

REPUBLIC OF KENYA



*paper laid by the  
Leader of Majority  
on 06/06/2018  
Rumbi*

OFFICE OF THE AUDITOR-GENERAL

PARLIAMENT  
OF KENYA  
LIBRARY

**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
INSURANCE REGULATORY  
AUTHORITY**

**FOR THE YEAR ENDED  
30 JUNE 2017**



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OFFICE OF THE AUDITOR-GENERAL

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AUTHORITY**

**FOR THE YEAR ENDED  
30 JUNE 2017**



Insurance  
Regulatory  
Authority

Bima Bora kwa Taifa

**IRA**

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**INSURANCE REGULATORY AUTHORITY**

**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2017**

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

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# INSURANCE REGULATORY AUTHORITY

## KEY AUTHORITY INFORMATION AND MANAGEMENT

### (a) Background information

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

### (b) Principal Activities

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

### (c) Key Management

The Authority's day-to-day management is under the following key organs:

- i) The Chief Executive Officer; and
- ii) Senior Management

### (d) Fiduciary Management

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2017 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Ag.Chief Executive Officer and Commissioner of Insurance	Mr. Godfrey Kiptum
2.	Chief Manager, Technical	Mrs. Agnes Ndirangu
3.	Chief Manager, Finance	Mr. Edward Opiayo
4.	Corporation Secretary and Chief Manager Legal Affairs	Ms. Diana Sawe
5.	Chief Manager, Policy , Research and Development	Mr. Robert Kuloba

### (e) Fiduciary Oversight Arrangements

The Board has put in place the following committees:

- i) Audit, Risk Management and Corporate Governance Committee
- ii) Finance and Administration Committee
- iii) Technical, Research and Compliance Committee
- iv) Human Resource Committee



# INSURANCE REGULATORY AUTHORITY

## KEY AUTHORITY INFORMATION AND MANAGEMENT

### **(f) Authority's Offices**

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

### **(g) Contacts**

Tel: (254)-020-4996000, Mobile: 0719 047000  
Fax: (254) -020- 2710126  
Email: [commins@ira.go.ke](mailto:commins@ira.go.ke)  
Website: <http://www.ira.go.ke>

### **(h) Authority's Bankers**

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

NIC Bank  
NIC House  
P.O Box 44599-00100  
Nairobi, Kenya  
Tel 4948000

KCB Ltd  
Capitol Hill  
P.O Box 48400-00100  
Nairobi, Kenya  
Tel. 3270000

### **(i) Independent Auditors**

Auditor General  
Office of the Auditor General  
Anniversary Towers, University Way  
P.O. Box 30084-00100  
Nairobi, Kenya

### **(j) Principal Legal Adviser**

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

# INSURANCE REGULATORY AUTHORITY

## THE BOARD OF DIRECTORS



**Hon. Abdirahin H. Abdi, MGH**  
**Chairman**  
MBA, Bsc (Finance)

Hon. Abdi is a former Speaker of the East African Legislative Assembly (EALA) where he was a Member for 10 years. As a speaker, he presided over all Assembly meetings and rulings on all decisions that required such edict of the position. As a member, he served in the Accounts and Communication, Trade and Investment Committees. Currently, he serves on various other Boards.



**Dr. Kamau Thugge, CBS**  
Principal Secretary,  
The National Treasury

Dr. Kamau Thugge is currently the Principal Secretary at the National Treasury. He has previously worked in the Ministry of Finance as head of Fiscal and Monetary Affairs Department, Economic Secretary and as Senior Economic Advisor. Before joining the Ministry of Finance, he worked with the International Monetary Fund (IMF) as Economist, Senior Economist and Deputy Division Chief.



**Mr. Godfrey Kiptum, MBS**  
MPPM, MBA, BA, ACII,  
FLMI, Dip.HRM

Mr. Kiptum is the Ag. Chief Executive Officer and Commissioner of Insurance. He has extensive experience in management and insurance. He holds a Master of Business Administration (MBA) from Maastricht School of Management/Eastern & Southern Africa Management Institute (ESAMI), Masters in Public Policy & Management, Strathmore Business School and Bachelor of Arts degree from University of Nairobi.

He further holds various professional qualifications and is a member of the Board of Retirement Benefits Authority, Policyholders Compensation Fund and a Trustee of the College of Insurance.

## THE BOARD OF DIRECTORS.....CONTINUED



**Mr. Nzomo Mutuku**  
**Member**  
MA, BA

Mr. Mutuku is Ag. Chief Executive Officer of the Retirement Benefits Authority. Previously he was the Acting Director, Financial and Sectoral Affairs Department at the National Treasury where he was charged with financial sector development including financial inclusion, efficiency and stability as well as sectoral policy issues including regional integration and climate finance.

Mr. Mutuku serves in the Technical, Research & Compliance; Finance & Administration; and Audit, Risk Management & Corporate Governance Committees of the Board.



**Mr. Paul Muthaura,**  
**Member**  
M.Phil., LLM (Banking & Finance), LLB

Mr. Muthaura is the Chief Executive of the Capital Markets Authority. He is an Advocate of the High Court of Kenya with a wealth of experience in financial services regulation, management and finance. He is a member of various international boards the International Organization of Securities Commissions (IOSCO). At the national level he sits on the boards of the Pensions regulator as well as the Vision 2030 Delivery Board.

Mr. Muthaura serves in the Human Resource; and Finance & Administration Committees of the Board.




**Mr. Matu Mugo**  
**Member**  
MBA, B.Com, CPA(K)

Mr. Mugo represents the Governor of the Central Bank of Kenya in the Board. At the Bank, he leads teams responsible for the review and development of policies to promote safe, affordable and inclusive financial services. He has been involved in the development of legal and regulatory frameworks for sharia compliant banking, microfinance, digital financial services, credit information sharing and agency banking.

Mr. Mugo serves in the Technical, Research & Compliance; Human Resource; and Audit, Risk Management & Corporate Governance Committees of the Board.

## INSURANCE REGULATORY AUTHORITY

### THE BOARD OF DIRECTORS.....CONTINUED

 <p><b>Ms. Alice M. Njoroge</b> <b>Member</b> BA, ACII, ACI Arb.</p>	<p>Mrs. Njoroge was appointed to the Board with effect from 19<sup>th</sup> January 2015 as an independent member. She is the nominee of the Insurance Institute of Kenya with expertise in insurance business spanning over 20 years. She has held managerial positions in several insurance companies and has been involved in various industry technical committees. Mrs. Njoroge Chairs the Audit, Risk Management &amp; Corporate Governance Committee of the Board.</p>
 <p><b>Ms. Joyce K. Muchena</b> <b>Member</b> MA, BA, Dip. Human Rights, H. Dip. Psychological Counselling</p>	<p>Ms. Muchena was appointed to the Board with effect from 19<sup>th</sup> January 2015 as an independent member. She has over 16 years' experience in strategic planning, policy formulation, socio-political conflict analysis, human resource management and project management. Ms. Muchena Chairs the Technical, Research &amp; Compliance Committee and serves in the Human Resource; and Audit, Risk Management &amp; Corporate Governance Committees of the Board.</p>
 <p><b>Mr. Douglas Kailanya</b> <b>Member</b> MBA, B.Com, CPA(K)</p>	<p>Mr. Kailanya was appointed to the Board with effect from 19<sup>th</sup> January 2015 as an independent member. He is a qualified accountant with vast experience in financial management, administration, budgeting, investment portfolio management, credit control, and enterprise debt and risk management. Mr. Kailanya Chairs the Finance &amp; Administration Committee of the Board.</p>

## INSURANCE REGULATORY AUTHORITY

### THE BOARD OF DIRECTORS.....CONTINUED



**Mr. Paul K. K. Cheboi**  
**Member**

Ph.D. Candidate, MBA,  
BSc, PG Dip.

Mr. Cheboi was appointed to the Board with effect from 19<sup>th</sup> January 2015 as an independent member. He has wide experience in management of educational institutions and manufacturing companies both in the private and the NGO sectors. He has over 17 years' experience in administration, finance, planning, academic affairs, public relations, marketing and quality assurance.

Mr. Cheboi Chairs the Human Resource Committee of the Board.



**Ms. Diana Sawe Tanui**

**Corporation Secretary  
and Chief Manager  
Legal Affairs**

LLB, Dip (KSL), CPS(K),  
MCIrb

CS. Diana is a Certified Public Secretary, an Advocate of the High Court of Kenya, an Arbitrator, a trained Governance Auditor, Commissioner for Oaths and Notary Public. She is a member of the Institute of Certified Public Secretaries of Kenya, the Law Society of Kenya, the Institute of Directors (Kenya) and the Chartered Institute of Arbitrators.

She is a Council Member at the Institute of Public Secretaries of Kenya in which role she provides a strategic guidance and oversight to the development of the Certified Secretaries profession; and capacity building in corporate governance in Kenya. She also serves as a member of the In-House Committee of the Law Society of Kenya, and a member of the Legal Committee of the Chartered Institute of Arbitrators Kenya Chapter

# INSURANCE REGULATORY AUTHORITY

## SENIOR MANAGEMENT TEAM

### Ag. Chief Executive Officer and Commissioner of Insurance



**Mr. Godfrey Kiptum**  
MPPM, MBA, BA, FLMI, Dip.HRM

### Corporation Secretary and Chief Manager Legal Affairs



**Ms. Diana Sawe Tanui**  
LLB, Dip (KSL), CPS(K), MCIRb

### Chief Manager Technical



**Mrs. Agnes Ndirangu**  
MBA, BCOM, ACII

### Chief Manager Finance



**Mr. Edward Opiayo**  
MBA, B.Com, CPA, CS

### Chief Manager Policy, Research and Development



**Mr. Robert Kuloba**  
MA, BA

# INSURANCE REGULATORY AUTHORITY

## CHAIRMAN'S STATEMENT



On behalf of the Board of Directors of the Authority, it gives me great pleasure to present the Annual Report and Financial Statements for the year ended 30<sup>th</sup> June 2017. In the year under review, we recorded various milestones and embarked on a number of initiatives aimed at enhancing our service delivery to all stakeholders. We also marked 10 years of establishment.

### **Performance of the Authority**

The Authority is mandated to Regulate, Supervise and Promote Development of the insurance industry. To realize this, the Authority has identified Consumer Education and Protection, Promotion of an Inclusive, Competitive and Stable Industry and Provision of Quality Customer Service as the overarching goals from which it draws its annual activities.

In the year under review, the Authority identified and implemented consumer education through various medium, increased agency workforce through the training of agents at county level and enhanced industry capacity through sensitization and training and programmes including the very successful Actuarial Scholarship Programme.

The year also witnessed a major development in the implementation of Marine Cargo Insurance (MCI) as stipulated in the Insurance Act. With MCI now localized, we expect to see an increase in insurance penetration.

From the consumer protection front, we rolled out a framework for Treating Customers Fairly (TCF) as we seek to implement our Consumer Protection Policy. We are further engaging with industry players to address the ever pressing matter of prompt claims settlement and complaints resolution so as to reduce the days



# **INSURANCE REGULATORY AUTHORITY**

## **CHAIRMAN'S STATEMENT.....continued**

taken to pay claims and resolve any outstanding complaints between insurers and the consumers. This area remains a challenge in the fulfillment of our core functions and we are seeking to address it both through the law and engagement with industry players. Public perception about insurance also remains a challenge as this affects our insurance penetration targets.

### **Board and Management Performance**

Our good performance reflects the support, insight and strategic leadership provided by the Board of Directors and I wish to thank them for their unwavering support during the year. Without their commitment and selflessness, we would not have realized our annual work plans.

At the management level, we had a leadership change. The long serving Commissioner of Insurance and CEO Mr. Sammy Makove retired and Mr. Godfrey Kiptum who was the Chief Human Capital Development and Administration Manager was appointed on an acting capacity. To enhance time taken for complaints resolution, we have increased the capacity within the Consumer Protection Unit and we are seeking necessary government approvals to fill the vacant positions that we still have.

### **Future Outlook**

To realize our mandate and ensure that we promote insurance while protecting the insured, we have put in place policies and operating frameworks to ensure that our goals are realized. Moving forward, we are also looking to fully implementing risk based capital and supervision model, issuing perpetual licenses to insurers, enhancing insurance penetration, access and inclusion while promoting innovation within the industry.

### **Appreciation**

I wish to sincerely thank the Board of Directors for their continued dedication and service in steering the Authority, regulated entities, our customers, business partners and intermediaries who anchor our business for their continued support. I wish to specially recognize management and staff for their diligence and loyalty throughout the year. I look forward to strengthening our current relationships and building new ones as we explore new and better ways to serve Kenyans and partners long into the future.

**Hon. Abdirahin H. Abdi, MGH**  
**Chairman**  
**Board of Directors – Insurance Regulatory Authority**

# INSURANCE REGULATORY AUTHORITY

## REPORT OF THE CHIEF EXECUTIVE OFFICER



It is my pleasure to present the 2016/2017 Annual Report. The year under review coincided with the Authority celebrating 10 years of establishment. It is a proud moment for us as we celebrate a decade of growth and strive to continue promoting growth of insurance services while protecting the insured.

### **Industry Performance**

There has also been a lot of regulatory changes largely driven by the overall government policy direction on the financial sector coupled with best practice in regulation as set out by international standards setting bodies. The measures put in place have seen the industry register significant growth both in terms of premium growth as well as growth in asset base.

In the year under review, the industry exhibited positive growth. The gross direct premium written grew by 13.0% while the net premium written grew by 13.1%. While the gross premium income is increasing, we have noted that the underwriting profits are reducing for general business. For instance, underwriting profits reduced for; Engineering (10.0%), Marine (40.0%) and Workmen's Compensation (99.0%).

### **Authority's Performance**

In the year under review, the Authority continued to focus on the following strategic issues as it strives to realize its mandate:

#### **1. Consumer Education and Protection:**

Consumer Education is an important pillar for Consumer Protection. To address the matter of information asymmetry between insurance consumers and insurance providers we have adopted a multichannel approach to consumer education to reach various audiences. In addition to the education campaigns we run on radio and television channels, some of the consumer education activities we are conducting include county mobile insurance clinics, road shows, training of insurance champions, insurance open days and meetings with consumers drawn from various segments of the public. We are keen on consumer education as this



# INSURANCE REGULATORY AUTHORITY

## REPORT OF THE CHIEF EXECUTIVE OFFICER...continued

is one of the ways of ultimately enhancing uptake and penetration of insurance services. In the short term, it assists in protecting existing consumers.

### 2. **Industry Stability and Development**

This is realized by putting in place the right regulatory and supervisory frameworks. We have now fully adopted the risk based supervision and have issued various guidelines and circulars aimed at ensuring that there is no disruption in the industry. We have had several engagements with the industry players and their response has been positive. We continue to receive new entrants into the local market and have witnessed a number of mergers and acquisitions in the last year. The interest shown in the local insurance market is proof enough that the Kenyan insurance market is viable and has business potential.

To enhance industry capacity, we have continued to conduct trainings for insurance agents in partnership with the County Governments. So far, we have trained more than 3000 insurance agents across 34 counties. At a higher level, the Authority is still training students on Actuarial Studies at the City University London, Sir John Cass Business School. We have trained 30 students through this programme and 9 have qualified as Actuarial Fellows.

### 3. **Provision of Quality Customer Service**

We aim to attain a customer satisfaction rate of 85% by 2018. Currently, we are at 77.2%. To realize the desired mark, we are leveraging most of our services on ICT and enhancing our human capital capacity to meet customer demands. We have automated several customer functions making it easy to interact with our stakeholders from the comfort of their offices. A customer relationship management system has been put in place to track customer issues and overall operating procedures have been revised to reduce service timelines. We are open to feedback and suggestions on how to further enhance our service delivery to satisfy our customers.

### **Strategic Focus**

We are focused on increasing insurance penetration to 5% by the year 2018. We are also working towards reducing the time taken to settle admitted claims and increasing the capitalization of insurers to ensure that the industry is stable.

### **Appreciation**

The year under review has witnessed many positive activities and achievements. The Authority owes these achievements to its hardworking and dedicated staff. On their behalf, I thank the Board for its guidance and direction during the year. I express gratitude to the stakeholders for their continued support and contribution to our success. I trust that together we shall work to achieve better result in the next year.

  
**Godfrey Kiptum, MBS**

**Ag. Commissioner of Insurance & Chief Executive Officer**



# INSURANCE REGULATORY AUTHORITY

## CORPORATE GOVERNANCE STATEMENT

The Authority is a State Corporation established under the Insurance Act and whose primary activities are to regulate, supervise and develop the insurance industry in Kenya and protect the interests of policyholders and insurance beneficiaries.

### a) Board Composition

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

<b>Name</b>	<b>Membership</b>	<b>Profession</b>
Hon. Abdirahin H. Abdi	Chairman	Business Development Expert & Legislator
Mr. Sammy M. Makove (retired 15.11.16)	Chief Executive Officer & Commissioner of Insurance	Management & Insurance
Mr. Godfrey K. Kiptum (appointed 16.11.16)	Ag. Chief Executive Officer & Commissioner of Insurance	Management, Insurance & Human Resource
Dr. Edward Odundo (retired 30.03.17)	Chief Executive Officer, Retirement Benefits Authority	Accounting, Management & Finance
Mr. Nzomo Mutuku	Ag. Chief Executive Officer, Retirement Benefits Authority	Economics & Financial Services Regulation
Mr. Paul Muthaura	Chief Executive Officer, Capital Markets Authority	Legal, Management & Finance
Mr. Matu Mugo	Representing, Governor Central Bank of Kenya	Finance & Accounting
Ms. Alice M. Njoroge	Member, Nominee Insurance Institute of Kenya	Management & Insurance
Mr. Douglas Kailanya	Member	Finance, Management & Accounting
Ms. Joyce K Muchena	Member	Strategic Planning & Management
Mr. Paul K K Cheboi	Member	Academic Affairs, Management & Planning

Members of the Board other than *ex-officio* members hold office for a period of three (3) years and are eligible for re-appointment for another term. The Board Members represent an appropriate skill, experience, gender, diversity and geographical mix to facilitate effective execution of the Authority's mandate. The Inspector of State Corporations (or his representative) may attend any meeting of the Board or Board Committees as in his opinion is necessary for the effective carrying out of the duties of his office.

There has neither been a resignation by nor removal of a serving director. Two directors exited by virtue of expiry of their terms in office.



# INSURANCE REGULATORY AUTHORITY

## CORPORATE GOVERNANCE STATEMENT.....CONTINUED

### **b) Board Committees**

The Board has delegated its Authority to the standing Committees to enable it effectively carry out its mandate. The Committees of the Board have respective Terms of Reference and are constituted as follows:

- (i) Technical, Research and Compliance;
- (ii) Audit, Risk Management and Corporate Governance;
- (iii) Finance and Administration;
- (iv) Human Resource; and
- (v) 10<sup>th</sup> Anniversary Celebrations (Ad Hoc Committee)

The Board has an Internal Audit Charter in place which is subject to review in line with changing operational environment and governance requirements.

### **c) Board Attendance**

A record of attendance of Board Meetings and Board Committee Meetings was kept during the period under review. The provisions of the Insurance Act, the State Corporations Act and the Mwongozo Code of Governance for State Corporations pertaining to attendance and absence from meetings have been adhered to.

### **d) Conflict of Interest**

Board Members are required to disclose any conflict of interest in relation to matters that are brought before them for deliberation. The Corporation Secretary maintains a register of conflicts of interest which is updated where a conflict is declared.

### **e) Whistle Blowing Policy**

The Authority has provided for protection of whistle blowers under its Code of Conduct and Ethics as well as its Whistleblowing Policy so as to ensure safeguard of the identity and safety of whistleblowers.

### **f) Statement of Compliance**

The Authority conducted its business affairs in full compliance with all applicable laws, rules, regulations, relevant executive orders and circulars.

### **g) Board Oversight**

The Board is responsible for the formulation, implementation and monitoring of the Authority's Strategic Plan thus providing appropriate strategic direction for the Authority. During the period under review, a mid-term review of the Strategic Plan for the period 2013 – 2018 was conducted.



# **INSURANCE REGULATORY AUTHORITY**

## **CORPORATE GOVERNANCE STATEMENT.....CONTINUED**

The Board ensures that the Authority espouses proper corporate governance practices and is also responsible for managing the Authority's risks. The Board recognises and is committed to delivering its responsibility to all its stakeholders.

### **h) Board Induction and Training**

The Board development programmes during the period under review were aligned to training needs and scheduled as follows:

1. Strategic Management of Regulatory and Enforcement Agencies - Harvard Kennedy School, Boston
2. Mwongozo Induction Program – State Corporations Advisory Committee, Mombasa
3. Short Course on Regulation - The London School of Economics, London
4. High Performance Boards – IMD Real World Learning, Switzerland
5. Program for Insurance and Pension Supervisors – Toronto Centre, Ontario
6. Making Corporate Boards More Effective – Harvard Business School, Boston

### **i) Board Evaluation**

The Board schedules its annual evaluation exercise in its work plan in consultation with the State Corporations Advisory Committee (SCAC) which conducted the exercise in October 2016.

### **j) Board Remuneration**

The Board is remunerated in accordance with the approved Terms and Conditions of Service prescribed under various Government Circulars.

### **k) Corporation Secretary**

The Board is assisted by a qualified, competent and experienced Corporation Secretary. The Corporation Secretary co-ordinates the Board activities and ensures, in conjunction with the Chairman and Chief Executive Officer, that the Board meetings are held procedurally.

### **l) Separation of Roles**

The role of the Board is separated from that of the Management; the office of the Chairperson and that of the Chief Executive Officer are held by different persons; and the office of the Chief Executive Officer and that of the Corporation Secretary are held by different persons.



# INSURANCE REGULATORY AUTHORITY

## CORPORATE GOVERNANCE STATEMENT.....CONTINUED

### **m) Social Responsibility**

Being conscious of the Authority's responsibility to the society, the Board is committed to operate ethically and promote corporate social responsibility and investments in accordance with its CSR Policy.

### **n) Board Attendance**

A board meeting attendance register is maintained for all board committee and board meetings. Where a Member did not attend any meeting, an acceptable apology was duly received by the Chairman and recorded by the Corporation Secretary.

The Chief Executive Officer/Commissioner of Insurance is an ex officio member of all Board Committees. The Inspector of State Corporations (or his representative) may attend any meeting of the Board or Board Committees as in his opinion is necessary for the effective carrying out of the duties. The board meetings attendance matrix is indicated below:

#### **KEY:**

- ¶** - This is a member of respective Committee
- \*** - This is not a member of the Committee but in attendance
- #** - Member retired/was appointed mid-year thus no attendance in full
- \$** - Membership of the Committee was reconstituted mid-year thus no attendance in full
- TRC** - Technical, Research and Compliance Committee
- FAC** - Finance & Administration Committee
- ARCC** - Audit, Risk Management and Corporate Governance Committee
- HRC** - Human Resource Committee



# INSURANCE REGULATORY AUTHORITY

## CORPORATE GOVERNANCE STATEMENT.....CONTINUED

### Board Members Attendance of Meetings

Name	Designation	Classification	Board	TRC	FAC	ARCC	HRC	10 <sup>TH</sup> AC
Hon. Abdirahin Abdi	Chairman	Membership	¶	*				*
		Attendance	10/10	2				1
Mr. Sammy Makove (retired 15.11.16)	CEO	Membership	¶	¶	¶	¶	¶	
		Attendance	2/10	2/12 <sup>#</sup>	2/5 <sup>#</sup>	1/4 <sup>#</sup>	0/4 <sup>#</sup>	
Mr. Godfrey Kiptum (appointed 16.11.16)	Ag. CEO	Membership	¶	¶	¶	-	¶	¶
		Attendance	6/10	6/12 <sup>#</sup>	3/5	-	3/4 <sup>#</sup>	4/5 <sup>#</sup>
Dr. Edward Odundo (retired 30.03.17)	Member	Membership	¶	¶	¶	¶	¶	
		Attendance	4/10	9/12 <sup>#</sup>	3/5	-	2/4 <sup>#</sup>	
Mr. Paul Muthaura	Member	Membership	¶	-	¶	-	¶	
		Attendance	4/10	-	1/5	1/4 <sup>\$</sup>	3/4	
Mr. Matu Mugo	Member	Membership	¶	¶	-	¶	¶	¶
		Attendance	7/10	-	-	1/4 <sup>\$</sup>	1/4	2/5
Mr. Nzomo Mutuku	Member	Membership	¶	¶	¶	¶	-	¶
		Attendance	7/10	9/12	1/5 <sup>\$</sup>	3/4 <sup>\$</sup>	-	4/5
Ms. Alice Njoroge	Member	Membership	¶	¶	¶	¶	¶	¶
		Attendance	10/10	12/12	5/5	3/4 <sup>\$</sup>	1/4 <sup>\$</sup>	5/5
Mr. Douglas Kailanya	Member	Membership	¶	¶	¶	-	¶	¶
		Attendance	10/10	11/12	5/5	-	4/4	5/5
Ms. Joyce Muchena	Member	Membership	¶	¶	-	¶	¶	¶
		Attendance	9/10	9/12 <sup>\$</sup>	-	4/4	4/4	5/5
Mr. Paul Cheboi	Member	Membership	¶	¶	¶	¶	¶	*
		Attendance	9/10	3/12 <sup>\$</sup>	4/5 <sup>\$</sup>	4/4	3/4 <sup>\$</sup>	1



# INSURANCE REGULATORY AUTHORITY

## CORPORATE SOCIAL RESPONSIBILITY STATEMENT

### Donation to the National Drought Initiative

Corporate Social Responsibility (CSR) programme is an integral part of our business operations. Our CSR activities reflect our philosophy of adopting a responsible approach to developing relationships between ourselves and the communities in which we operate. Since establishment, we continue to build a strong reputation for social responsibility and uphold high standards, of corporate conduct with an aim to build value for our business and brand. The Authority promotes CSR activities in line with its CSR agenda. These are driven by a CSR committee comprising of staff from various divisions. In the year under review, the Authority main CSR activity was through a donation to the National Drought Initiative

Through the initiative implemented by the Kenya Red Cross Society and championed by the First lady H.E Mrs. Margaret Kenyatta, the Authority donated Kes. 5 million. This money will be used to support households in Northern Kenya that are worst hit by the drought that has continue to ravage the country. This initiative is patroned by the First Lady who received the donation on behalf of the Red Cross from the Board Chairman Hon. Abdirahin H. Abdi. Speaking during the donation handover at State House Nairobi, the chairman lauded the First Lady for championing the initiative noting that through her good will, vulnerable Kenyans manage to get food on their tables. He reiterated the Authority's commitment to giving back to the society adding that IRA would continue to support initiatives that improve the wellbeing of the less privileged members of the society.



Hon. Abdirahin H. Abdi (4<sup>th</sup> from left) and Ag. Commissioner of Insurance & CEO Mr. Godfrey Kiptum (3<sup>rd</sup> from right) leads other board members and management team in handing over the Authority's donation towards the National Drought Response initiative to the First Lady H.E. Mrs. Margaret Kenyatta.



## **INSURANCE REGULATORY AUTHORITY**

### **CORPORATE SOCIAL RESPONSIBILITY STATEMENT...continued**

#### **Support to health and learning Institutions**

The Authority also supported the Kenya Society for the Blind, Nairobi Hospice and Nyeri Hospice and the Cerebral Palsy Society of Kenya (CPSK) through contributions to their various annual charity causes.

On matters education, donation was given to pupils of St. Bakhita Primary School located in Mukuru slums within the South B area. The school caters for poor and vulnerable children drawn from the slum. Members of staff joined the pupils during their annual prayer day in November and donated assorted stationery items to the class pupils.



# **INSURANCE REGULATORY AUTHORITY**

## **REPORT OF THE DIRECTORS**

The Directors submit their report together with the financial statements for the year ended June 30, 2017 which shows the state of affairs of the Insurance Regulatory Authority (the Authority).

### **1. INCORPORATION**

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

### **2. PRINCIPAL ACTIVITIES**

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

### **3. RESULTS**

The results of the Authority for the year ended June 30, 2017 are set out on page 22.

### **4. BOARD OF DIRECTORS**

The Directors who served during the year are shown on page 3-6.

### **5. AUDITORS**

The Auditor General is responsible for the statutory audit of the Authority pursuant to the Article 229(2) (h) and in accordance with Section 35 of the Public Audit Act, 2015 and Section 68(2) (k) of the Public Finance Management Act, 2012.

### **By Order of the Board**

Ms. Diana Sawe Tanui  
**Board Secretary**

Date: 



# INSURANCE REGULATORY AUTHORITY

## STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Financial Management Act, 2012 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of the Authority, which give a true and fair view of the state of affairs of the Authority at the end of the financial year and the operating results of the Authority for that year. The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

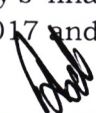
The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and at the end of the financial year ended June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements 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 entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Authority; selecting and applying appropriate accounting policies; and (v) making accounting estimates that are reasonable in the circumstances.

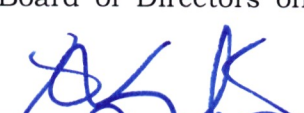
The Directors accepts responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of the Authority's transactions during the financial year ended June 30, 2017, and the Authority's financial position as at that date. Financial affairs of the Authority and of its operating results. The Board of Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

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

### Approval of the Financial Statements

The Authority's financial statements were approved by the Board of Directors on 14<sup>th</sup> September 2017 and signed on its behalf by:

  
\_\_\_\_\_  
**Chairman**  
Date : 10/04/18

  
\_\_\_\_\_  
**Director**  
Date : 10/04/18



# **INSURANCE REGULATORY AUTHORITY**

## **REPORT BY THE AUDITOR GENERAL**

(Deliberately left blank awaiting audit of the financial statements)

# 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 INSURANCE REGULATORY AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

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#### REPORT ON THE FINANCIAL STATEMENTS

#### **Opinion**

I have audited the accompanying financial statements of Insurance Regulatory Authority set out on pages 22 to 42, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of comparison of budget and actual amounts 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 35 of the Public Audit Act, 2015. I have obtained the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Insurance Regulatory Authority as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Insurance Act, Cap 487 of the Laws of Kenya.

Further, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that nothing has come to my attention to cause me believe that public money has not been applied lawfully and in an effective way.

#### **Basis of Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Insurance Regulatory Authority 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 judgement are of most significance in the audit of the financial statements. There were no Key Audit Matters to communicate in my report.

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*Report of the Auditor-General on the Financial Statements of Insurance Regulatory Authority for the year ended 30 June 2017*

## **Responsibilities of Management and those Charged With Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual 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 Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Authority or to cease operations, 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 provision of Section 47 of the Public Audit Act, 2015.

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

## **Auditor-General's Responsibilities for the Audit of the Financial Statements**

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 of Kenya. 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 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 Authority'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 Board'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 Authority's ability to continue to sustain 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 Authority to cease to continue 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 of the Authority's or business activities 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**

**16 April 2018**



**INSURANCE REGULATORY AUTHORITY**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017**

	Notes	2017 KES.	2016 KES.
<b>Revenue from non-exchange transactions</b>			
Insurance premium levy	3	1,565,811,292	1,426,318,831
Late payment penalties	4	146,115	-
Licence fees	5	<u>24,692,682</u>	<u>22,912,376</u>
		<b><u>1,590,650,089</u></b>	<b><u>1,449,231,207</u></b>
<b>Revenue from exchange transactions</b>			
Interest income	6	<u>161,955,191</u>	<u>201,947,101</u>
		<b><u>161,955,191</u></b>	<b><u>201,947,101</u></b>
<b>Total Revenue</b>		<b><u>1,752,605,280</u></b>	<b><u>1,651,178,308</u></b>
<b>EXPENSES</b>			
Board expenses	7	40,816,088	27,411,494
Employee costs	8	434,012,010	401,744,919
Development of the insurance industry	9	151,625,419	149,180,979
General expenses	10	215,819,207	190,724,210
Repairs and maintenance costs	11	3,214,644	5,842,622
Contracted services	12	9,585,714	5,364,280
Finance costs	13	1,964,800	2,313,403
Depreciation and amortisation	14	<u>18,883,061</u>	<u>27,585,775</u>
		<b><u>875,920,943</u></b>	<b><u>810,167,682</u></b>
<b>SURPLUS FOR THE YEAR</b>		<b>876,684,337</b>	<b>841,010,626</b>
Transfer to Consolidated Fund	15	<u>(786,852,392)</u>	<u>(755,690,860)</u>
<b>TRANSFERRED TO GENERAL RESERVE</b>		<b><u>89,831,946</u></b>	<b><u>85,319,766</u></b>

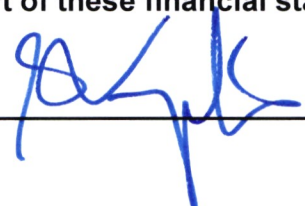


**INSURANCE REGULATORY AUTHORITY**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30<sup>TH</sup> JUNE 2017**

	Notes	2017 KES.	2016 KES.
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Inventories	16	2,885,997	2,562,319
Receivable from exchange transactions	17	69,796,613	68,810,523
Investments	18	481,432,500	641,659,000
Cash and bank balances	19	<u>193,907,117</u>	<u>176,382,838</u>
		<u>748,022,227</u>	<u>889,414,680</u>
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment	21	8,304,276	24,591,173
Intangible assets	22	623,740	816,002
Investment	23	<u>1,189,722,902</u>	<u>1,186,595,863</u>
		<u><b>1,198,650,918</b></u>	<u><b>1,212,003,038</b></u>
<b>TOTAL ASSETS</b>		<u><b>1,946,673,145</b></u>	<u><b>2,101,417,718</b></u>
<b>CURRENT LIABILITIES</b>			
Payables from exchange transactions	24	35,229,033	74,451,384
Provisions	25	<u>263,341,244</u>	<u>468,695,361</u>
		<u>298,570,277</u>	<u>543,146,745</u>
<b>NET ASSETS</b>		<u><b>1,648,102,869</b></u>	<u><b>1,558,270,973</b></u>
<b>RESERVES</b>			
General reserves		<u>1,648,102,869</u>	<u>1,558,270,973</u>
		<u><b>1,648,102,869</b></u>	<u><b>1,558,270,973</b></u>

The notes on page 27 to 41 form an integral part of these financial statements

  
\_\_\_\_\_  
Chairman

  
\_\_\_\_\_  
Chief Executive



**INSURANCE REGULATORY AUTHORITY**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017**

<b>GENERAL RESERVE</b>	<b>Notes</b>	<b>KES.</b>
1 July, 2015		1,472,951,207
<b>Changes in reserves for 2016</b>		
Surplus for the year		<u>85,319,716</u>
<b>Balance at 30 June, 2016</b>		<b><u>1,558,270,923</u></b>
1 July, 2016		1,558,270,923
<b>Changes in reserves for 2017</b>		
Surplus for the year		<u>89,831,946</u>
<b>Balance at 30 June, 2017</b>		<b><u>1,648,102,869</u></b>



**INSURANCE REGULATORY AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017**

	Notes	2017	2016
		KES.	KES.
<b>Cash flow from operating activities</b>			
Cash receipts from customers		1,590,650,089	1,449,231,208
Payment to suppliers and employees		<u>(898,327,676)</u>	<u>(794,702,076)</u>
<b>Net Cash from Operating Activities</b>		<b>692,322,413</b>	<b>654,529,132</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment	21	(1,553,390)	(1,354,115)
Purchase of Intangible assets	22	(850,512)	-
Investment	23	(3,127,039)	(3,739,985)
Surplus paid to Consolidated Fund		(991,448,884)	(992,641,451)
Interest received		161,955,191	201,947,101
Net cash used in investing Activities		<u>(835,024,634)</u>	<u>(795,788,450)</u>
Net(decrease) increase in cash & cash equivalents		(142,702,221)	(141,259,318)
Cash & cash equivalent at the beginning		818,041,838	959,301,156
Cash & cash equivalent at the end	20	<u><b>675,339,617</b></u>	<u><b>818,041,838</b></u>



# INSURANCE REGULATORY AUTHORITY

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017

	2017 KES BUDGET	2017 KES ACTUAL	VARIANCE %
<b>INCOME</b>			
Insurance premium levy	1,546,372,182	1,565,957,407	1%
Interest income	160,000,000	161,955,191	2%
Licence fees	18,000,000	24,692,682	37%
Miscellaneous income	2,000,000	-	(100%)
	<b><u>1,726,372,182</u></b>	<b><u>1,752,605,280</u></b>	<b><u>2%</u></b>
<b>CAPITAL EXPENDITURE</b>	<b>6,500,000</b>	<b>2,403,907</b>	<b>63%</b>
<b>OPERATING EXPENDITURE</b>			
Board members expenses	41,707,200	40,816,088	2%
Personnel emoluments	391,189,800	325,290,898	17%
Other personnel costs	134,343,500	108,721,112	19%
Development of Insurance industry	197,350,000	150,823,598	24%
Office supplies and expenses	21,560,180	19,772,966	8%
Transport and travel expenses	45,700,000	42,737,122	6%
Public relations	95,380,000	53,337,463	44%
Telephone and ICT expenses	35,693,920	18,511,633	50%
Office rent and office services	67,290,836	58,141,843	14%
Consultancy & professional services	48,500,000	11,550,514	76%
Insurance Fraud & other services	37,863,722	27,334,645	28%
Depreciation and Amortisation	18,500,000	18,883,063	(2%)
<b>TOTAL EXPENDITURE</b>	<b><u>1,141,579,158</u></b>	<b><u>878,305,213</u></b>	<b><u>23%</u></b>
<b>SURPLUS FOR THE YEAR</b>	<b><u>584,793,024</u></b>	<b><u>874,280,430</u></b>	<b>50%</b>



# INSURANCE REGULATORY AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017

### 1. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### (a) Income recognition

##### i) Revenue from non-exchange transactions

###### *Premium levy Penalties and licence fees*

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

##### ii) Revenue from exchange transactions

###### *Interest income*

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

#### (b) Budget information

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



# INSURANCE REGULATORY AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017

### **(c) Property, Plant, Equipment, Computer Software, Depreciation and Amortisation**

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

Depreciation and amortisation is calculated on the cost of each asset on a straight-line basis at annual rates estimated to write off the cost of the asset over its estimated useful life. Assets purchased in the first three quarters of the financial year are depreciated fully for the year while those purchased in the last quarter are not depreciated in the financial year under review but their depreciation starts in the following year.

The Depreciation and amortisation rates used are as follows.

Motor Vehicle	25.00%
Partitions & Furniture	12.50%
Computer Equipment	33.30%
Computer Software	33.30%
Other Equipment	25.00%

### **(d) Taxation**

Under regulation 214(2) of the Public Finance Management Act No. 18 of 2012, the Authority is required to remit 90% of its surplus funds to the Consolidated Fund. As a result the Authority is exempted from paying income tax under regulation 214(3) of the same act.

### **(e) Retirement benefits**

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

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

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



# INSURANCE REGULATORY AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017

### **(f) Related parties**

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

### **(g) Financial instruments**

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

#### ***Financial Assets***

##### *Receivables*

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

##### *Government securities*

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

##### *Short term deposits*

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

#### ***Financial liabilities***

##### *Trade payables*

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



# INSURANCE REGULATORY AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017

### **(h) Inventories**

Inventory refers to consumable store items. Initial recognition of inventory is done at cost and subsequently measured at the lower of cost and net realizable value.

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

### **(i) Provisions**

Provisions are recognized when;

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

### **(j) Nature and purpose of reserves**

The Authority creates and maintains reserves in terms of specific requirements. The Authority also states the reserves maintained and appropriate policies adopted. The capital reserves arise through investment in capital assets which basically facilitate the mandate of the Authority. The revenue reserves are through operation and are fully attributable to the GOK.

### **(j) Cash and cash equivalents.**

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

### **(k) Comparatives**

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

### **(l) Significant judgments and sources of estimation uncertainty**

#### ***Useful lives and residual values***

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

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



# INSURANCE REGULATORY AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017

### **Provisions**

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

### **(m) Currency**

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

### **(n) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

### **3. INSURANCE PREMIUM LEVY**

	<b>2017</b>	<b>2016</b>
	<b>KES</b>	<b>KES</b>
Premium levy	<u>1,565,811,292</u>	<u>1,426,318,831</u>
	<b><u>1,565,811,292</u></b>	<b><u>1,426,318,831</u></b>

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

### **4. LATE PAYMENT PENALTY**

Penalties	<u>146,115</u>	-
	<b><u>146,115</u></b>	-

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



## INSURANCE REGULATORY AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017

#### 5. LICENCE FEE

	<b>2017</b>	<b>2016</b>
	<b>KES</b>	<b>KES</b>
Insurance companies	8,800,000	8,950,000
Brokers	3,000,000	2,860,000
Loss Assessors	1,001,000	789,500
Medical Insurance Providers	260,000	200,000
Agents	10,899,682	8,955,876
Other intermediaries	682,000	777,000
Branches	<u>300,000</u>	<u>380,000</u>
	<b><u>24,692,682</u></b>	<b><u>22,912,376</u></b>

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

#### 6. INTEREST INCOME

Treasury bonds	111,270,208	110,304,850
Treasury bills	35,675,222	50,900,334
Fixed deposits	12,536,734	37,760,048
Current accounts	<u>2,473,027</u>	<u>2,981,869</u>
	<b><u>161,955,191</u></b>	<b><u>201,947,101</u></b>

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



# INSURANCE REGULATORY AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017

<b>7. BOARD EXPENSES</b>	<b>2017 KES.</b>	<b>2016 KES.</b>
Honoraria	960,000	160,000
Sitting allowances	9,440,000	7,260,000
Seminars, travel and accommodation	28,710,374	13,964,952
Others	<u>1,705,714</u>	<u>6,026,542</u>
	<b><u>40,816,088</u></b>	<b><u>27,411,494</u></b>

The Board Chairman receives a monthly honoraria of Kes. 80,000 per month.

### 8. EMPLOYEE COSTS

Basic salary	198,811,217	182,343,741
House allowances	33,613,773	32,075,833
Transport allowances	30,096,641	30,161,018
Contract/part-time staff	6,595,127	11,581,880
Special duty and extraneous allowance	13,799,000	13,909,078
Pension and gratuity	39,525,140	35,307,900
Medical	17,112,924	13,834,011
Group insurance-life and accident	3,179,054	2,856,128
Training and capacity building	72,051,288	64,052,808
Subscriptions	1,831,797	2,233,975
Staff uniforms and welfare	5,211,349	9,695,139
Staff bonus and awards	9,334,700	195,000
Leave allowance	<u>2,850,000</u>	<u>3,498,409</u>
	<b><u>434,012,010</u></b>	<b><u>401,744,919</u></b>

Number of employees at year end	78	74
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### 9. DEVELOPMENT OF THE INSURANCE INDUSTRY

Seminars for insurance industry	45,335,543	45,174,121
Consumer education	68,472,657	67,824,928
Internship	801,821	898,606
Scholarship for Actuarial students	26,573,883	30,004,036
Research	<u>10,441,515</u>	<u>5,279,288</u>
	<b><u>151,625,419</u></b>	<b><u>149,180,979</u></b>



# INSURANCE REGULATORY AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017

### 10. GENERAL EXPENSES

	<b>2017</b>	<b>2016</b>
	<b>KES</b>	<b>KES</b>
Office supplies and expenses	19,772,966	17,752,935
Transport and travel	41,209,542	32,987,937
Public relations	52,535,642	45,258,034
ICT expenses	18,511,633	18,837,829
Office rent and office services	56,454,779	56,999,478
IFIU and Tribunal expenses	<u>27,334,645</u>	<u>18,887,997</u>
	<b><u>215,819,207</u></b>	<b><u>190,724,210</u></b>

### 11. REPAIRS AND MAINTENANCE COSTS

Vehicle repair and service	1,527,580	1,554,511
Repair and service-office equipment	<u>1,687,064</u>	<u>4,288,111</u>
	<b><u>3,214,644</u></b>	<b><u>5,842,622</u></b>

### 12. CONTRACTED SERVICES

Consultancy	8,715,714	4,494,280
Audit fees	<u>870,000</u>	<u>870,000</u>
	<b><u>9,585,714</u></b>	<b><u>5,364,280</u></b>

### 13. FINANCE COSTS

Bank charges	<u>1,964,800</u>	<u>2,313,403</u>
	<b><u>1,964,800</u></b>	<b><u>2,313,403</u></b>

### 14. DEPRECIATION AND AMORTISATION

Depreciation	17,878,642	22,163,541
Amortisation	<u>1,004,419</u>	<u>5,422,234</u>
	<b><u>18,883,061</u></b>	<b><u>27,585,775</u></b>

### 15 . (a) TRANSFER TO THE CONSOLIDATED FUND

Surplus for the year	876,684,337	841,010,626
Less purchase of assets	<u>(2,403,902)</u>	<u>(1,354,115)</u>
Realised surplus funds	874,280,435	839,656,511
90% of realised surplus funds	<b><u>786,852,392</u></b>	<b><u>755,690,860</u></b>



# INSURANCE REGULATORY AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2017

### (b) AMOUNT DUE TO CONSOLIDATED FUND

	<b>2017</b>	<b>2016</b>
	<b>KES.</b>	<b>KES.</b>
90% of realised Surplus	786,852,392	755,690,860
Advance payment	<u>(536,511,740)</u>	<u>(300,753,716)</u>
Amount Due	<b><u>250,340,652</u></b>	<b><u>454,937,144</u></b>

### 16. INVENTORIES

Stationery	1,536,693	1,778,229
Toners	<u>1,349,304</u>	<u>784,090</u>
	<b><u>2,885,997</u></b>	<b><u>2,562,319</u></b>

### 17. RECEIVABLES FROM EXCHANGE TRANSACTIONS

Prepayments	6,732,326	3,799,426
Staff imprests / advances	3,617,473	2,341,313
Deposits	24,623,275	21,369,875
Retirement Benefits Authority	-	1,711,433
National Treasury	1,572,000	1,768,500
Accrued Interest	33,048,319	37,819,976
PHCF	<u>203,220</u>	<u>-</u>
	<b><u>69,796,613</u></b>	<b><u>68,810,523</u></b>

### 18. SHORT TERM INVESTMENTS

National bank of Kenya	50,000,000	170,000,000
NIC bank	30,000,000	100,000,000
Treasury bills	<u>401,432,500</u>	<u>371,659,000</u>
	<b><u>481,432,500</u></b>	<b><u>641,659,000</u></b>

The effective interest rate on the Treasury bill as at 30th June 2017 was 8%.

### 19. CASH AND BANK BALANCES

NBK Account No. 0100306688400	60,219,357	168,592,805
KCB Ltd Account No. 1202647413	129,652,340	-
NIC bank Account no. 1000009632	3,835,420	7,590,033
Petty cash	<u>200,000</u>	<u>200,000</u>
	<b><u>193,907,117</u></b>	<b><u>176,382,838</u></b>



# INSURANCE REGULATORY AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2017

### 20. CASH AND CASH EQUIVALENTS

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

	<b>2017</b>	<b>2016</b>
	<b>KES.</b>	<b>KES.</b>
Cash and current account balances	193,907,117	176,382,838
Investment in fixed deposits	80,000,000	270,000,000
Treasury bills	<u>401,432,500</u>	<u>371,659,000</u>
	<b><u>675,339,617</u></b>	<b><u>818,041,838</u></b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2017

### 21. PROPERTY, PLANT AND EQUIPMENT

	Motor Vehicles	Computer Equipment	Computer Networking & Cabling	Partitions Furniture & Fittings	Equipment (Telephone, Fax, Other)	Total
	KES.	KES.	KES.	KES.	KES.	KES.
At 1 July,2015	36,905,954	30,950,603	30,344,570	105,850,230	21,534,408	225,585,765
Add: additions during the year	-	200,800	-	872,320	280,995	1,354,115
Less: disposals during the year	-	-	-	-	-	-
<b>At 30 June 2016</b>	<b>36,905,954</b>	<b>31,151,403</b>	<b>30,344,570</b>	<b>106,722,550</b>	<b>21,815,403</b>	<b>226,939,880</b>
Depreciation:						
At 1 July,2015	33,817,684	29,845,835	29,496,882	73,467,991	13,556,774	180,185,166
Charge for the year	2,484,047	1,108,508	653,964	13,332,662	4,584,360	22,163,541
Disposal	-	-	-	-	-	-
<b>At 30 June,2016</b>	<b>36,301,731</b>	<b>30,954,343</b>	<b>30,150,846</b>	<b>86,800,653</b>	<b>18,141,134</b>	<b>202,348,707</b>
<b>Net book value: At 30 June 2016</b>	<b>604,223</b>	<b>197,060</b>	<b>193,724</b>	<b>19,921,897</b>	<b>3,674,269</b>	<b>24,591,173</b>
At 1 July,2016	36,905,954	31,151,403	30,344,570	106,722,550	21,815,403	226,939,880
Add: additions during the year	-	569,934	-	408,976	574,480	1,553,390
Less: disposals during the year	-	-	-	-	-	-
<b>At 30 June 2017</b>	<b>36,905,954</b>	<b>31,721,337</b>	<b>30,344,570</b>	<b>107,131,526</b>	<b>22,389,883</b>	<b>228,493,270</b>
Depreciation:						
At 1 July,2016	36,301,731	30,954,343	30,150,846	86,800,653	18,141,134	202,348,707
Charge for the year	604,223	183,849	193,724	13,370,827	3,487,664	17,840,287
Disposal	-	-	-	-	-	-
<b>At 30 June,2017</b>	<b>36,905,954</b>	<b>31,138,192</b>	<b>30,344,570</b>	<b>100,171,480</b>	<b>21,628,798</b>	<b>220,188,994</b>
<b>Net book value: At 30 June 2017</b>	<b>-</b>	<b>583,149</b>	<b>-</b>	<b>6,960,046</b>	<b>761,085</b>	<b>8,304,276</b>

At 30<sup>th</sup> June 2017, Assets worth Kes.231,998,654 were fully depreciated. The notional depreciation charge on these assets is Kes 48,536,390. (As at 30<sup>th</sup> June 2016 the fully depreciated assets were worth Kes 125,385,861 with a notional depreciation of Kes. 38,078,140).



# INSURANCE REGULATORY AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2017

### 22. INTANGIBLE ASSETS

	<b>COMPUTER SOFTWARE KES.</b>	<b>TOTAL KES.</b>
At 1 July, 2015	27,555,005	27,555,005
Add: additions during the year	-	-
Less: disposals during the year	-	-
<b>At 30 June 2016</b>	<b><u>27,555,005</u></b>	<b><u>27,555,005</u></b>
Amortisation:		
At 1 July, 2014	21,316,769	21,316,769
Charge for the year	<u>5,422,234</u>	<u>5,422,234</u>
Disposal	-	-
<b>At 30 June, 2016</b>	<b><u>26,739,003</u></b>	<b><u>26,739,003</u></b>
<b>Net book value: At 30 June 2016</b>	<b>816,002</b>	<b>816,002</b>
At 1 July, 2016	27,555,005	27,555,005
Add: additions during the year	850,512	850,512
Less: disposals during the year	-	-
<b>At 30 June 2017</b>	<b><u>28,405,517</u></b>	<b><u>28,405,517</u></b>
Amortisation:		
At 1 July, 2016	26,739,003	26,739,003
Charge for the year	<u>1,042,774</u>	<u>1,042,774</u>
Disposal	-	-
<b>At 30 June, 2017</b>	<b><u>27,781,777</u></b>	<b><u>27,781,777</u></b>
<b>Net book value: At 30 June 2016</b>	<b>623,740</b>	<b>623,740</b>

### 23. LONG TERM INVESTMENTS

These are fixed deposits under lien and Treasury Bonds.

	<b>2017 KES.</b>	<b>2016 KES.</b>
National bank	34,895,530	33,249,157
Kenya commercial bank	154,827,372	153,346,706
Treasury bond(12years)	<u>1,000,000,000</u>	<u>1,000,000,000</u>
	<b><u>1,189,722,902</u></b>	<b><u>1,186,595,863</u></b>



# INSURANCE REGULATORY AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2017

### 24. PAYABLES FROM EXCHANGE TRANSACTIONS

	<b>2017</b>	<b>2016</b>
	<b>KES</b>	<b>KES</b>
Sundry creditors	33,841,533	74,451,384
Others	<u>1,387,500</u>	<u>-</u>
	<b><u>35,229,033</u></b>	<b><u>74,451,384</u></b>

### 25. PROVISIONS

Audit fees	1,000,000	1,000,000
Gratuity	-	757,625
Consultancy fees	12,000,592	12,000,592
Amount due to the Consolidated Fund	<u>250,340,652</u>	<u>454,937,144</u>
	<b><u>263,341,244</u></b>	<b><u>468,695,361</u></b>

### 26. RELATED PARTY TRANSACTIONS

The following transactions took place with related parties

Board expenses	40,816,088	27,411,494
Top management remuneration	<u>50,470,000</u>	<u>49,339,200</u>
	<b><u>91,286,088</u></b>	<b><u>76,750,694</u></b>

### 27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

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

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

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

#### a) Credit risk management

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2017

Credit risk arises from bank balances, trade receivables and amounts due from related parties. The Authority's management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

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

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

### **c) Liquidity risk management**

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

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

## **28. CONTINGENT LIABILITIES**

There were no contingent liabilities at the close of the financial year

## **29. OPERATING LEASES**

The Authority has an uncancellable three operating leases of six years for office space in the second, sixth, seventh, tenth and ground floors with ZEP RE PTA. The rents are payable quarterly in advance.

## **30. COMMITMENTS**

The Authority had issued local purchase orders and local service orders for various supplies for which goods/services had either not been received or had been partly received by 30<sup>th</sup> June, 2017.



# INSURANCE REGULATORY AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2017

Purchase/service orders	<u>1,367,188</u>	<u>3,950,497</u>
	<b><u>1,367,188</u></b>	<b><u>3,950,497</u></b>

### 29. MAJOR VARIANCES

Major variances in this context refer to expenditure items which vary from the budget by more than Kes 10 Million.

**a) Personnel Emoluments-Kes 325 million( Budget -Kes 391 million)**

Personnel emoluments are below the budget mainly as a result of a number of established posts being vacant.

**b) Other Personnel Costs-Kes 109 million( Budget-Kes 134 million)**

Personnel other costs are below the budget mainly as a result of a number of established posts being vacant.

**c) Development of the Insurance industry- Kes 151million(Budget Kes.197million)**

Expenditure on this item is underspend mainly on actuarial scholarship (kes.13million), industry seminars and workshops (Kes. 7million) and consumer education (Kes. 22million).

**d) Public Relations-Kes 53 million(Budget-Kes 95 million)**

Expenditure on this item is under-spent mainly on printing of public relations materials (by Kes 5 million) and public announcements (by Kes 35 million).

**e) ICT Expenses-Kes 19million(Budget-Kes 36 million)**

ICT expenses are under-spent mainly as result of challenges associated with the renewal of various licenses.

**f) Development of insurance industry-Kes 151 million(Budget-197 million)**

Development of the insurance industry is under-spent mainly on consumer education activities (Kes 19 million), actuarial scholarship (Kes. 13million) and seminars for the industry (Kes 8 million).



## **INSURANCE REGULATORY AUTHORITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2017**

**g) Consultancy –Kes 12 million (Budget-Kes 49 million)**

Consultancy expenses are under-spent mainly on legal fees (Kes 20million) which were budgeted as a contingent provision and as such may result into a saving. General consultancy was also underspend by Kes. 17million.

**h) Insurance Fraud and Other Expenses- Kes. 27M( Budget –Kes. 37)**

Included in this budget is a contingent amount of Kes 17million.