,000
Milimani Plot, Kisumu	160,000	158,969
<b>Total</b>	<b>8,938,128</b>	<b>8,685,097</b>

<b>15. Land and Buildings</b>		
Social Security House & Annex Nairobi	7,500,000	7,100,000
Social security House Mombasa	1,200,000	1,100,000
Bruce House Nairobi	2,450,000	2,300,000
Hazina Trade Centre Nairobi	2,800,000	2,600,000
Hazina Estate	255,000	229,000
Hazina Towers	1,200,000	1,100,000
Viewpark Towers	2,070,000	2,000,000
Hazina Plaza Mombasa	400,000	400,000
Nyayo Estate Embakasi	963,582	1,770,740
Statehouse Road	1,295,000	1,240,000
Milimani Flats	480,000	450,000
Kapsoya Estate*	0	6,185
	<b>20,613,582</b>	<b>20,295,925</b>

The increase in value of land and building was as a result of revaluation done for the period ended 30 June 2014

\*On sale of Kapsoya Housing Estate in the year 2000, a book balance remained after all the houses were sold through outright sale or tenant purchase. The balance has of Kes. 6.185 million was impaired in accordance with IAS 40(73) (A).

<b>16. Tenant Purchase Scheme</b>		
1 TPS Loans-Employees	1,549,544	1,545,053
2 TPS Loans-Others	8,304,298	9,542,937
	<b>9,853,841</b>	<b>11,087,990</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. Quoted Stocks	2014 Kes. '000	2013 Kes. '000
<b>Kenya Power</b>	1,317,057	1,303,705
99,026,846 Kes. 2.50 Ordinary Shares,		
3,550 Kes. 20 cum. Preference Shares,	28	28
750 Kes. 20 Cum Preference Shares	4	4
<b>East African Breweries Limited</b>	8,694,023	10,945,554
30,720,931 Kes. 2 Ordinary Shares		
<b>B.A.T (K) Limited</b>	3,173,179	2,924,943
4,889,336 Kes. 10 Ordinary Shares		
<b>Access Kenya Ltd</b>	0	20,246
120,000 Kes. 1 Ordinary Shares		
<b>KenGen Company Ltd.</b>	303,714	424,080
27,992,089 Kes. 2.50 Ordinary Shares		
<b>Bamburi Cement Co. Ltd</b>	9,901,755	12,234,928
56,906,640 Kes. 5 Ordinary Shares		
<b>E.A. Portland Cement Co. Ltd.</b>	1,858,950	1,348,650
24,300,000 Kes. 5 Ordinary Shares		
<b>Kenya Commercial Bank Limited</b>	11,520,734	8,469,180
225,896,743 Kes. 1 Ordinary Shares		
<b>Housing Finance Co. Kenya Ltd</b>	671,878	396,840
15,716,448 Kes. 5 Ordinary Shares		
<b>Sameer Africa Ltd.</b>	35,485	23,183
4,731,292 Kes. 5 Ordinary Shares		
<b>National Bank of Kenya Ltd.</b>	4,002,795	2,825,502
134,547,727 Kes. 5 Ordinary Shares		
<b>Barclays Bank of Kenya Ltd.</b>	2,718,184	2,540,445
162,765,482 Kes. 0.50 Ordinary Shares		
<b>Standard Chartered Bank Kenya Ltd</b>	1,433,293	1,311,673
4,638,488 Kes. 5 Ordinary Shares		
<b>Nation Media Group Kenya Ltd.</b>	2,644,597	2,596,664
8,530,959 Kes. 2.50 Ordinary Shares		
<b>Athi River Mining Company Ltd.</b>	446,600	341,760
5,582,500 Kes. 1 Ordinary Shares		

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Quoted Stocks ( Continued)	2014 Kes. '000	2013 Kes. '000
<b>Kenya Re</b> 24,111,043 Kes. 2.50 Ordinary Shares	464,138	379,694
<b>Kenya Airways</b> 10,000 Kes. 5.00 Ordinary Shares	0	100
<b>Britam (K) LTD</b> 115,570,635 Kes. 0.10 Ordinary Shares	2,299,856	961,454
<b>Safaricom Limited</b> 171,459,600 Kes. 0.05 Ordinary Shares	2,134,672	914,690
<b>Carbacid Investments Ltd</b> 187,500 Kes. 5 Ordinary Shares	5,203	2,800
<b>CFC Stanbic of Kenya Holdings Ltd</b> 2,444,242 Kes. 5 Ordinary Shares	315,307	111,712
<b>Centum Investment Co Ltd</b> 1,638,418 Kes. 0.50 Ordinary Shares	67,585	13,799
<b>Uchumi Supermarket Ltd</b> 3,651,700 Kes. 5 Ordinary Shares	45,098	72,669
<b>TPS Eastern Africa Ltd</b> 1,939,500 Kes. 1 Ordinary Shares	66,913	43,700
<b>Scangroup Ltd</b> 2,017,600 Kes. 1 Ordinary Shares	92,305	100,987
<b>The Co-operative Bank of Kenya Ltd</b> 18,798,700 Kes. 1 Ordinary Shares	362,815	141,354
<b>NIC Bank Ltd</b> 4,770,964 Kes. 5 Ordinary Shares	274,330	113,539
<b>Equity Bank Ltd</b> 11,647,500 Kes. 0.50 Ordinary Shares	535,785	332,084
<b>Diamond Trust Bank Kenya Ltd</b> 2,746,500 Kes. 4 Ordinary Shares	659,160	137,020
<b>Umeme Ltd</b> 10,864,200 Ord 0.50 (Uganda)	139,298	98,061
<b>Kenol Kobil</b> 8,219,600 Kes. 0.50 Ordinary Shares	71,922	0
<b>I &amp; M Holdings</b> 866,800 Kes. 1 Ordinary Shares	119,618	0
	<b>56,376,282</b>	<b>51,131,015</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Kes. '000	2013 Kes. '000
<b>18. Unquoted Stocks</b>		
<b>Consolidated Bank Limited Shares</b>		
8,050,000 4% Kes. 20 Cumulative Preference Shares	194,057	194,057
2,225,000 Kes. 20 Ordinary Shares	53,637	53,637
<b>12.25% Nairobi City Council Stock 1994</b>	0	152,323
<b>NBK Shares 235 million N/cum pref. shares</b>	<u>1,175,000</u>	<u>1,175,000</u>
	<b><u>1,422,694</u></b>	<b><u>1,575,018</u></b>
<b>19. Treasury and Infrastructure Bonds</b>		
Due between zero to 5 years	16,468,253	7,701,612
Due after 5years	<u>20,200,393</u>	<u>23,174,628</u>
	<b><u>36,668,646</u></b>	<b><u>30,876,240</u></b>
<b>20. Commercial Paper</b>		
Kenol Kobil	0	134,029
TPS Serena	0	4,847
EABL	<u>450,406</u>	<u>0</u>
	<b><u>450,406</u></b>	<b><u>138,876</u></b>
<b>21. Corporate Bonds</b>		
Housing Finance Co. of Kenya Corporate Bond	1,202,957	1,196,700
Centum Investment Co Ltd	300,000	300,000
Barclays Bank Corporate Bond 11.5%	126,200	122,240
Consolidated Bank of Kenya	451,571	434,845
Shelter Afrique	327,000	10,000
Kaluworks Limited	0	17,000
KenGen Infrastructure Bond	637,299	774,003
I & M Bank	<u>285,000</u>	<u>0</u>
	<b><u>3,330,027</u></b>	<b><u>2,854,788</u></b>
<b>22. Long Term Deposits</b>		
Savings and Loan Ltd (Security Deposit)	59,227	58,409
Revolving Funds (Savings and Loan Ltd.)	14,724	11,865
Revolving Funds (HFCK)	239,484	0
HFCK (Security Deposit)	<u>15,743</u>	<u>0</u>
	<b><u>329,178</u></b>	<b><u>70,274</u></b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	<b>2014</b>	<b>2013</b>
	<b>Kes. '000</b>	<b>Kes. '000</b>
<b>23. Inventory</b>		
General Office Stationery	12,576	4,294
Office & Computer Accessories	2,853	389
Tools and Electrical Accessories	593	536
Safety Materials and Clothing	39	28
Hospitality Materials	1,047	965
	<b>17,108</b>	<b>6,212</b>
<b>24. Receivables and Prepayments</b>		
Rent and TPS Receivables	741,341	529,197
Sundry Debtors (note 24a)	49,103	32,839
Deposits / Advances	1,013,037	975,982
Prepayments	150	5,096
Staff Receivables(note 24b)	230,173	233,237
Contributions Arrears (note 24c)	445,474	526,339
Tax Receivables	8,360	8,844
	<b>2,487,638</b>	<b>2,311,534</b>
<b>24(a) Sundry Debtors( note 24 a)</b>		
Bounced Cheques	22,877	11,728
ECASSA Debtors	9,212	9,212
Regent Management Ltd	150	150
Mutula Kilonzo(Note 33(a))	5,015	0
Lloyd Masika Ltd	4,787	4,787
City Council of Nairobi	2,474	2,374
Staff Pension Debtor	4,588	4,588
	<b>49,103</b>	<b>32,839</b>
<b>24(b)Staff Receivable(note 24b)</b>		
Commuted Pension	0	1,673
Staff House Loans/Mortgage Loans	6,401	6,917
Other staff Loans	6,278	2,360
Advances and Imprest	5,566	3,114
Staff Car Loans	211,928	219,174
	<b>230,173</b>	<b>233,237</b>
<b>24(c) Contribution Receivables (note 24c)</b>		
Outstanding for less than 30 days	445,474	439,276
Outstanding for more than 30 days	0	87,063
	<b>445,474</b>	<b>526,339</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**25. TAXATION**

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

The amounts reflected in the statement of net assets relate to taxes overpaid in years prior to the exemption together with any withholding tax on interest and dividends deducted at source as at 30 June, 2013. Negotiations between the Fund and Kenya Revenue Authority (KRA) are ongoing on this issue.

	2014 Kes. '000	2013 Kes. '000
<b>26. Accrued Income</b>		
Dividend	466,767	0
Interest on Term Deposits	1,300,673	1,023,991
	<b>1,767,440</b>	<b>1,023,991</b>
<b>27 Short Term Deposits</b>		
Treasury Bills	1,785,852	466,944
Call Deposits (27 a)	1,892,000	1,501
Fixed Deposits (27 b)	3,991,190	4,282,375
	<b>7,669,042</b>	<b>4,750,820</b>
<b>27(a) Call Deposits</b>		
Cooperative Bank	19,000	0
Diamond Trust bank	59,000	0
ABC Bank	14,000	1,501
National Bank of Kenya	1,800,000	0
	<b>1,892,000</b>	<b>1,501</b>
<b>27(b) Fixed Deposits</b>		
Cooperative Bank	432,000	0
Diamond Trust bank	244,000	757,734
Kenya Commercial Bank	381,857	562,928
Post Bank	415,761	405,171
HFCK	304,900	13,039
Standard Chartered Bank	253,500	583,284
Barclays Bank of Kenya	8,000	0.00
I & M Bank	0	307,452
Family Bank	11,000	0
Bank of Africa	200,000	276,781
Commercial Bank of Africa	38,500	442,591
CFC Stanbic Bank	0	28,348
Chase Bank	83,950	103,746
National Bank of Kenya	1,239,722	95,991
NIC Bank Ltd	38,000	55,342
Equity Bank	340,000	649,967
	<b>3,991,190</b>	<b>4,282,375</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

<b>28. Cash and Bank</b>		
Cash on Hand	3,563	4,412
Bank	1,285,790	880,346
	<b>1,289,353</b>	<b>884,758</b>
<b>29. Creditors and Accruals</b>		
Payables due to Vendors	88,515	1,123,568
House Purchase Deposits	129,468	1,365,961
Sundry Creditors and Accruals*	608,688	1,390,152
Statutory and other deductions	34,940	35,096
Unclaimed Benefits	294,287	278,267
Leave Pay and Gratuity Provisions	71,440	0
	<b>1,227,339</b>	<b>4,193,043</b>
<b>Analysis of Sundry Creditors and Accruals*</b>		
<b>Legal fees Payable</b>		
Mutula Kilonzo	293,836	293,836
B. M. Musau	29,250	29,250
Okoth, Ndengu and Kiplagat	7,278	7,278
<b>Others:</b>	0	
Tax payable	21,099	17,938
Plots Deposit/Sale	154,219	906,845
Rental Deposits	96,234	87,910
Audit fees	6,000	5,684
Prepaid Rent	773	41,411
	<b>608,688</b>	<b>1,390,152</b>
<b>Leave Pay and Gratuity Provisions</b>		
Balance at beginning of the year	0	0
Additional Provision at end of year	71,440	0
Leave paid out or utilized during the year	0	0
	<b>71,440</b>	<b>0</b>

**30 Basis Non-Consolidation of Interest in Associate**

The financial statements of NSSF are prepared in accordance with S.5 of the NSSF Act No.45 of 2013. The Section requires NSSF statement of net assets (balance sheet) to show in details the assets and liabilities of the Fund. Although NSSF owns 48.05% of ordinary shares and 235 million non cumulative preference shares in National Bank of Kenya Limited (NBK), the operations of the bank have not been consolidated in the Fund's financial statements as required by the International Financial Reporting Standards.

Had consolidated Financial Statements been prepared based on the latest audited financial statements of NBK as at 31 December 2013, NSSF's share in the operations of NBK would have been as follows:-

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	JUNE 2013 Kes. "000"	JUNE 2012 Kes. "000"
Profit after taxation(48.05%*1,112,803)	534,702	350,646
Accumulated Surplus/(Deficit) (48.05%*3,277,535)	<u>1,574,856</u>	<u>1,223,882</u>
	<b><u>2,109,558</u></b>	<b><u>1,574,528</u></b>

### 31 Related Party Disclosures

#### a) Government of Kenya

The government has provided full guarantee in the event of insolvency. There were no entity transactions involving the Government of Kenya.

#### b) Income earned from related parties

National Bank of Kenya Limited (NBK)	95,175	91,535
Kenya Commercial Bank – Dividend income	449,793	416,676
East African Portland Cement Company	18,225	0
NASSEFU Savings and Credit Society Limited – Rental income	<u>3,081</u>	<u>3,081</u>
	<b><u>566,274</u></b>	<b><u>511,292</u></b>

#### c) Employees

The Fund provides qualifying employees with car and housing loans on terms more favourable than available in the market. The benefits obtained by staff are subjected to income tax as required under the Kenya Income Tax Act.

TPS Debtors (staff)	<u>77,157</u>	<u>120,857</u>
	<b><u>77,157</u></b>	<b><u>120,857</u></b>

### 32 Contracts and Contingent Liabilities

#### a) Contracts/Commitments

- (i) Project works at Nyayo Estate Embakasi, Phase VI are ongoing at an expected cost of Kes. 2.1 billion. A substantial amount is expected to be paid during 2013/2014 financial year.
- (ii) Refurbishment, fire escape doors, electrical installations and consultancies of SSH Nairobi and SSH Mombasa were complete in 2013/2014 financial year.
- (iii) Project works for extension of Social Security House Annex Parking Silo are expected to be done at a cost of Kes. 570 million in 2013/2014 and 2014/15 financial years.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

- (iv) Concept papers for project developments at Hazina Village Mavoko and Kenyatta Avenue are to be carried out at a cost of 2.8 billion during 2013/2014 financial year, while construction of up-market apartments at the NSSF Milimani property will be started in the year.
- (v) Extension of Hazina Trade Centre, Nairobi expected to cost Kes. 6.7 billion is ongoing.

### b) Contingent Liabilities

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

As at 30 June, 2003 NSSF had a contingent liability of Kes. 4.95 billion relating to a claim made by Sololo Outlets Limited in High Court Civil Case No.804 of 2002 for an alleged breach of contract in the development of Hazina Estate in South B. NSSF filed its defence and counter claim of Kes. 3.1 billion. An out of court settlement was reached and consent filed in court on 20 December 2011 fully and finally settling the matter at Kes. 490,850,090. The plaintiff has since filed a notice of motion application to vary the terms of the settlement claiming that the rate and quantum of interest payable had not been finalized. The matter is yet to be determined.

#### (ii) Africa Planning and Design Consultants (APDC) Vs NSSF (Case No. 99 of 1994)

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

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

#### (iii) James Nderitu Gachagua Vs NSSF (Case no. NAIROBI HCCC No. 1209 of 2000)

On 26 January 2002, the Plaintiff sued the Fund for Kes. 50.8 million, being Quantity Surveyors fees in respect of the proposed Kitengela Housing Scheme. The plaintiff claims that he was commissioned by NSSF to carry out quantity survey work on the proposed project before it was later suspended by the Fund. NSSF disputed the claim. The suit was dismissed with costs of the suit.

#### iv) No.1619/2002 B.N. Musau T/A Musau & Co. Advocates -Vs- NSSF

The advocates alleged to have received instructions from NSSF to handle matters relating to Prudential Building Society.29,250,000. When asked for the Instruction Letter, the firm was unable to produce. The case is pending in court for taxation of the lawyers costs.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

v) **Miscellaneous Application NO. 67 of 2005: Mutula Kilonzo & Co. Advocates vs National Social Security Fund**

This is a case filed by the above mentioned firm of Advocates arising out of court Case Number HCCC No. 957/2000 (SOLOLO OUTLETS) which was fully settled out of court. The firm is claiming **Kshs.242,184,493.20** as their bill of costs for the suit. The taxation of the bill of costs is still pending in court to date.

c) **Land and Buildings**

**Nyayo Estate, Embakasi (Case No. 59 of 2005)**

Mugoya Construction Company Limited has sued the Fund claiming Kes. 7.058 billion against a counter claim by NSSF of Kes. 9.873 billion. Included in project costs for Nyayo Estate, Embakasi and the counter-claim are payments of Kes. 324.356 million made to Mugoya Construction Company Limited without security.

The Fund is of the opinion that the possibility of Mugoya Construction Company Limited succeeding is remote. These and other matters relating to dealings with Mugoya Construction Company Limited are under arbitration for determination. However, full provision of Kes. 324.356 million was made in the 2008/2009 financial statements.

### 33 Contingent Asset

a) **Kilonzo & Co. Advocates**

The amount relates to payments made by Fritz N. Achola in 2007 of Kes. 2,090,000 and Kes. 2,925,000 paid by Peter M. Kuluo in 1999 for purchase of houses LR. Nos.140/041/005 and No.140/062.

The amounts were paid through Kilonzo & Company Advocates but were held as lien by the advocate for fees purportedly owed to them by NSSF.

b) **Impaired Assets**

In the financial year 2012/2013 various assets were impaired based on IAS 36, IAS 40 and the recommendations of the 18<sup>th</sup> Public investments Committee (PIC) meeting. Prior to the impairment, the assets had been discussed in previous Public Investments Committee (PIC) meetings. The Fund is aggressively pursuing each case for recovery of the impaired assets through relevant legal institutions. The status of each case is as follows:-

(i) **Properties in Gazetted Areas**

**New Muthaiga Plot**

The Fund acquired investment properties in gazetted areas in New Muthaiga L.R. No.209/12274 measuring 18.41 hectares (located within Sigiria Block which is part of the Karura Forest Reserve) and Ngong Road L.R.Nos.20840 and 20841 lying next to Lenana School (part of Ngong Forest).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Fund filed a case under ELC.104/2007 (formerly 147 of 2004) NSSF Board of Trustees-vs-Kitisuru Limited, Geoffrey Chege Kirundi, Mike Maina Kamau, Commissioner of Lands and Attorney General. The case is ongoing and is at hearing stage. EACC is also currently investigating the matter.

### **Ngong Road Plot LR. Nos. 20840 & 20841**

The Fund filed a case in court under Milimani HCCC NO. 162 of 2005 NSSF vs Kerios Farm Ltd. The case is ongoing and the EACC is also investigating the matter.

### **(ii) The amount of Kes. 251,516,000 invested in Euro Bank**

An amount of Kes. 251,516,000 invested in Euro Bank and expected to have matured on 28 February 2002 had not been redeemed, as the Bank was placed under receivership in 2003.

The Fund initially won the case against Shah Munge & Partners and was awarded Kes. 258,133,333.00. In 2013 the Fund identified 5,250,000 NSE shares valued at 250,000,000.00 belonging to Shah Munge, but another company by the name Southern Bell Ltd went to court claiming ownership of the shares. The company lost the case blocking the fund from selling the 5,250,000.00 shares for Eurobank valued at Kes. 250,000,000.00 and has given a notice of intended appeal.

### **(iii) Rental Income amounting to Kes. 30, 681,000**

Rental income amounting to Kes. 30,681,000 collected from tenants in Bruce House, Hazina, Viewpark Towers and Nyayo Estate by various property agents had not been remitted to the fund as at 30 June 2014. Efforts to implement a court decree in favour of the Fund entered by consent vide HCCC No.859 of 1997 have not been successful and on 14<sup>th</sup> July 2014 the matter was picked by the EACC for investigation. The Fund's lawyers are trying to trace the assets of the company.

### **(iv) The amount of Kes. 1,201,143,000 in respect of shares purchased through Discount Securities Limited**

The matter is before the Anti-Corruption Court - Milimani - Discount Securities Case File No.141/267/2010, Court File No.ACC 15 of 2010 (Republic-vs-Francis Moturi Zuriels & Others), Fund witnesses are giving evidence. Recovery of the amount is still being pursued through the Court Case ACC 15 of 2010 filed by EACC against the suspected culprits. The case is ongoing.

### **(v) Westlands Branch Fraud**

#### **(Case No. 113/14/2/200 & Court File No. 2995 of 2005-Kibera)**

The amount of Kes. 7, 243,030 was lost through fraud at the branch. The matter is before a court of law for determination though fully provided for in the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### (vi) Kenya College of Medicine

This tenant at both Hazina and View Park Towers presented fake cash deposit slips for receipting that were subsequently discovered. The case is before a court of law and the amount of Kes. 9,327,627 in question has been provided as contingent.

### 34. Compliance with Retirement Benefits ACT

The NSSF Act No 45 of 2013 came into operation in January 2014 provides that NSSF shall be subject to all the provisions of the Retirement Benefits Act. The Fund has not complied with the following provisions of the Retirement Benefits Act and the rules under the Act:-v Rule 28 (2) of the occupational rules for a retirement benefit scheme requires the Fund to maintain an account under which all transactions should be recorded. However, as at 30 June 2014, NSSF had Kes. 2.4 billion of contributions held in suspense account. Measures are still on to bring it to zero.

In her functions as a provident fund, NSSF maintains employer accounts where total contributions are credited monthly and temporarily held as funds on transit into individual members/employer records awaiting to be released for benefits upon qualification as per the Act. Update of member/employee records is a continuous exercise until a member is fully paid benefits.

### 35. FINANCIAL RISK MANAGEMENT POLICIES

The Board of Trustee has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board of Trustee has established various Board committees, which are responsible for developing and monitoring the Fund's risk management policies in their specified areas.

All Board committees report regularly to the Board of Trustee on their activities. The Fund's risk management policies are established to identify and analyze the risks faced by the Fund, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Fund, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit & Risk Committee is responsible for monitoring compliance with the Fund's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Fund. The Committee is assisted in these functions by Audit & Risk department which undertake reviews of risk management controls and procedures, the results of which are reported to the Audit & Risk Committee.

The Funds financial risk management objectives and policies are detailed below:

#### Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 1 to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### Financial Risk Factors

The Fund's overall risk management programme seeks to maximize the returns derived from the level of risk to which the Fund is exposed and seeks to minimize potential adverse effects on the Funds performance

The management of these risks is carried out by the Management and Fund Managers under investment policies approved by the Board of trustees.

#### a) Foreign Currency Risk

The Fund does not hold any of its bank balances in foreign currency. The fluctuations in currency exchange rates therefore do not expose the Fund to foreign currency risk.

IFRS 7 considers the foreign exposure relating to non –monetary assets and liabilities to be a component of market price risk not foreign currency risk. However, management monitors the exposure on all foreign currency denominated assets and liabilities.

#### b) Liquidity Risk Management

The fund is exposed to daily operational payments and payment to claims payable balances. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Fund sets limits on the minimum proportions of maturing funds available to meet such calls and unexpected levels of demand.

Ultimate responsibility for liquidity risk management rests with the Management, who have built an appropriate liquidity risk management framework. The Fund manages liquidity risk by maintaining enough funds for its operations through continuous monitoring of forecast and actual cash flows. In order to manage the Fund's overall liquidity, the management monitors the Fund's liquidity position on a daily basis. The contractual maturities of financial liabilities are shown below:-

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

<b>As at 30th June, 2014</b>	<b>Less than 12 Months Kes. 000</b>	<b>Over 12 Months Kes. 000</b>	<b>Total Kes. 000</b>
<b>Assets:</b>			
Investments at quoted market values	2,736,104	93,638,851	96,374,955
Investments at estimated fair value	450,406	40,828,245	41,278,651
<b>Other assets:</b>			
Inventory	0	17,108	17,108
Receivables and Prepayments	2,589,767	0	2,520,793
Taxation	0	904,904	904,904
Accrued Income	1,767,439	0	1,767,439
Long Term Deposits	0	329,178	329,178
Short Term Deposits	7,669,042	0	7,669,042
	<b>15,212,758</b>	<b>135,718,286</b>	<b>150,862,070</b>
<b>Liabilities:</b>			
Accounts Payable	1,035,182	294,286	1,329,468
	<b>1,035,182</b>	<b>294,286</b>	<b>1,329,468</b>

**36. Currencies**

The Financial Statements are presented in **Kenya Shillings** (Kes. )