

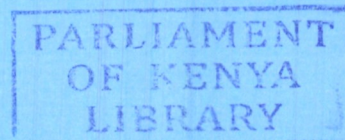
REPUBLIC OF KENYA



*Enhancing Accountability*

THE NATIONAL ASSEMBLY PAPERS LAIN	
DATE: 10 SEP 2020	TABLED BY: LDM
DAY: 10	CLERK: Mrs. Anne Kimani
	THE CHIEF CLERK: Mrs. Wanjiku

**REPORT**



**OF**

**THE AUDITOR-GENERAL**

**ON**

**INSURANCE REGULATORY AUTHORITY**

**FOR THE YEAR ENDED  
30 JUNE, 2019**



---

# **INSURANCE REGULATORY AUTHORITY**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2019**

---

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

## TABLE OF CONTENTS

KEY AUTHORITY INFORMATION .....	1
THE BOARD OF DIRECTORS .....	4
SENIOR MANAGEMENT TEAM .....	8
CHAIRMAN'S STATEMENT .....	9
REPORT OF THE CHIEF EXECUTIVE OFFICER.....	10
CORPORATE GOVERNANCE STATEMENT.....	13
MANAGEMENT DISCUSSION AND ANALYSIS .....	17
CORPORATE SOCIAL RESPONSIBILITY STATEMENT .....	19
STATEMENT OF THE DIRECTORS' RESPONSIBILITIES.....	23
REPORT BY THE AUDITOR GENERAL.....	24
STATEMENT OF FINANCIAL PERFORMANCE.....	25
STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2019.....	26
STATEMENT OF CHANGES IN NET ASSETS.....	27
STATEMENT OF CASH FLOWS.....	28
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS.....	29
NOTES ON SIGNIFICANT VARIANCES BETWEEN BUDGET AND ACTUAL .....	30
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR .....	32
PROGRESS ON FOLLOW UP OF PRIOR AUDITOR RECOMMENDATIONS .....	53



## **KEY AUTHORITY INFORMATION**

### **(a) Background information**

The Authority is a State Corporation established under the Insurance Act Cap 487 Laws of Kenya. The mandate of the Authority is to regulate, supervise and promote the development of the insurance industry while protecting the interests of insurance beneficiaries.

### **(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.

Vision “An effective regulator of a globally competitive Insurance Industry”.

Mission “To effectively regulate, supervise and promote development and innovation in the insurance industry in order to protect insurance beneficiaries.”

The Key Result Areas and enabling strategic objectives to drive the strategy are identified with the key policy areas informing budget formulation and program implementation. The Key areas are:

- i. Regulation and Supervision
- ii. Policy and Market Development
- iii. Consumer Protection and Education
- iv. Institutional Capacity

### **(c) Key Management**

The Authority is headed by a Chief Executive Officer who is also the Commissioner of Insurance as set out in Section 3E of the Insurance Act. Subject to the directions of the Board, the Chief Executive Officer is responsible for the day to day management of the affairs of the Authority with support from a key team of senior management.

**(d) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2019 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Chief Executive Officer and Commissioner of Insurance	Mr. Godfrey Kiptum
2.	Ag. Chief Manager, Technical	Mr. Kalai Musee
3.	Corporation Secretary and Chief Manager Legal Affairs	Ms. Diana Sawe
4.	Chief Manager, Policy, Research and Development	Mr. Robert Kuloba
5.	In Charge, Finance	CPA Esther Musyoki
6.	In Charge, Human Capital Development and Administration	Mrs. Mary Azegele

**(e) Fiduciary Oversight Arrangements**

Section 3 B of the Insurance Act established the Board of Directors that are charged with fiduciary oversight of the Authority. In the discharge of its functions, the Board has put in place the following Committees:

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

Further, the Insurance Act empowers the Board to delegate to any Committee of the Board the exercise of any of the powers or performance of the Authority's functions. Adhoc Committees may be established by Board resolution for purposes of executing an assignment

**(f) Physical Address**

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) 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

### THE BOARD OF DIRECTORS

 <p><i>Hon. Abdirahin H. Abdi, MGH Chairman MBA, BSc (Finance) Date of Birth: 26<sup>th</sup> August, 1969</i></p>	<p>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 in various Boards. His term expired on 9<sup>th</sup> March 2019 and was reappointed on 3<sup>rd</sup> May 2019.</p>
 <p><i>Mr. Godfrey Kiptum, MBS MPPM, MBA, BA, ACII, FLMI, Dip.HRM Date of Birth: 5<sup>th</sup> August, 1970</i></p>	<p>Mr. Kiptum is the Commissioner of Insurance &amp; Chief Executive Officer. He holds a Master of Business Administration (MBA) from Maastricht School of Management/Eastern &amp; Southern Africa Management Institute (ESAMI), Masters in Public Policy &amp; Management, Strathmore Business School and Bachelor of Arts degree from University of Nairobi. He further holds various professional qualifications which includes Fellow of the Life Management Institute (FLMI), member of the Chartered Insurance Institute (CII) of the UK and Institute of Human Resource Management (IHRM). He is a member of the Board of Retirement Benefits Authority, Policyholders Compensation Fund, a Trustee of the College of Insurance and EXCO of the IAIS.</p>
 <p><i>Mr. Solomon Kitungu Alternate to CS, The National Treasury Date of Birth: 25<sup>th</sup> September, 1961</i></p>	<p>A graduate of University of Nairobi and Manchester University – UK, Mr. Solomon Kitungu is currently an Investment Director at the National Treasury. Prior to this, he served as an Executive Director of the Privatization Commission from 2009 – 2017 and Investment Director at the National Treasury from 2003 to 2009. He is currently the Alternate Director for the CS National Treasury in the Board of Directors of the Insurance Regulatory Authority and Postbank. Previously while at the National Treasury, he served in other Boards such as the Kenya Commercial Bank, National Bank of Kenya, Kenya Electricity Generating Company, Kenya Power and Kenya National Assurance (2001). He has attended the Advanced Management Programme at Strathmore Business School and University of Navara, Barcelona, Spain and has extensive experience in public sector investments and reforms, privatizations and Public Private Partnerships.</p>

 <p><i>Mr. Nzomo Mutuku</i> <i>Member</i> <i>MA, BA</i> <b>Date of Birth: 9<sup>th</sup> December, 1969</b></p>	<p>Mr. Mutuku is the 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.</p> <p>Mr. Mutuku serves in the Technical, Research &amp; Compliance and Finance &amp; Administration Committees of the Board.</p>
 <p><i>Mr. Paul Muthaura,</i> <i>Member</i> <i>M.Phil., LLM (Banking &amp; Finance), LLB</i> <b>Date of Birth: 27<sup>th</sup> April, 1978</b></p>	<p>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.</p> <p>Mr. Muthaura serves in the Human Resource; and Finance &amp; Administration Committees of the Board.</p>
 <p><i>Mr. Matu Mugo</i> <i>Member</i> <i>MBA, B. Com, CPA(K)</i> <b>Date of Birth: 26<sup>th</sup> November, 1972</b></p>	<p>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.</p> <p>Mr. Mugo serves in the Technical, Research &amp; Compliance; Human Resource; and Audit, Risk Management &amp; Corporate Governance Committees of the Board.</p>

 <p><i>Ms. Alice M. Njoroge</i> <i>Member</i> <i>BA, ACII, ACI Arb.</i> <b>Date of Birth: 8<sup>th</sup> January, 1968</b></p>	<p>Mrs. Njoroge was appointed to the Board with effect from 19<sup>th</sup> January 2015 and re appointed on 6<sup>th</sup> June 2018 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.</p> <p>Mrs. Njoroge Chairs the Audit, Risk Management &amp; Corporate Governance Committee of the Board.</p>
 <p><i>Ms. Joyce K. Muchena</i> <i>Member</i> <i>MA, BA, Dip. Human Rights, H. Dip. Psychological Counselling</i> <b>Date of Birth: 15<sup>th</sup> October, 1972</b></p>	<p>Ms. Muchena was appointed to the Board with effect from 19<sup>th</sup> January 2015 and re appointed on 6<sup>th</sup> June 2018 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.</p> <p>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><i>Mr. Douglas Kailanya</i> <i>Member</i> <i>MBA, B. Com, CPA(K)</i> <b>Date of Birth: 28<sup>th</sup> November, 1965</b></p>	<p>Mr. Kailanya was appointed to the Board with effect from 19<sup>th</sup> January 2015 and re appointed on 6<sup>th</sup> June 2018 as an independent member. He is a qualified accountant with over 20 years' experience in financial management, administration, budgeting, investment portfolio management, credit control, and enterprise debt and risk management.</p> <p>Mr. Kailanya Chairs the Finance &amp; Administration Committee of the Board. He is a member of Institute of Certified Public Accountants of Kenya (ICPAK).</p>

 <p><i>Mr. Paul K. K. Cheboi</i> <i>Member</i> <i>Ph.D. Candidate, MBA, BSc, PG Dip.</i> <b>Date of Birth: 19<sup>th</sup> March, 1968</b></p>	<p>Mr. Cheboi was appointed to the Board with effect from 19<sup>th</sup> January 2015 and re appointed on 6<sup>th</sup> June 2018 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.</p> <p>Mr. Cheboi Chairs the Human Resource Committee of the Board.</p>
 <p>Ms. Diana Sawe Tanui</p> <p>Corporation Secretary and Chief Manager Legal Affairs LLB, Dip (KSL), CPS(K), FCI Arb</p> <p><b>Date of Birth: 5<sup>th</sup> October 1982</b></p>	<p>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.</p>

**SENIOR MANAGEMENT TEAM**

<p><b>Commissioner of Insurance &amp; Chief Executive Officer</b></p>  <p><i>Mr. Godfrey Kiptum</i> MPPM, MBA, BA, FLMI, Dip.HRM</p>	<p><b>Chief Manager Policy, Research and Development</b></p>  <p><i>Mr. Robert Kuloba</i> MA, BA</p>
<p><b>Corporation Secretary and Chief Manager Legal Affairs</b></p>  <p><i>Ms. Diana Sawe Tanui</i> LLB, Dip (KSL), CPS(K), FCI Arb</p>	<p><b>Ag. Chief Manager Technical</b></p>  <p><i>Mr. Kalai Musee</i> MSc, BCom, FIIK, FCII, ACI Arb</p>
<p><b>In Charge - Finance</b></p>  <p><i>CPA Esther Musyoki</i> MBA, BCom, CPA(K)</p>	<p><b>In Charge - Human Capital Development and Administration</b></p>  <p><i>Mrs. Mary Azegele</i> MBA, BSc, IHRM, PGDCG</p>

## **CHAIRMAN'S STATEMENT**

I am pleased to present the Insurance Regulatory Authority's financial statements for the year 2018-2019 which has been prepared pursuant to the provisions of section 4B(2) of the Insurance Act Cap 487 of the Laws of Kenya. The report reflects the performance of the Authority during the year. In line with its mandate to regulate, supervise and promote the development of the insurance industry in Kenya, the Authority has identified industry stability, consumer education and protection, and increased insurance penetration as its key focus. In this regard, we have achieved great milestones and are building on our successes to ensure that insurance coverage, density and penetration are enhanced.

### **Performance of the Authority**

The year under review presents the 1<sup>st</sup> year of implementation of the Authority's 2018-2022 Strategic Plan. The Plan is in line with the Third Medium Term Plan (MTP III) which aligned insurance industry objectives with the national development objectives as set out in the Kenya Vision 2030 and the "Big Four" agenda. Realization of these aspirations as set out in the Authority's vision statement were anchored on four core result areas that will be driven mainly by implementing a series of strategic activities over the five-year plan period. The core result areas include effective regulation and supervision, enhanced policy and market development, consumer protection and education and strengthened institutional capacity.

In his budget speech for 2018/2019, the Cabinet Secretary for the National Treasury and Planning made proposals for a number of changes to the Insurance Act aimed at enhancing stability while facilitating consumer protection within the industry. Besides introducing legal provisions creating offences on insurance fraud, the amendments anchored the index-based insurance, micro-insurance and social insurance in the Insurance Act. The amendments further aligned the Act to the Insurance Core Principles in terms of supervision of insurance groups and empowering the Commissioner of Insurance to resolve any complaints that an insurance customer may have against a regulated entity in regards to the provision of its services. The amendments also entrenched the cash and carry principle of insurance business which requires an insurer to assume insurance risk, only upon receipt of premium. These amendments are premised on the fact that good regulatory standards are crucial for sound business practices that build customer confidence and enhance insurance penetration.

On the financial front, insurance premium levy income for the year under review increased from Kes.1,593,994,473 in the FY 2017/18 to Kes. 1,641,739,302. No doubt this increase was a positive reflection of the industry's performance and growth despite various market challenges. The growth shows confidence in the industry. Other income received were in form of interest from government securities and miscellaneous income.

### **Future Prospects**

Kenya's insurance industry is ripe for investment and growth. Global regulatory trends show that effective regulation and increased pressure to perform can

improve the prospects in the insurance industry and encourage investment. The Authority continues to initiate and implement policies and regulations aimed at enhancing investor confidence. With the implementation of risk-based supervision, the Authority aims at giving insurance companies (and investors) more confidence in future capitalization and most importantly, to position Kenya's insurance industry in line with leading economies.

Implementation of the IFRS 17 is about three years away and developed economies have started preparing for it. This is equally a perfect time for Kenya's insurers to start putting in place the necessary systems to facilitate timely adoption of the Standard. The Standard will transform how individual insurance entities as well as the entire insurance industry operate. Some of the fundamental changes include a new profit recognition approach (and hence a new way of reporting insurance revenue), losses recognized immediately and increased volatility of profit and equity. Furthermore, the new valuation method for insurance liabilities is a complete move to best estimate reserving. Indeed, as part of the enhanced disclosure requirements, insurance companies will be asked to report on the confidence level at which they are carrying their reserves.

Based on global regulatory trends, we can expect the regulatory environment to become even more complex. The Authority is nonetheless confident that it has skilled capacity to implement and enforce these changes. The concept of risk-based supervision is already complex and with the new global standards such as IFRS 17 coming up, the need for local skilled resources is even more pertinent. Many of the changes in Kenya's insurance regulatory environment will impact the sector positively in the long run. Innovation and consolidation, coupled with global best practice in regulatory compliance, will make the sector more attractive to investors.

### **Appreciation**

I take this opportunity to appreciate the unwavering support accorded by all Board Members whose tireless efforts have contributed towards realisation of the Authority's vision and mission. Their strategic leadership, diligence and support in providing oversight and guidance were key driving forces towards the development and ongoing implementation of the 2018-2022 Strategic Plan.

The Authority's success would also not be possible without the continued support of all our stakeholders. On my own behalf and that of the Board of Directors, I wish to extend our appreciation to the National Treasury and Planning, the regulated entities and all other stakeholders who have continued to support our programmes. A special recognition also goes to the management team and staff members whose support has been fundamental in realising what we set out to do.



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



## **REPORT OF THE CHIEF EXECUTIVE OFFICER**

It is a great honor for me to present this report highlighting the Authority's activities, accomplishments and challenges for the year 2018/2019. The year under review presents the 1<sup>st</sup> year of implementation of the IRA's 2018-2022 strategic plan which is the third cycle plan for the Authority. It has been developed within a changing financial sector landscape as set out in the third Medium Term of the Kenya Vision 2030 in which focus is on the sector's architecture, modernization of supervision, enhancing financial capability (consumer protection and financial literacy) and long-term savings.

As an Authority, we have set out our policy direction which requires a transformative approach to how we discharge our mandate. The growth drivers going forward are regulation and supervision, policy and market development, consumer education and protection, and institutional capacity. In the next 5 years, we will focus on enhanced regulation and supervision, put in place measures aimed at promoting a competitive and stable insurance industry and counter insurance fraud. The Authority is aware of the many challenges that consumers face on claim settlement and has proposed a mechanism that is expected to promote expedient resolutions challenge. This will be coupled with various initiatives geared towards consumer education and protection.

During the year, we realized key milestones including continued offsite and on-site inspections of regulated entities in line with risk-based supervision, analysis and publication of quarterly and annual industry financial reports, dedicated multimedia public education and awareness campaigns including corporate awareness, training agents and insurance champions in the counties, Sensitization of the insurance industry on RBS framework, Publication of RBS guidelines, Application of Service Delivery Innovations, Resolution of Public Complaints, Actuarial Scholarships and Youth Internships/Industrial Attachments/Apprenticeships.

In our operations, we have factored in strategies that are aimed at promoting innovation so as to increase penetration and have an inclusive industry. To this end, we are developing frameworks for operationalizing regulatory sandboxes and insuretech as we seek to develop the market. We are hopeful that our actions will translate into adoption of emerging trends in the insurance industry.

### **Quality Management System (QMS)**

The Authority has transitioned from the previous 9001:2008 to 9001:2015 ISO Standard which takes into account the overall context of the organization and its operations. The certification Audit was conducted by the Kenya Bureau of Standards (KEBS) in July 2018 and implementation of the Quality Manual is progressing on smoothly. All members of staff have been trained on the requirements of this Standard for continued compliance. The decision to transit to this standard confirms Authority's intention to embrace the best work practices that ensure consistent quality management systems and service delivery in line with globally recognized standards. It also reaffirms the

Authority's commitment to seeking opportunities for continual improvement in the delivery of its services.

### **Institutional capacity**

During the year, several training and development initiatives were successfully undertaken both at individual and corporate level. To meet and exceed our customers' needs, we have identified staff training needs and developed a training plan to address them. The training programmes are aligned to our strategic objectives and are either conducted in-house or through short or long term programmes. Our commitment to staff development is steadfast and we intend to continue investing in a number of initiatives that will help us effectively discharge our mandate. Our staff are core to our success and we are committed to extensively training them so as to enhance their competencies in various techniques in preparation for higher responsibilities and challenges commensurate with our strategic objectives.

### **Appreciation**

I wish to thank the Board who have ably provided us with guidance that has propelled our course and achievements within our mandate. I also wish to thank the Management and the rest of the staff members for remaining on track towards the realization of our mandate. I am also grateful to the all the stakeholders for their support and confidence.



**Godfrey Kiptum, MBS**  
**Commissioner of Insurance & Chief Executive Officer**

## 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. Godfrey K. Kiptum (appointed 01.03.19)	Chief Executive Officer & Commissioner of Insurance	Management, Insurance & Human Resource
Mr. Nzomo Mutuku	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
Mr. Solomon Kitungu	Representing, Cabinet Secretary, The National Treasury & Planning	
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.

### 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 were constituted as follows:

- (i) Technical, Research and Compliance;
- (ii) Audit, Risk Management and Corporate Governance;
- (iii) Finance and Administration;
- (iv) Human Resource; and
- (v) Commissioner of Insurance/Chief Executive Officer Recruitment

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

#### **b) 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.

#### **c) 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.

#### **d) 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.

#### **e) Statement of Compliance**

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

#### **f) Board Oversight**

The Board is responsible for the formulation, implementation and monitoring of the Authority's Strategic Plan thus providing appropriate strategic direction for the Authority. In March 2019, the Authority launched its Strategic Plan for the period 2018-2022.

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.

#### **g) 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. Short Course on Regulation - The London School of Economics, London

3. High Performance Boards – IMD Real World Learning, Switzerland
4. Strategic Planning and Decision Making - SETYM International, Canada
5. Making Corporate Boards More Effective – Harvard Business School, Boston
6. The Effective Director - Strathmore Business School, Dar Es Salaam
7. Workshop for Boards, Audit Committee and Chief Executive Officers – Institute of Internal Auditors

#### **h) 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 on Monday, 27<sup>th</sup> August 2018.

#### **i) Board Remuneration**

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

#### **j) 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.

#### **k) 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.

#### **l) 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.

#### **m) 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:

Name	Designation	Classification	Board	TRC	FAC	ARCC	HRC	COI/CEO
Hon. Abdirahin Abdi	Chairman	Membership	¶					-
		Attendance	12/12	1/14	0/10	0/4	0/7	-
Mr. Godfrey Kiptum (Confirmed 01.03.19)	CEO	Membership	¶	¶	¶	-	¶	-
		Attendance	11/12	14/14	10/10	3/4	7/7	-
Mr. Paul Muthaura	Member	Membership	¶		¶	-	¶	¶
		Attendance	8/12	1/14	5/10	0/4	3/7	4/6
Mr. Matu Mugo	Member	Membership	¶	¶		¶	¶	-
		Attendance	4/12	5/14	0/10	4/4	3/7	-
Mr. Nzomo Mutuku	Member	Membership	¶	¶	¶	-	-	¶
		Attendance	7/12	11/14	7/10	0/4	0/7	5/6
Ms. Alice Njoroge	Member	Membership	¶	¶	¶		¶	¶
		Attendance	11/12	14/14	10/10	4/4	1/7	5/6
Mr. Douglas Kailanya	Member	Membership	¶	¶	¶	-	¶	¶
		Attendance	12/12	11/14	10/10	0/4	6/7	6/6
Ms. Joyce Muchena	Member	Membership	¶	¶		¶	¶	-
		Attendance	12/12	14/14	0/10	4/4	6/7	-
Mr. Paul Cheboi	Member	Membership	¶	¶	¶	¶	¶	¶
		Attendance	12/12	1/14	10/10	4/4	7/7	6/6
Mr. Solomon Kitungu	Member	Membership	¶		¶	¶	¶	-
		Attendance	7/12	0/14	9/10	2/4	5/7	-

**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
- COI/CEO** - Ad Hoc - Chief Executive Officer's Recruitment

## MANAGEMENT DISCUSSION AND ANALYSIS

The Authority developed and continues to implement the strategic plan 2018 – 2022 that sets out the strategic direction and road map over the next five-years. The plan has as its foundation a number of fundamental assumptions about the desired future state of both the Authority and the insurance industry with four key results areas namely;

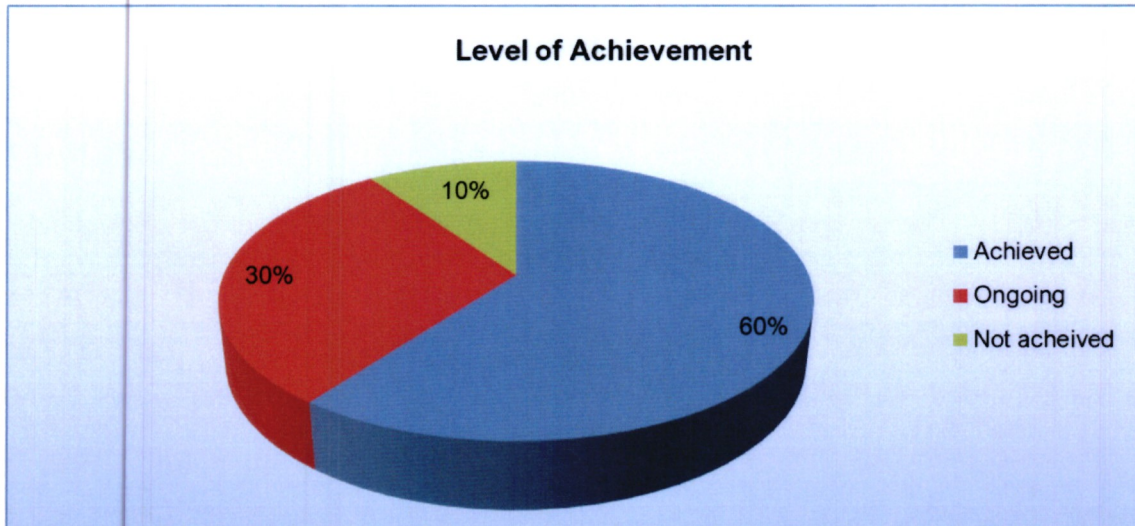
The major strategic focus areas and expected intermediate results of the strategic plan aligned to the Big Four Agenda are as follows:

No.	Key Result/Focus Area	Means of measurement of intermediate Result
	Regulation and Supervision	Number of reports, Level of compliance, Number of workshops and Database in place
	Policy and market Development	Number of reports, Number of scholarships, Number trainings, Level of implementation, Number of policy briefs, Guidance notes and Ease of doing business
	Consumer Protection and Education	Level of TCF compliance, Percentage complaints resolved, Number of publications, Number of Radio and TV campaigns, Number of mobile clinics, County fairs, shows and exhibitions and Social medial engagements
	Institutional Capacity	Number of reports, Level of implementation of various institutional policies, Employee satisfaction index, Work environment index, Customer satisfaction index. Automation index and Level of utilization of allocated funds

To ensure appropriate performance tracking, an elaborate monitoring and evaluation framework was put in place with provisions for monthly, quarterly and annual performance review and reporting.

The Board and Management held a retreat in June to review the Authority's performance with the objective of assessing the level of implementation of the strategic plan in terms of what had been achieved, what is working well and what is not working

In terms of overall level of performance achievement, sixty percent of the activities scheduled for 2018/2019FY were achieved while thirty percent were ongoing with a possibility of being rolled over to the 2019/2020 FY shown in the figure below.



Activities not achieved

- a. Laws passed by county governments
- b. Legal framework on statutory management and liquidation
- c. InsureTech competitions
- d. Bulk SMS/USSD was not used for consumer education
- e. Review section 203 of the insurance Act to ensure timely settlement claims

With respect to the performance contract, the Authority attained a self-evaluated rating of Very Good with a weighted score of 2.9674 compared to 2.8618. Performance gaps continue to be witnessed utilization of allocated funds, resolution of consumer complaints and insurance claims settlement (general business)

Going forward and owing to experiences in implementing the strategic plan during the FY 2018/2019, the Board and Management to focus on then following key policy areas that may require significant resources:

- i. Supporting measures aimed at enhancing financial inclusion by implementing the following programs
  - a. Insurance awareness creation
  - b. Strengthening treating customers fairly framework
  - c. Promoting innovation, regulatory sandboxes and InsureTech
  - d. Promoting industry capacity through seminars. Workshops and conferences
- ii. Strengthening of enforcement with a focus on impact of enforcement outcomes not only on compliance but also ensuring industry development
- iii. Promoting partnerships and collaborations
- iv. Building institutional capacity through hiring of additional staff and acquisitions of necessary working tools/infrastructure.

## **CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

In the Financial Year 2018/2019, we revised our CSR Policy after carrying out a study on the impact of our previous CSR activities. We have now refreshed our CSR scope and brought together members of staff drawn from various divisions and sections to spearhead our CSR activities.

CSR is an integral part of our business operations. Our CSR activities reflect the philosophy of adopting a responsible approach to developing relationships between ourselves and the communities in which we operate. Since establishment, the Authority has continued to foster mutual relationships that are aimed at providing long-term benefits to our employees, partners, stakeholders and the communities around us. Over time, we have succeeded in creating a network of CSR activities through various interventions across the country. We also encourage our staff members to individually identify and engage in CSR activities and contribute to this end.

In its CSR policy, the Authority has identified the following areas of CSR activities:

- i. Health
- ii. Education
- iii. Environment
- iv. Response to national emergencies and disasters as and when necessary

In the year under review, the Authority adopted a new flagship CSR project in partnership with the Kenya Society for the Blind (KSB). Under this partnership, the Authority, moving forward, will provide support to KSB in the areas of education, eye care and awareness creation through the annual Mt. Longonot Charity climb. The KSB is a public institution engaged in services for the public good but with limited funding. Our partnership with KSB provides us with the rare opportunity of addressing real issues that affect the visually impaired members of the public. The burden of visual impairment is high compared to other disabilities. Blindness and poor vision have a tremendous impact on quality of life, particularly for those living in poverty. Blindness exacerbates poverty and can lead to financial insecurity and social isolation. It is known that as a disability, blindness often leads to unemployment, which in turn leads to loss of income, higher levels of poverty and hunger and low standards of living.

In addition to the flagship CSR Project, the Authority also signed a partnership framework with the Kenya Forest Service (KFS) to engage in afforestation and environmental restoration activities. This is in support of the government's agenda of increasing tree cover in the country. In recent years, the country has witnessed unprecedented climate change effects, manifested in terms of frequent cyclic droughts, rising temperatures, erratic rainfall, and reduction in river flows and water tables.

The partnership was launched on 22<sup>nd</sup> June 2019 in Mikindani, Mombasa and witnessed by the Cabinet Secretary for Environment and Forests Mr. Keriako Tobiko and Hon. Abdirahin. H. Abdi, Chairman of the IRA Board of Directors.

The launching of the partnership marked the beginning of a 5 years relationship that will generally focus on restoration of the mangrove forests along the coastal shoreline, with a view of enhancing the environmental, social and economic benefits of the Mangrove ecosystems. The signing was preceded by the planting of 10,000 seedlings of assorted terrestrial indigenous tree species in Kwashee Primary School the Big Ship conservation site in Mikindani Tudor Creek.

The Authority through the signed framework for collaboration with Kenya Forest Service agreed to contribute resources for procurement of seedlings and tree growing in the identified forest areas and other activities and plant the seedlings in identified sites among other activities.



IRA Board Chairman Hon. Abdirahin H. Abdi (in blue shirt) Environment and Forests CS Mr. Keriako Tobiko and Commissioner of Insurance and CEO, IRA unveil the plaque commemorating the signing of a partnership between IRA and KFS and adoption of the Big Ship Conservation Site.



The Commissioner of Insurance & CEO IRA, Mr. Godfrey Kiptum and The Chief Conservator of Forests Mr. Julius Kamau signing the partnership framework. Witnessing the signing are the CS for Environment and IRA Board Chairman accompanied by other IRA directors.

### Support to Corporate Bodies

During the year under review, the Authority has partnered with the following professional bodies and institutions in carrying out activities as per the table below:

No.	Organization/Institution	Event	Month	Amount
1.	Cass Business School	Seven (7) Actuarial Scholarships students	September	
2.	Institute of Certified Public Accounts of Kenya (ICPAK)	FiRe Awards	November, 2018	400,000.00
3.	Insurance Institute of Kenya (IIK)	Annual Conference	November, 2018	500,000.00
4.	Association of Kenya Insurers (AKI)	Agents' of the Year Awards	March, 2018	300,000.00
5.	Association of Insurance Brokers of Kenya	Regional Conference	July 2018	500,000.00
6.	Public Relations Society of Kenya	Annual Summit	November, 2018	300,000.00
7.	Institute of Loss Adjusters & Risk Surveyors	International Conference	March, 2018	200,000.00
8.	The Actuarial Society of Kenya	TASK Convention	November, 2018	500,000.00

## **REPORT OF THE DIRECTORS**

The Directors submit their report together with the financial statements for the year ended June 30, 2019 which shows the state of affairs of the Insurance Regulatory Authority.

### **Incorporation**

The Authority is a State Corporation established under the Insurance Act Cap 487 Laws of Kenya.

### **Principal activities**

The principal activities of the Authority are to regulate, supervise and promote the development of the insurance industry in Kenya.

### **Results**

The results of the Authority for the year ended June 30, 2019 are set out on page 25.

### **Directors**

The members of the Board of Directors who served during the year are shown on page 4-7.

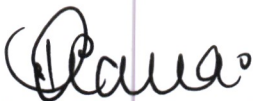
### **Dividends/Surplus remission**

In accordance with Section 219(2) of the Financial Act regulations, regulatory entities shall remit into Consolidated fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The Authority will remit Kes. 764,481,542 (FY 2017/18 Kes 660,216,502).

### **Auditors**

The Auditor General is responsible for the statutory audit of the Authority pursuant to Article 229 of the Constitution of Kenya and the Public Audit Act, 2015.

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



Ms. Diana Sawe Tanui

**Board Secretary**

Date: \_\_\_\_\_

30/08/2019

## STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Financial Management Act, 2012, section 14 of the State Corporations Act and the Insurance 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, 2019. 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 Authority; (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 (vi) 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, 2019, and the Authority's financial position as at that date. 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 26<sup>th</sup> August 2019 and signed on its behalf by:



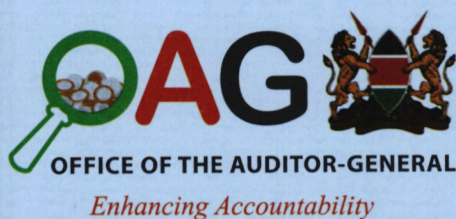
**Hon Abdirahin H. Abdi, MGH**  
**Chairman**



**Godfrey Kiptum, MBS**  
**Commissioner of Insurance &**  
**Chief Executive Officer**

# REPUBLIC OF KENYA

Telephone: +254-(20) 3214000  
E-mail: info@oagkenya.go.ke  
Website: www.oagkenya.go.ke



**HEADQUARTERS**  
Anniversary Towers  
Monrovia Street  
P.O. Box 30084-00100  
NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON INSURANCE REGULATORY AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2019**

---

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Opinion**

I have audited the accompanying financial statements of Insurance Regulatory Authority set out on pages 25 to 53, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Insurance Regulatory Authority as at 30 June, 2019, 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, 2017.

#### **Basis for 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 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **Key Audit Matters**

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

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

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

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

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND OVERALL GOVERNANCE

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standard (Accrual Basis) and for maintaining effective 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 and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue to sustain service, disclosing, as applicable, matters related to sustainability of services 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 provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the 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 and business activities of the Authority 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**13 August, 2020**




**STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2019**


	Notes	2019 KES.	2018 KES.
<b>Revenue from non-exchange transactions</b>			
Insurance premium levy	6	1,641,739,302	1,593,994,473
Grants	7	63,964,000	-
Licence fees	8	17,472,491	26,849,980
Miscellaneous income	9	1,294,170	-
		<u><b>1,724,469,963</b></u>	<u><b>1,620,844,453</b></u>
<b>Revenue from exchange transactions</b>			
Interest income	10	153,246,770	151,409,026
		<u><b>153,246,770</b></u>	<u><b>151,409,026</b></u>
<b>Total Revenue</b>		<u><b>1,877,716,733</b></u>	<u><b>1,772,253,479</b></u>
<b>EXPENSES</b>			
Board expenses	11	49,504,849	32,324,069
Employee costs	12	461,631,374	445,984,964
Development of the insurance industry	13	169,080,067	187,959,335
General expenses	14	233,835,092	285,546,073
Repairs and maintenance costs	15	2,853,682	5,492,556
Contracted services	16	21,004,154	25,227,444
Finance costs	17	1,355,840	1,134,448
Depreciation and amortisation	18	16,762,333	14,445,272
		<u>956,027,391</u>	<u>998,114,161</u>
<b>SURPLUS FOR THE YEAR</b>		<b>921,689,342</b>	<b>774,139,318</b>
Transfer to Consolidated Fund	19	(764,478,404)	(660,216,502)
<b>TRANSFERRED TO GENERAL RESERVE</b>		<u><b>157,210,938</b></u>	<u><b>113,922,816</b></u>

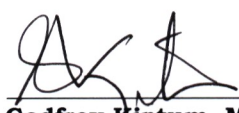


## STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2019

	Notes	2019 KES.	2018 KES.
<b>ASSETS</b>			
CURRENT ASSETS			
Cash and bank balances	20	71,377,848	71,607,346
Receivable from exchange transactions	21	70,236,199	67,061,580
Investments	22	766,546,200	441,265,500
Inventories	23	<u>1,314,336</u>	<u>2,101,248</u>
		<u>909,474,583</u>	<u>582,035,674</u>
NON-CURRENT ASSETS			
Property, plant and equipment	25	42,329,685	33,169,894
Intangible assets	26	48,225,046	1,878,277
Investment	27	<u>1,294,415,863</u>	<u>1,242,251,159</u>
		<u>1,384,970,594</u>	<u>1,277,299,330</u>
<b>TOTAL ASSETS</b>		<b><u>2,294,445,177</u></b>	<b><u>1,859,335,004</u></b>
CURRENT LIABILITIES			
Payables from exchange transactions	28	88,621,346	36,520,201
Provisions	29	<u>286,587,208</u>	<u>60,789,118</u>
		<u>375,208,554</u>	<u>97,309,319</u>
<b>NET ASSETS</b>		<b><u>1,919,236,623</u></b>	<b><u>1,762,025,685</u></b>
RESERVES			
General Reserve		<u>1,919,236,623</u>	<u>1,762,025,685</u>
		<b><u>1,919,236,623</u></b>	<b><u>1,762,025,685</u></b>

  
Hon Abdirahin Abdi, MGH  
Chairman

  
Esther Musyoki  
In Charge Finance  
ICPAK no. 3374

  
Godfrey Kiptum, MBS  
Commissioner of Insurance  
& Chief Executive Officer

***The notes on page 32 to 52 form an integral part of these financial statements***

**STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2019**

<b>GENERAL RESERVE</b>	<b>Notes</b>	<b>KES.</b>
1 July, 2017		1,648,102,869
<b>Changes in reserves for 2018</b>		
Surplus for the year		<u>113,922,816</u>
<b>Balance as at 30<sup>th</sup> June, 2018</b>		<b><u>1,762,025,685</u></b>
1 July, 2018		1,762,025,685
<b>Changes in reserves for 2019</b>		
Surplus for the year		<u>157,210,938</u>
<b>Balance as at 30<sup>th</sup> June, 2019</b>		<b><u>1,919,236,623</u></b>



**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2019**

	Notes	<b>2019 KES.</b>	<b>2018 KES.</b>
<b>Cash flow from operating activities</b>			
Cash receipts from customers		1,724,469,966	1,620,844,453
Payment to suppliers and employees		<u>(883,015,866)</u>	<u>(978,957,939)</u>
<b>Net Cash from Operating Activities</b>		<b>841,454,100</b>	<b>641,886,514</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment	25	(24,869,599)	(38,258,366)
Purchase of Intangible asses	26	(47,399,294)	(2,307,061)
Purchase of investments	27	(52,164,704)	(52,528,257)
Surplus paid to Consolidated Fund		(545,216,069)	(862,668,628)
Interest received		153,246,770	151,409,026
<b>Net cash used in investing Activities</b>		<b><u>(516,402,896)</u></b>	<b><u>(804,353,286)</u></b>
Net(decrease) increase in cash & cash equivalents		325,051,204	(162,466,772)
Cash & cash equivalent at the beginning		<u>512,872,844</u>	<u>675,339,616</u>
Cash & cash equivalent at the end	24	<b><u>837,924,048</u></b>	<b><u>512,872,844</u></b>

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2019**

	<b>2019 KES BUDGET</b>	<b>2019 KES ACTUAL</b>	<b>VARIANCE %</b>
<b>INCOME</b>			
Insurance premium levy	1,756,203,749	1,641,739,302	-7%
Interest income	160,000,000	153,246,769	-4%
Licence fees	13,000,000	17,472,491	34%
Grants	-	63,964,000	100%
Other Miscellaneous income	5,000,000	1,294,170	-74%
	<b><u>1,934,203,749</u></b>	<b><u>1,877,716,732</u></b>	<b><u>-3%</u></b>
<b>CAPITAL EXPENDITURE</b>	<b>43,000,000</b>	<b>72,268,885</b>	<b>-68%</b>
<b>OPERATING EXPENDITURE</b>			
Board members expenses	61,488,700	49,504,849	19%
Personnel emoluments	430,795,200	334,944,026	22%
Other personnel costs	159,542,000	126,687,347	21%
Development of Insurance industry	203,250,000	167,758,754	17%
Office supplies and expenses	23,660,180	20,006,531	15%
Transport and travel expenses	58,500,000	53,393,723	9%
Public relations	91,675,000	51,965,336	43%
Utilities (Telephone, electricity and water)	7,000,000	4,984,513	29%
ICT expenses	28,650,000	16,628,929	42%
Office rent and office services	76,328,034	62,321,523	16%
Consultancy & professional services	24,650,000	22,359,994	9%
Sinking fund provision (Depreciation)	18,500,000	16,762,330	9%
Other expenses	<u>27,000,000</u>	<u>28,709,532</u>	<u>-6%</u>
<b>TOTAL RECURRENT EXPENDITURE</b>	<b><u>1,211,039,114</u></b>	<b><u>956,027,389</u></b>	<b><u>20%</u></b>
<b>TOTAL EXPENDITURE</b>	<b><u>1,254,039,114</u></b>	<b><u>1,028,296,274</u></b>	<b><u>18%</u></b>
<b>SURPLUS FOR THE YEAR</b>	<b><u>680,164,635</u></b>	<b><u>849,420,458</u></b>	<b><u>25%</u></b>

## **NOTES ON SIGNIFICANT VARIANCES BETWEEN BUDGET AND ACTUAL**

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

### **a) Capital Expenditure – Kes 33million (Budget 43million)**

Included in the capital expenditure are computer equipment and software worth 63 million received as a grant from the World Bank Funded Project (FSSP).

Two vehicles valued at Kes. 9 million, Computer Software valued at Kes. 3.5 million and partitioning of third floor valued at 22 million have not been procured. The Authority did not manage to get approval from the National Treasury for purchase and disposal of these capital items.

### **b) Board Expenses - Kes. 49 million (Budget Kes 61million)**

Directors' fees of Kes. 3million and bonus of 4 million budgeted for were not paid.

### **c) Personnel Emoluments - Kes 335 million (Budget Kes 431million)**

Personnel emoluments are below the budget mainly as a result of a number of established posts being vacant. The budget is for 98 members of staff while those in post are 78. Recruitment of 3 employees is in progress. Approval has been sought from SCAC to recruit the remaining 20. Recruitment will be done once approval is granted.

### **d) Other Personnel Costs- Kes. 127 million (Budget Kes.160 million)**

Staff bonus of Kes 22 million budgeted for was not paid.

### **e) Office Supplies and Expenses- Kes 21 million (Budget Kes.23 million)**

Library materials worth 2 million have not been purchased.

### **f) Transport and Travel Expenses Kes 54million (Budget Kes 58million)**

Delay in the purchase of 2 motor vehicles has also caused under utilization on this vote.

**g) Public Relations and Consumer Services- Kes 53 million (Budget Kes. 91 million)**

Public relations and media campaigns were not done due to challenges with the Government Advertising Agency (GAA). CSR flagship project was also not undertaken as budgeted.

**h) Utilities- Kes. 5 million (Budget Kes 7 million)**

Fixed landline expenses were underspent. Budget was based on historical costs.

**i) ICT Expenses – Kes 17 million (Budget Kes 29 million)**

The service for disaster recovery valued at 3million was declined from the service provider in June 2019 as it did not meet the stated specifications. Maintenance of MS Navision service valued at 5.5 million could not be commenced since the service provider engaged to carry out the upgrade was still on site clearing some outstanding issues. FSSP procured for the Authority VM Ware software which had been budgeted at 4 million.

**j) Office Rent & Office Services – Kes 64 million (Budget 76 million)**

Extra space has not been procured as planned. Approval has been sought from National Treasury and procurement will be completed once the approval has been granted. The current quoted prices for Office cleaning and security services were lower than budgeted.

**k) Development of the Insurance Industry Kes. 170 million (Budget- Kes 203 million)**

Development and airing of informercials and roadshows were not done due to challenges with the Government Advertising Agency (GAA).

2 researches i.e. study on informal insurance and competition in the insurance industry not done. Discussions with FSSP and Competition Authority of Kenya are ongoing for them to carry out the 2 studies.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR  
ENDED 30<sup>TH</sup> JUNE 2019**

**1. General information**

Insurance Regulatory Authority is established by and derives its Authority and accountability from the Insurance Act. The Authority is wholly owned by the Government of Kenya and is domiciled in Kenya. The Authority’s principal activity is to regulate, supervise and promote the insurance industry in Kenya.

**2. Statement of compliance and basis of preparation**

The financial statements have been prepared on historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires the management to exercise judgement in the process of applying the Authority’s accounting policies.

The financial statements have been prepared and presented in Kenya shillings, which is the functional and reporting currency of the Authority.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, the Insurance Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all years presented.

**3. Adoption of new and revised standards**

**(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019**

<b>Standard</b>	<b>Impact</b>
<b>IPSAS 40:</b> Public Sector Combinations	<b>Applicable: 1<sup>st</sup> January 2019</b> The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only). Business combinations and combinations arising from non-exchange transactions are covered purely under Public Sector combinations as amalgamations.

**(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019**

<b>Standard</b>	<b>Effective date and impact:</b>
<b>IPSAS 41:</b> Financial Instruments	<p><b>Applicable: 1<sup>st</sup> January 2022:</b></p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> <li>• Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>• Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li> </ul>
<b>IPSAS 42:</b> Social Benefits	<p><b>Applicable: 1<sup>st</sup> January 2022</b></p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <ol style="list-style-type: none"> <li>(a) The nature of such social benefits provided by the entity;</li> <li>(b) The key features of the operation of those social benefit schemes; and</li> <li>(c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.</li> </ol>

**(iii) Early adoption of standards**

The Authority did not early – adopt any new or amended standards in year 2019.

**4. 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 for each period.

**(b) Budget information**

The budget for FY 2018-2019 was approved by the National Treasury via letter Ref DGIPE/A/1/10 dated 26<sup>th</sup> September 2018.

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.

**(c) Taxes**

Under regulation 219(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 219(3) of the same act.

**(d) Investment property**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The

difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

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

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Authority recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

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

The Depreciation rates used are as follows.

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

**(f) Leases**

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Authority. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Authority also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Authority will obtain

ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Authority. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

**(g) Intangible assets**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

**(h) Research and development costs**

The Authority expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Authority can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development.

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment

**(i) Financial instruments**

***Financial assets***

***Initial recognition and measurement***

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Authority determines the classification of its financial assets at initial recognition.

### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

### ***Held-to-maturity***

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Authority has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

### ***Impairment of financial assets***

The Authority assesses at each reporting date whether there is objective evidence that a financial asset or an entity of financial assets is impaired. A financial asset or an entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or an entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

### ***Financial liabilities***

#### ***Initial recognition and measurement***

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Authority determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

### ***Loans and borrowing***

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

### **(j) Inventories**

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

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

### **(k) 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.

Where the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

### ***Contingent liabilities***

The Authority does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

### ***Contingent assets***

The Authority does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

#### **(l) 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 government of Kenya.

#### **(m) Changes in accounting policies and estimates**

The Authority recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

#### **(n) Employee benefits Retirement benefit plans**

The Authority operates a defined contribution pension scheme for all its eligible employees. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. 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.

**(o) Foreign currency transactions**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

**(p) Borrowing costs**

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

**(q) 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. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

**(r) Service concession arrangements**

The Authority analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Authority recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Authority also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

**(s) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year.

**(t) Comparative figures**

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

**(u) 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, 2019.

**5. Significant judgments and sources of estimation uncertainty**

In preparing of the Authority's financial statements in conformity with IPSAS, management makes judgments and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

***Estimates and assumptions***

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Authority based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Authority. Such changes are reflected in the assumptions when they occur.

***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

### **Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in note 29.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

### **6. Insurance premium levy**

	<b>2019</b>	<b>2018</b>
	<b>KES.</b>	<b>KES.</b>
Premium levy	<u>1,641,739,302</u>	<u>1,593,994,473</u>
	<b><u>1,641,739,302</u></b>	<b><u>1,593,994,473</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%.

### **7. Grants**

FSSP World bank grant	<u>63,964,000</u>	-
	<b><u>63,964,000</u></b>	-

The Authority received support worth Kes.63,964,000 in form of ICT equipment from Financial Sector Support Project. This is a World Bank funded project that strengthens the legal regulatory and institutional environment for improved financial stability.

### **8. Licence fees**

Insurance companies	2,800,000	9,050,000
Brokers	2,904,500	3,260,000
Loss Assessors	621,000	1,239,000
Agents	10,619,991	12,661,980
Other intermediaries	447,000	459,000
Branches	<u>80,000</u>	<u>180,000</u>
	<b><u>17,472,491</u></b>	<b><u>26,849,980</u></b>

This is an annual fee paid by all licensed industry players. The licence fees for insurance and re-insurance companies was discontinued in the financial year 2018/19. The fees charged are 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.

## 9. Miscellaneous income

Sale of obsolete items	<u>1,294,170</u>	=
	<b><u>1,294,170</u></b>	=

This is income from the sale of obsolete items.

## 10. Interest income

Treasury bonds	111,270,208	111,651,270
Treasury bills	37,392,767	34,260,556
Fixed deposits	3,765,422	4,340,472
Current accounts	<u>818,373</u>	<u>1,156,728</u>
	<b><u>153,246,770</u></b>	<b><u>151,409,026</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.

## 11. Board expenses

Honoraria	800,000	960,000
Sitting allowances	12,100,000	7,620,000
Seminars, travel and accommodation	34,544,229	22,798,469
Meeting, entertainment & Others	1,022,610	311,925
Telephone expenses	263,000	193,000
Medical GPA	717,010	138,995
Other expenses	<u>58,000</u>	<u>301,680</u>
	<b><u>49,504,849</u></b>	<b><u>32,324,069</u></b>

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

## 12. Employee costs

Basic salary	203,581,561	197,375,372
House allowances	33,173,833	34,570,968
Transport allowances	28,632,017	30,170,548
Contract/part-time staff	11,521,749	12,192,837
Special duty and extraneous allowance	14,294,446	14,678,205
Pension and gratuity	40,805,420	40,175,500
Medical	22,310,495	25,036,072
Group insurance-life and accident	2,997,632	3,534,987
Training and capacity building	85,437,741	72,643,225
Subscriptions	1,510,756	1,762,478
Staff uniforms and welfare	14,100,724	10,864,772
Staff bonus and awards	330,000	120,000
Leave allowance	<u>2,935,000</u>	<u>2,860,000</u>
	<b><u>461,631,374</u></b>	<b><u>445,984,964</u></b>

Number of employees at year end	75	78
---------------------------------	----	----

### 13. Development of the insurance industry

	<b>2019</b>	<b>2018</b>
	<b>KES.</b>	<b>KES</b>
Seminars for insurance industry	54,954,676	61,837,719
Consumer education	60,640,259	92,624,178
Internship	1,321,313	1,175,334
Scholarship for Actuarial students	39,389,298	30,673,611
Research	<u>12,774,521</u>	<u>1,648,493</u>
	<b><u>169,080,067</u></b>	<b><u>187,959,335</u></b>

### 14. General expenses

Office supplies and expenses	20,006,531	20,686,736
Transport and travel	52,393,680	43,589,675
Public relations	50,644,022	107,041,337
ICT expenses	21,613,443	22,490,832
Office rent and office services	60,467,885	62,038,650
IFIU and Tribunal expenses	<u>28,709,531</u>	<u>29,698,843</u>
	<b><u>233,835,092</u></b>	<b><u>285,546,073</u></b>

### 15. Repairs and maintenance costs

Repair and service-office equipment	1,853,637	3,451,360
Vehicle repair and service	<u>1,000,045</u>	<u>2,041,196</u>
	<b><u>2,853,682</u></b>	<b><u>5,492,556</u></b>

### 16. Contracted services

Consultancy	20,004,154	24,427,444
Audit fees	<u>1,000,000</u>	<u>800,000</u>
	<b><u>21,004,154</u></b>	<b><u>25,227,444</u></b>

### 17. Finance costs

Bank charges	<u>1,352,352</u>	<u>1,134,448</u>
	<b><u>1,352,352</u></b>	<b><u>1,134,448</u></b>

### 18. Depreciation and amortisation

Depreciation	15,709,808	13,392,748
Amortisation	<u>1,052,525</u>	<u>1,052,524</u>
	<b><u>16,762,333</u></b>	<b><u>14,445,272</u></b>

## 19. (a) Transfer to the consolidated fund

	<b>2019</b>	<b>2018</b>
	<b>KES.</b>	<b>KES</b>
Surplus for the year	921,689,342	774,139,318
Less purchase of assets	<u>(72,268,893)</u>	<u>(40,565,427)</u>
Realised surplus funds	849,420,449	733,573,891
90% of realised surplus funds	<b><u>764,478,404</u></b>	<b><u>660,216,502</u></b>

## b) Amount due to consolidated fund

90% of realised Surplus	764,478,404	660,216,502
Advance payment	<u>(497,327,543)</u>	<u>(612,327,976)</u>
Amount Due	<b><u>267,150,861</u></b>	<b><u>47,888,526</u></b>

## 20. Cash and bank balances

NBK Account No. 0100306688400	16,516,625	21,840,062
KCB Ltd Account No. 1202647413	31,706,296	38,927,590
NIC bank Account no. 1000009632	17,858,415	10,676,624
CO-OP Account no.01141163618300	98,775	100,000
CBA Account no. 8189570014	4,997,737	-
Petty cash	<u>200,000</u>	<u>63,070</u>
	<b><u>71,377,848</u></b>	<b><u>71,607,346</u></b>

## 21. Receivables from exchange transactions

Prepayments	6,043,683	5,335,886
Debtors	123,442	55,598
Staff imprests /advances	1,859,549	2,091,804
Deposits	24,841,834	24,633,275
National Treasury	393,000	982,500
Interest receivable	35,717,091	33,962,517
RBA	<u>1,257,600</u>	<u>-</u>
	<b><u>70,236,199</u></b>	<b><u>67,061,580</u></b>

## 22. Short term investments

Treasury bills	<u>766,546,200</u>	<u>441,265,500</u>
	<b><u>766,546,200</u></b>	<b><u>441,265,500</u></b>

The effective interest rate on the Treasury bill as at 30th June 2019 was 8%.

## 23. Inventories

Stationery	<u>1,314,336</u>	<u>2,101,248</u>
	<b><u>1,314,336</u></b>	<b><u>2,101,248</u></b>

#### 24. Cash and cash equivalents

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

	<b>2019</b> <b>KES.</b>	<b>2018</b> <b>KES</b>
Cash and current account balances	71,377,848	71,607,346
Treasury bills	<u>766,546,200</u>	<u>441,265,500</u>
	<b><u>837,924,048</u></b>	<b><u>512,872,846</u></b>

## 25. Property, plant & 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,2017	36,905,954	31,721,337	30,344,570	107,131,526	22,389,883	228,493,270
Add: additions during the year	24,000,000	2,352,798	9,604,350	1,362,775	938,443	38,258,366
Less: disposals during the year	-	-	-	-	-	-
<b>At 30 June 2018</b>	<b>60,905,954</b>	<b>34,074,135</b>	<b>39,948,920</b>	<b>108,494,301</b>	<b>23,328,326</b>	<b>266,751,636</b>
Depreciation:						
At 1 July,2017	36,905,954	31,138,192	30,344,570	100,171,480	21,628,798	220,188,994
Charge for the year	6,000,000	996,425	3,247,717	2,649,952	498,654	13,392,748
Disposal	-	-	-	-	-	-
<b>At 30 June,2018</b>	<b>42,905,954</b>	<b>32,134,617</b>	<b>33,592,287</b>	<b>102,821,432</b>	<b>22,127,452</b>	<b>233,581,742</b>
<b>Net book value: At 30 June 2018</b>	<b>18,000,000</b>	<b>1,939,518</b>	<b>6,356,633</b>	<b>5,672,869</b>	<b>1,200,874</b>	<b>33,169,894</b>
At 1 July,2018	60,905,954	34,074,135	39,948,920	108,494,301	23,328,326	266,751,636
Add: additions during the year	-	21,949,592	-	-	2,920,007	24,869,599
Less: disposals during the year	-	-	-	-	-	-
<b>At 30 June 2019</b>	<b>60,905,954</b>	<b>56,023,727</b>	<b>39,948,920</b>	<b>108,494,301</b>	<b>26,248,333</b>	<b>291,621,235</b>
Depreciation:						
At 1 July,2018	42,905,954	32,134,617	33,592,287	102,821,432	22,127,452	233,581,742
Charge for the year	6,000,000	2,755,093	3,286,076	2,731,161	937,478	15,709,808
Disposal	-	-	-	-	-	-
<b>At 30 June,2019</b>	<b>48,905,954</b>	<b>34,889,710</b>	<b>36,878,363</b>	<b>105,552,593</b>	<b>23,064,930</b>	<b>249,291,550</b>
<b>Net book value: At 30 June 2019</b>	<b>12,000,000</b>	<b>21,134,017</b>	<b>3,070,557</b>	<b>2,941,708</b>	<b>3,183,403</b>	<b>42,329,685</b>

At 30<sup>th</sup> June 2018, Assets worth Kes.245,460,402 were fully depreciated. The notional depreciation charge on these assets is Kes 52,574,914. (As at 30<sup>th</sup> June 2018 the fully depreciated assets were worth Kes 245,460,402 with a notional depreciation of Kes. 52,574,914).

## 26. Intangible assets

### Computer software

	KES.	TOTAL KES.
Cost		
At 1 July,2017	28,405,517	28,405,517
Add: additions during the year	2,307,061	2,307,061
Less: disposals during the year	-	-
<b>At 30 June 2018</b>	<b><u>30,712,578</u></b>	<b><u>30,712,578</u></b>
Amortization:		
At 1 July,2017	27,781,777	27,781,777
Charge for the year	1,052,524	1,052,524
Disposal	-	-
<b>At 30 June,2018</b>	<b><u>28,834,301</u></b>	<b><u>28,834,301</u></b>
<b>Net book value:</b>	<b><u>1,878,277</u></b>	<b><u>1,878,277</u></b>
Cost		
At 1 July 2018	30,712,578	30,712,578
Add: additions during the year	47,399,294	47,399,294
Less: disposals during the year	-	-
<b>At 30 June 2019</b>	<b><u>78,111,872</u></b>	<b><u>78,111,872</u></b>
Amortization:		
At 1 July,2018	28,834,301	28,834,301
Charge for the year	1,052,525	1,052,525
Disposal	-	-
<b>At 30 June,2019</b>	<b><u>29,886,826</u></b>	<b><u>29,886,826</u></b>
<b>Net book value:</b>		
<b>At 30 June 2019</b>	<b>48,225,046</b>	<b>48,225,046</b>

## 27. Long term investments

These are fixed deposits under lien and Treasury Bonds.

	2019 KES	2018 KES
Treasury bonds	1,000,000,000	1,000,000,000
National bank	35,579,510	35,413,178
Kenya commercial bank	258,836,353	206,837,981
	<b><u>1,294,415,863</u></b>	<b><u>1,242,251,159</u></b>

## 28. Payables from exchange transactions

Supplier invoices	87,656,859	35,911,341
Other payables	964,487	608,860
	<b><u>88,621,346</u></b>	<b><u>36,520,201</u></b>

## 29. Provisions

	<b>2019</b>	<b>2018</b>
	<b>KES</b>	<b>KES</b>
Audit fees	1,000,000	900,000
Legal fees	12,000,592	12,000,592
Contingent liability	4,086,890	
Gratuity	2,348,865	
Amount due to Treasury	<u>267,150,861</u>	<u>47,888,526</u>
	<b><u>286,587,208</u></b>	<b><u>60,789,118</u></b>

## 30. Related party transactions

The following transactions took place with related parties

Board (Allowances & other expenses)	49,504,849	32,324,069
Top management (Remuneration)	<u>44,793,600</u>	<u>40,456,000</u>
	<b><u>94,298,449</u></b>	<b><u>72,780,069</u></b>

## 31. Financial instruments and risk management policies

The authority's activities expose it to a variety of financial risks, including credit risk, liquidity risk and market risk. The Authority'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.

Credit risk arises from receivables and amounts due from related parties. The risk is unlikely to occur because the Authority does not raise debtors in its ordinary course of business.

The amounts that best describes the Authority's exposure to credit risk at the end of the financial year is made up as follows;

	<b>2019</b>	<b>2018</b>
	<b>KES</b>	<b>KES</b>
Prepayments	6,043,683	5,335,886
Staff imprests / advances	1,859,549	2,091,804
Deposits	24,841,831	24,633,275
National Treasury	393,000	982,500
Accrued Interest	35,717,091	33,962,517
PHCF	<u>123,442</u>	<u>55,598</u>
	<b><u>70,236,199</u></b>	<b><u>67,061,580</u></b>

The Authority's receivables are fully performing and are expected to be repaid

## **b) Market risk management**

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Authority's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Finance and Administration Committee.

### **i) Foreign currency exposures**

Such exposures arise through purchase of goods and services that are done in currencies other than the local currency. The Authority does not have transactional currency exposures.

### **ii) interest rate risk**

Interest rate risk is the risk that the Authority's financial condition may be adversely affected as a result of changes in interest rate levels. The Authority's interest rate risk arises from bank deposits. This exposes the Authority to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements affecting the Authority's deposits.

Although this risk is unlikely to occur, it is mitigated by placing deposits with well-established financial institutions that offer favourable interest rates and also approved by the National Treasury.

The amounts that best describes the Authority's exposure to market risk at the end of the financial year is made up as follows;

	<b>2019</b>	<b>2018</b>
	<b>KES</b>	<b>KES</b>
Cash & current account balances	71,377,848	71,607,346
Treasury bills	766,546,200	441,265,500
National bank-Lien Deposit	35,579,510	35,413,178
Kenya commercial bank-Lien deposit	258,836,353	206,837,981
Treasury bond(12years)	<u>1,000,000,000</u>	<u>1,000,000,000</u>
	<b><u>2,132,339,911</u></b>	<b><u>1,755,124,005</u></b>

### **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.

The amounts that best describes the Authority's exposure to liquidity risk at the end of the financial year is made up as follows

Sundry creditors	88,621,346	35,911,341
Provisions	286,587,208	60,789,118
Others	<u>-</u>	<u>608,860</u>
	<b><u>375,208,554</u></b>	<b><u>97,309,319</u></b>

### **d) Capital risk management**

The objective of the Authority's capital risk management is to safeguard Authority's ability to continue as a going concern.

## **32. Contingent liabilities**

A former employee of the Authority has filed a suit against the Authority for wrongful dismissal and is seeking damages of Kes.3,227,815. A provision of Kes. 3,227,815 has been made in the accounts based on legal advice.

A consultant has also filed a suit against the Authority for services rendered. A provision of Kes. 859,075 has also been made in the accounts.

### 33. 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.

### 34. 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, 2019.

	<b>2019</b>	<b>2018</b>
	<b>KES.</b>	<b>KES</b>
Purchase/service orders	<u>32,443,761</u>	<u>966,835</u>
	<b><u>32,443,761</u></b>	<b><u>966,835</u></b>

### 35. Surplus remission

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The Authority is to remit Kes 764,481,542 (FY 2018 Kes 660,216,502).

### 36. Events after the reporting date

There were no material adjusting and non- adjusting events after the reporting period.

### 37. Ultimate and holding Entity

The Authority is a State Corporation under The National Treasury. Its ultimate parent is the Government of Kenya.

### 38. Currency

The financial statements are presented in Kenya Shillings (KES).

**PROGRESS ON FOLLOW UP OF PRIOR PERIOD AUDITOR  
RECOMMENDATIONS**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe : (Put a date when you expect the issue to be resolved)
<p>There were no pending prior period auditor recommendations.</p>					



**Hon Abdirahin H. Abdi, MGH  
Chairman**



**Godfrey Kiptum, MBS  
Commissioner of Insurance &  
Chief Executive Officer**