

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

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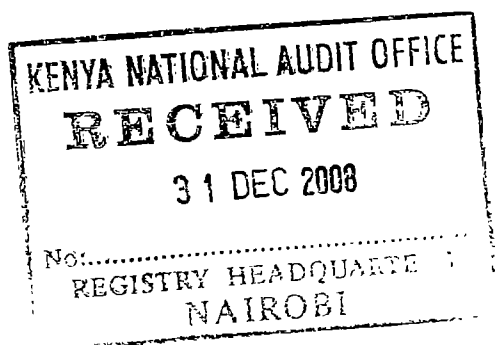
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**REPORT  
OF  
THE CONTROLLER  
AND AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
CAPITAL MARKETS AUTHORITY FOR  
THE YEAR ENDED 30 JUNE 2008**



**CAPITAL MARKETS AUTHORITY  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2008**

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CAPITAL MARKETS AUTHORITY  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008

AUTHORITY INFORMATION

PRINCIPAL PLACE OF BUSINESS

5 Floor, Reinsurance Plaza  
Taifa Road  
P.O. Box 74800 - 00200  
Nairobi.

REGISTERED OFFICE

5 Floor, Reinsurance Plaza  
Taifa Road  
P.O. Box 74800 - 00200  
Nairobi.

BANKERS

Commercial Bank of Africa Limited  
Mama Ngina Street  
P O Box 30437 - 00100  
Nairobi

Savings and Loan Kenya Limited  
Mama Ngina Street  
P O Box 45129 - 00100  
Nairobi

ADVOCATES

Archer & Wilcock Advocates  
Marakwet Close, Kilimani  
P.O Box 10201-00400  
Nairobi

Oraro & Company Advocates  
First Ngong Avenue  
P.O Box 51326- 00200  
Nairobi

AUDITOR

Controller & Auditor General  
P.O. Box 30084-00100  
Nairobi.

CAPITAL MARKETS AUTHORITY  
REPORT OF THE MEMBERS  
FOR THE YEAR ENDED 30 JUNE 2008

The members of the Authority submit their report and the audited financial statements for the year ended 30 June 2008, which show the state of the Authority's affairs.

1. INCORPORATION

Capital Markets Authority is a body corporate established under the Capital Markets Authority Act, Cap 485A, 1989. The Act was amended in 2000 and renamed the Capital Markets Act

2. PRINCIPAL ACTIVITY

The Authority promotes and facilitates the development of an orderly, fair and efficient capital markets in Kenya.

3 RESULTS

The results for the year are summarised below:-

	2008 Kshs	2007 Kshs
Total income for the year	700,423,017	393,829,793
Total operating expenditure for the year	(190,766,303)	(196,542,481)
Surplus for the year transferred to the general fund	<u>509,656,714</u>	<u>197,287,312</u>

4. FINANCIAL STATEMENTS

At the date of this report, the members of the Authority were not aware of any circumstances which would have rendered the values attributed to the assets in the financial statements misleading.

5. MEMBERS OF THE AUTHORITY

The present members of the Authority are:

Prof. B. Chege Waruingi	- Chairman
Stella Kilonzo	- Chief Executive
Dr. Gituro Wainaina	
Margaret A. Ombok	
Nafisa Abass	
Mwai Kihu	
Meshack Onyango	
Jimmy M. Kitonga	
Prof. Njuguna Ndungu	- Governor Central Bank of Kenya
Jackson Kitili	- Alternate to the Governor Central Bank of Kenya
Joseph Kinyua	- Permanent Secretary to the Treasury
Dr. Kamau Thugge	- Alternate to the Permanent Secretary to the Treasury
Hon. Amos Wako	- Attorney General
James Waweru	- Alternate to the Attorney General

CAPITAL MARKETS AUTHORITY  
REPORT OF THE MEMBERS (Continued)  
FOR THE YEAR ENDED 30 JUNE 2008

6. MEMBERS' BENEFITS

Since the last board meeting of the Authority to the date of this report, no member has received or become entitled to receive any benefit other than members' allowances and amounts received under employment contracts for the Chief Executive.

The aggregate amount of emoluments for members services rendered in the financial year is disclosed on page 21.

7. AUDITOR

The Controller & Auditor General is responsible for the statutory audit of the Authority's books of account in accordance with Sections 14 and 39 (1) of the Public Audit Act 2003.

BY ORDER OF THE BOARD

*Stella Nilonzo*  
Chief Executive

Nairobi

*September 30*, 2008

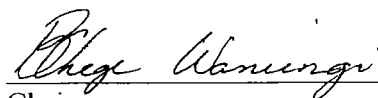
CAPITAL MARKETS AUTHORITY  
STATEMENT OF AUTHORITY MEMBERS' RESPONSIBILITIES  
ON THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008

The Capital Markets Act requires the Authority members to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Authority, as at the end of the financial year and of its operating results for the year. It also requires the members to ensure that the Authority keeps proper accounting records, which disclose, with reasonable accuracy, the financial position of the Authority. They are also responsible for safeguarding the assets of the Authority

The members accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Capital Markets Act. The members are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Authority and of its operating results. The members further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control

Nothing has come to the attention of the members to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

The statement was approved by the members of the Authority on September 30, 2008 and signed on its behalf by:-

  
Chairman

  
Chief Executive



## **KENYA NATIONAL AUDIT OFFICE**

### **REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF CAPITAL MARKETS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2008**

I have audited the financial statements of Capital Markets Authority set out on pages 7 and 24 which comprise the balance sheet as at 30 June 2008 and the income statement, statement of changes in fund balances and cash flow statement for the year then ended together with a summary of significant accounting policies and other explanatory notes in accordance with the provisions of Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

#### **The Authority's Responsibility for the Financial Statements**

The Authority is responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Authority and of its operating results in accordance with the International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

#### **Responsibility of the Controller and Auditor General**

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the Authority's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of the Authority, as well as evaluating the overall presentation of the financial statements.

I believe the audit provides a reasonable basis for my opinion.

### **Opinion**

In my opinion, proper books of account have been kept and the financial statements give a true and fair view of the financial position of the Authority at 30 June 2008 and of its surplus and cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Capital Markets Act, Cap 485A of the Laws of Kenya.



**P.N. KOMORA, CBS.  
CONTROLLER AND AUDITOR GENERAL**

Nairobi

3 January 2009

CAPITAL MARKETS AUTHORITY  
 INCOME AND EXPENDITURE ACCOUNT  
 FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 Kshs	2007 Kshs
FEE INCOME	4	651,615,185	354,031,167
OTHER INCOME	5	<u>48,807,832</u>	<u>39,798,626</u>
TOTAL INCOME		700,423,017	393,829,793
EXPENDITURE	6	<u>(190,766,303)</u>	<u>(161,542,481)</u>
GROSS SURPLUS FOR THE YEAR		509,656,714	232,287,312
SURPLUS TO EXCHEQUER	7	-	(35,000,000)
NET SURPLUS FOR THE YEAR	8	<u>509,656,714</u>	<u>197,287,312</u>

CAPITAL MARKETS AUTHORITY  
BALANCE SHEET  
AS AT 30 JUNE 2008

	Note	2008 Kshs	2007 Kshs
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant & equipment	9	13,259,207	14,477,597
Intangible assets	10	1,769,548	1,998,633
Staff loans and advances	11	5,960,305	9,125,546
Investors' compensation fund's investment in CDSC	12	7,000,000	7,000,000
Investors' compensation fund's investment in treasury bonds	12	138,684,266	125,124,497
Investment in government securities	13	<u>354,311,234</u>	<u>320,281,086</u>
		<u>520,984,560</u>	<u>478,007,359</u>
<b>CURRENT ASSETS</b>			
Staff loans and advances	11	2,250,286	1,623,724
Investors' compensation fund	12	81,887,589	33,055,113
Investment in government securities	13	254,341,565	58,850,000
Trade and other receivables	14	317,866,541	34,968,452
Staff benevolent fund	15	4,242,866	3,910,753
Cash and cash equivalents	16	<u>127,883,385</u>	<u>117,819,623</u>
		<u>788,472,232</u>	<u>250,227,665</u>
<b>TOTAL ASSETS</b>		<u>1,309,456,792</u>	<u>728,235,024</u>
<b>FUNDS AND LIABILITIES</b>			
<b>FUNDS</b>			
Capital fund	17	27,885,508	27,885,508
General fund	18	<u>997,116,247</u>	<u>487,459,533</u>
		<u>1,025,001,755</u>	<u>515,345,041</u>
<b>CURRENT LIABILITIES</b>			
Investors' compensation fund	12	227,571,693	165,179,611
Staff benevolent fund	15	4,242,866	3,910,753
Trade and other payables	19	37,733,285	23,214,962
Provisions	20	14,500,000	20,177,464
Millennium staff savings scheme	21	<u>407,193</u>	<u>407,193</u>
		<u>284,455,037</u>	<u>212,889,983</u>
<b>TOTAL FUNDS AND LIABILITIES</b>		<u>1,309,456,792</u>	<u>728,235,024</u>

The financial statements on pages 7 to 24 were approved for issue by the Members of the Authority on

September 30, 2008 and signed on their behalf by:

Phogee Wamungu CHAIRMAN

Stella Kilongo CHIEF EXECUTIVE

CAPITAL MARKETS AUTHORITY  
 STATEMENT OF CHANGES IN FUND BALANCES  
 FOR THE YEAR ENDED 30 JUNE 2008

	Capital fund Kshs	General fund Kshs	Total Kshs
At 1 July 2006	27,885,508	290,172,221	318,057,729
Surplus for the year	<u>-</u>	<u>197,287,312</u>	<u>197,287,312</u>
At 30 June 2007	<u>27,885,508</u>	<u>487,459,533</u>	<u>515,345,041</u>
At 1 July 2007	27,885,508	487,459,533	515,345,041
Surplus for the year	<u>-</u>	<u>509,656,714</u>	<u>509,656,714</u>
At 30 June 2008	<u>27,885,508</u>	<u>998,116,247</u>	<u>1,025,001,755</u>

CAPITAL MARKETS AUTHORITY  
 CASH FLOW STATEMENT  
 FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 Kshs	2007 Kshs
Operating activities:			
Cash generated from operations	22	260,280,935	225,722,179
Interest received		<u>46,211,245</u>	<u>29,948,489</u>
Net cash generated from operating activities		<u>306,492,180</u>	<u>255,670,668</u>
Cash flows from investing activities:			
Purchase of property, plant and equipment		(3,209,193)	(7,852,093)
Purchase of intangible assets		(973,154)	(626,650)
Proceeds from disposal of property, plant and equipment		-	810,000
Purchase of treasury bonds from the Investors' Compensation Fund		(9,237,213)	(20,135,372)
Purchase of treasury bonds from the Investors' Compensation Fund		(62,004,889)	(9,692,129)
Purchase of treasury bonds		(171,075,421)	(113,544,865)
Purchase of treasury bills		(58,446,244)	(9,738,310)
Benevolent fund		<u>(859,465)</u>	<u>(7,849)</u>
Net cash used in investing activities		<u>(305,805,579)</u>	<u>(160,787,268)</u>
Net increase in cash and cash equivalents		<u>686,381</u>	<u>94,883,400</u>
Movement in cash and cash equivalents:-			
At the start of the year		133,545,552	38,662,152
Increase		<u>686,381</u>	<u>94,883,400</u>
At the end of the year	16	<u>134,231,933</u>	<u>133,545,552</u>

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRSs). The financial statements are prepared under the historical cost basis of accounting as modified by the revaluation of certain investments to fair value and are presented in the functional currency, Kenya shillings (Kshs) rounded to the nearest shilling.

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Authority's accounting policies. The areas involving a higher degree of judgement and complexity, or where assumptions and estimates are significant to the financial statements are disclosed in note 3.

### b) Property, plant, equipment and depreciation

Property, plant and equipment are stated at cost, less accumulated depreciation and any impairment in value.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset as appropriate, only where it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income and expenditure account in the financial period in which they are incurred.

Depreciation is calculated on the straight line basis, at annual rates estimated to write off carrying values of the property, plant and equipment over their expected useful life.

The rates in use are:

Motor vehicles	25.00%
Computer equipment	25.00%
Office equipment	20.00%
Furniture and fittings	12.50%

The carrying values of property, plant and equipment are reviewed for impairment when events indicate that the carrying values may not be recoverable and are adjusted for impairment where it is considered necessary.

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating surplus/ (deficit). On disposal of revalued assets, amounts in the revaluation surplus relating to the asset are transferred to retained earnings.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**c) Financial instruments**

Financial instruments carried on the balance sheet include cash on hand and bank, investments, trade and other receivables and trade and other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

**d) Investments**

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

Long term investments that are to be held to maturity, such as bonds, are subsequently measured at amortized cost using the effective interest rate method.

**e) Revenue recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be reliably measured.

*Fees, interest and other income.*

Fees, interest and other income are recognised on the accrual basis.

**f) Intangible assets**

The costs incurred to acquire and bring to use specific computer software licences are capitalized. The costs are amortized on a straight line basis over the expected useful lives, not exceeding three years. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

**g) Foreign currency transactions**

Transactions during the year are converted into Kenya shillings at rates ruling at the transactions dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the income and expenditure account in the period in which they arise.

**h) Employment benefits**

**i) Pension obligations**

The Authority operates an in-house defined benefits pension scheme for its employees. The assets of the scheme are held in a separate trustee administered fund that is funded by both the Authority and employees.

The Authority also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to Kshs 200 per employee per month, with the Authority contributing a similar amount.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) **Employment Benefits (continued)**

i) **Pension obligations (continued)**

The Authority's contributions to the above schemes are charged to the income and expenditure account in the year to which they relate.

ii) **Gratuity obligations**

The Authority pays service gratuity to staff on contract under their terms of employment. Employee entitlements to gratuity are recognized when they accrue to employees. A provision for gratuity payable is made in the balance sheet. The gratuity is not subject to actuarial valuation.

i) **Other employee entitlements**

Employee entitlements to annual leave are recognized when they accrue to employees. The monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognized as an expense accrual.

j) **Leases**

Leases where the lessor does not retain substantially all the risks and benefits of ownership of assets are classified as operating leases. Operating lease payments are recognized as an expense in the income and expenditure account on a straight line basis over the lease term.

k) **Trade and other receivables**

Trade and other receivables are recognized at anticipated realizable value less an allowance for any uncollectible amounts. An estimate/specific provision is made for doubtful receivables based on the review of all outstanding amounts at the year end. Bad debts are written off when all reasonable steps to recover them have been taken without success.

l) **Trade and other payables**

Trade and other payables are stated at their nominal value.

m) **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, the cash and cash equivalents comprise of cash and cash equivalents as defined above and include; the Investors' Compensation and Staff Benevolent funds.

n) **Provisions**

A provision is recognized in the balance sheet when the Authority has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and it can be reliably estimated.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**o) Contingent liabilities**

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured.

**p) Related parties**

In the normal course of business the Authority enters into transactions with related parties. The related party transactions are at arms length.

**2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances:

**i) Critical accounting estimates and assumptions.**

*Property, plant and equipment*

Critical estimates are made by the Authority members in determining depreciation rates for the property, plant and equipment. The rates are set out in note 1 (b) above.

**ii) Critical judgments in applying the entity's accounting policies**

In the process of applying the Authority's accounting policies, management has made judgements in determining:

- Whether assets are impaired
- The classification of financial assets and leases
- Provisions and contingent liabilities

<b>4. FEE INCOME</b>	2008 Kshs	2007 Kshs
Capitalisation, rights and new issue fees	381,693,461	93,989,178
NSE - transaction fees	248,904,351	242,007,389
Application and licensing fees	12,908,537	10,215,307
Market development fees	<u>8,108,836</u>	<u>7,819,293</u>
	<u>651,615,185</u>	<u>354,031,167</u>

CAPITAL MARKETS AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 30 JUNE 2008

	2008	2007
5. OTHER INCOME	Kshs	Kshs
Interest income on investments	46,211,245	29,948,489
Donor funding	1,564,437	7,707,429
Gain on disposal of property, plant and equipment	-	810,000
Miscellaneous income	<u>1,032,150</u>	<u>1,332,708</u>
	<u>48,807,832</u>	<u>39,798,626</u>
<b>6. EXPENDITURE</b>		
Personnel costs (note 25)	83,283,802	76,415,695
Rent and maintenance	11,915,872	9,926,254
Equipment maintenance and stationery	5,851,632	5,015,400
Telephone, postage and utilities	5,537,143	4,829,401
Entertainment and public relations	8,222,467	3,215,526
Medical scheme and insurance expenses	6,037,086	4,501,837
Training and conferences	6,352,842	7,769,563
Motor vehicle running expenses	1,881,941	1,347,184
Subscriptions and IOSCO membership	2,319,712	1,785,967
Authority members' emoluments-other allowances	12,011,510	10,330,024
Professional and market development services	11,765,543	19,061,330
Statutory Management Expenses	16,233,713	-
Staff uniforms & miscellaneous expenses	262,104	237,914
Depreciation of property, plant and equipment	4,427,582	3,694,833
Amortisation of intangible assets	1,202,239	958,085
Auditor's remuneration	533,380	540,157
Investors' education and awareness programme	7,526,774	6,020,727
Tribunal expenses	<u>5,400,961</u>	<u>5,892,584</u>
	<u>190,766,303</u>	<u>161,542,481</u>

Tribunal expenses represent sitting and other expenses incurred by the Capital Markets Tribunal in relation to hearings on matters involving the Authority and other parties aggrieved by its pronouncements.

**7. SURPLUS TO EXCHEQUER**

This relates to amount paid to the Exchequer out of the surplus for the year as per section 16(3) of the State Corporations Act.

**8. NET SURPLUS FOR THE YEAR**

	2008	2007
	Kshs	Kshs
The surplus for the year is stated after charging:-		
Depreciation of property, plant and equipment	4,427,582	3,694,833
Amortization of intangibles	1,202,239	958,085
Authority members' emoluments and other allowances	12,011,510	10,330,024
Auditor's remuneration	533,380	540,157
Employees' benefits expense (Note 24)	<u>5,853,541</u>	<u>5,017,107</u>
And after crediting:		
Interest income on investments:	46,211,245	29,948,489
Gain on disposal of property, plant and equipment	-	810,000
Donor funding	<u>1,564,437</u>	<u>7,707,429</u>

CAPITAL MARKETS AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 30 JUNE 2008

9. PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles Kshs	Computer equipment Kshs	Office equipment Kshs	Furniture and fittings Kshs	Total Kshs
COST					
At 1 July 2006	14,361,285	10,392,676	5,951,168	22,507,097	53,212,226
Addition	4,296,084	2,255,052	283,416	1,017,534	7,852,086
Disposal	(4,407,800)	-	-	-	(4,407,800)
At 30 June 2007	<u>14,249,569</u>	<u>12,647,728</u>	<u>6,234,584</u>	<u>23,524,632</u>	<u>56,656,512</u>
DEPRECIATION					
At 1 July 2006	14,051,356	7,246,061	4,744,628	16,849,839	42,891,884
Charge for the year	397,245	1,411,675	541,111	1,344,802	3,694,833
On disposal	(4,407,800)	-	-	-	(4,407,800)
At 30 June 2007	<u>10,040,801</u>	<u>8,657,736</u>	<u>5,285,739</u>	<u>18,194,641</u>	<u>42,178,917</u>
COST					
At 1 July 2007	14,249,569	12,647,728	6,234,584	23,524,632	56,656,513
Additions	-	2,183,935	299,091	726,167	3,209,193
At 30 June 2008	<u>14,249,569</u>	<u>14,831,663</u>	<u>6,533,675</u>	<u>24,250,799</u>	<u>59,865,706</u>
DEPRECIATION					
At 1 July 2007	10,040,801	8,657,736	5,285,739	18,194,641	42,178,917
Charge for the year	936,488	1,718,039	397,761	1,375,294	4,427,582
At 30 June 2008	<u>10,977,289</u>	<u>10,375,775</u>	<u>5,683,500</u>	<u>19,569,935</u>	<u>46,606,499</u>
NET BOOK VALUE					
At 30 June 2008	<u>3,272,280</u>	<u>4,455,888</u>	<u>850,175</u>	<u>4,680,864</u>	<u>13,259,207</u>
At 30 June 2007	<u>4,208,767</u>	<u>3,989,996</u>	<u>948,845</u>	<u>5,329,989</u>	<u>14,477,597</u>

No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property, plant and equipment with a cost of Kshs 35,121,520 (2007 Kshs 32,048,600) which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to Kshs 6,751,866 (2007: Kshs 6,728,911).

CAPITAL MARKETS AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 30 JUNE 2008

10. INTANGIBLE ASSETS

	2008
	Kshs
<b>COST</b>	
At 1 July 2006	2,621,325
Additions	<u>626,650</u>
At 30 June 2007	<u>3,247,975</u>
<b>AMORTIZATION</b>	
At July 1 2006	291,258
Charge for the year	<u>958,084</u>
At 30 June 2007	<u>1,249,342</u>
<b>NET BOOK AMOUNT</b>	
As at 30 June 2007	<u>1,998,633</u>
<b>COST</b>	
At 1 July 2007	3,247,975
Additions	<u>973,154</u>
At 30 June 2008	<u>4,221,129</u>
<b>AMORTIZATION</b>	
At July 1 2007	1,249,342
Charge for the year	<u>1,202,239</u>
At 30 June 2008	<u>2,451,581</u>
<b>NET BOOK AMOUNT</b>	
At 30 June 2008	<u>1,769,548</u>
At 30 June 2007	<u>1,998,633</u>

11. STAFF LOANS AND ADVANCES

	Short term Kshs	Long term Kshs	Total 2008 Kshs	Total 2007 Kshs
Car loans	1,275,122	3,716,149	4,991,271	7,101,716
House loans	-	1,920,452	1,920,452	1,920,452
Other loans and advances	975,164	2,245,721	3,220,885	3,649,119
Provision for bad and doubtful debts	<u>-</u>	<u>(1,922,017)</u>	<u>(1,922,017)</u>	<u>(1,922,017)</u>
	<u>2,250,286</u>	<u>5,960,305</u>	<u>8,210,591</u>	<u>10,749,270</u>

**12. INVESTORS' COMPENSATION FUND**

In accordance with Section 18 of Capital Markets Act, Cap 485A, the Authority is required to maintain a fund to be known as the Investors' Compensation Fund for the purpose of granting compensation to investors who may suffer pecuniary loss resulting from the failure of a licensed broker or dealer to meet its contractual obligations. This requirement was implemented in July 1995.

The fund derives its income from the following sources:

- (i) Interest accruing on funds received from subscribers to public issues, between the day of closing the issue and making the refunds.
- (ii) 0.01% of the consideration from sale and purchase of shares through the Nairobi Stock Exchange.
- (iii) Interest earned from investment of the funds held in this account.
- (iv) Financial penalties imposed on operators for non-compliance with Capital Markets Authority Rules and Regulations.

The movement in the fund balance during the year is as shown below:

	2008 Kshs	2007 Kshs
At beginning of the year	165,179,611	124,677,267
Nairobi Stock Exchange transactions fees	20,741,868	20,167,281
Interest on investments	15,010,888	10,126,297
Financial penalties	909,093	258,000
Management fees	(500,000)	(500,000)
Public issue fees	<u>26,230,234</u>	<u>10,450,766</u>
At end of the year	<u>227,571,694</u>	<u>165,179,611</u>

The Investors' Compensation Fund balance is represented by the following assets:

<b>Non-current</b>	2008 Kshs	2007 Kshs
Equity investment in the Central Depository and Settlement Corporation (at cost)	<u>7,000,000</u>	<u>7,000,000</u>
Treasury bonds maturing after one year		
(Effective interest rate – 11.25% per annum)	116,079,824	-
Treasury bonds maturing after three years		
(Effective interest rate – 11.75% per annum)	9,000,136	108,124,189
Treasury bonds maturing after four years		
(Effective interest rate – 11.25% per annum)	13,604,306	8,003,773

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 FOR THE YEAR ENDED 30 JUNE 2008

	2008 Kshs	2007 Kshs
<b>12. INVESTORS' COMPENSATION FUND (continued)</b>		
<b>Non-current (continued)</b>		
Treasury bonds maturing after five years (Effective interest rate – 11.75% per annum)	—	<u>8,996,535</u>
	<u>138,684,266</u>	<u>125,124,497</u>
<b>Current</b>		
Treasury bills – maturing within 1 year (Effective interest rate – 8.13% per annum)	71,484,612	11,736,842
Transaction fees receivable	1,492,686	131,041
Bank balance	6,026,221	14,876,150
Public issue fees receivable	<u>2,884,070</u>	<u>6,311,080</u>
	<u>81,887,589</u>	<u>33,055,113</u>
<b>13. INVESTMENT IN GOVERNMENT SECURITIES</b>		
<b>Non Current</b>		
(a) Treasury bonds		
Maturing after three years	133,909,195	-
Accrued interest	<u>1,417,951</u>	-
	<u>135,327,146</u>	
Maturing after 1 year	215,196,540	314,691,084
Accrued interest	<u>3,787,548</u>	<u>5,590,002</u>
	<u>218,984,088</u>	<u>320,281,086</u>
	<u>354,311,234</u>	<u>320,281,086</u>
<b>Current</b>		
(b) Treasury bonds		
Maturing within 1 year	116,604,675	57,653,701
Accrued interest	<u>5,224,563</u>	<u>1,196,299</u>
	<u>121,829,238</u>	<u>58,850,000</u>
(c) Treasury bills	128,492,638	-
Accrued interest	<u>4,019,689</u>	-
	<u>132,512,327</u>	-
	<u>254,341,565</u>	-
	<u>608,652,799</u>	<u>379,131,086</u>

The average interest rate earned on Treasury bonds during the year was 9.6% (2007:9.5%).

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 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 30 JUNE 2008

14. TRADE AND OTHER RECEIVABLES	2008 Kshs	2007 Kshs
Trade receivables	315,458,593	31,770,928
Prepayments	2,096,080	2,081,080
Sundry receivables	<u>311,868</u>	<u>1,116,444</u>
	<u>317,866,541</u>	<u>34,968,452</u>

15. STAFF BENEVOLENT FUND	2008 Kshs	2007 Kshs
Investment in treasury bonds	3,868,432	2,991,147
Interest on investment	52,007	69,827
Cash and cash equivalents	<u>322,427</u>	<u>849,779</u>
	<u>4,242,866</u>	<u>3,910,753</u>

16. CASH AND CASH EQUIVALENTS		
Cash in hand	43,326	27,551
Cash at bank	11,762,771	11,031,524
Call deposit	<u>116,077,288</u>	<u>106,760,548</u>
	<u>127,883,385</u>	<u>117,819,623</u>

For the purposes of the cash flow statement, the year end cash and cash equivalents comprise the following at 30 June 2008.

	2008 Kshs	2007 Kshs
Cash at bank	43,326	27,551
Call deposit	11,762,771	11,031,524
Staff benevolent fund bank balance	116,077,288	106,760,548
Investors' compensation fund bank balance	322,327	849,779
	<u>6,026,221</u>	<u>14,876,150</u>
	<u>134,231,933</u>	<u>133,545,552</u>

17. CAPITAL FUND		
At 1 July 2007 and at 30 June 2008	<u>27,885,508</u>	<u>27,885,508</u>

Capital fund represents the initial contribution by the government of Kenya towards the establishment of the Capital Markets Authority.

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 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 30 JUNE 2008

<b>18. GENERAL FUND</b>	2008 Kshs	2007 Kshs
At 1 July	487,459,533	290,172,221
Surplus for the year	<u>509,656,714</u>	<u>197,287,312</u>
At 30 June	<u>997,116,247</u>	<u>487,459,533</u>

General fund represents accumulated surpluses over the years.

<b>19. TRADE AND OTHER PAYABLES</b>	2008 Kshs	2007 Kshs
Trade payables	17,434,248	2,962,858
Accruals	19,899,037	19,719,159
Audit fees accrual	<u>400,000</u>	<u>532,945</u>
	<u>37,733,285</u>	<u>23,214,962</u>

<b>20. PROVISIONS</b>		
Provisions for pending lawsuits (note 27)	14,500,000	14,500,000
Service gratuity	-	<u>5,677,464</u>
	<u>14,500,000</u>	<u>20,177,464</u>

<b>21. MILLENNIUM STAFF SAVINGS SCHEME</b>		
At 1 July and 30 June	<u>407,193</u>	<u>407,193</u>

This relates to amounts payable to former staff which is a subject of court cases. The amounts are being held until a ruling is made.

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 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 30 JUNE 2008

22. CASH GENERATED FROM OPERATIONS	2008 Kshs	2007 Kshs
Reconciliation of surplus for the year to cash generated from operations:-		
Surplus for the year	509,656,714	232,287,312
Depreciation of property, plant and equipment	4,427,582	3,694,833
Amortisation of intangible assets	1,202,239	958,085
Interest on investments	(46,211,245)	(29,948,489)
Surplus to the ministry of finance	-	(35,000,000)
Gain on disposal of property, plant and equipment	<u>-</u>	<u>(810,000)</u>
Operating surplus before working capital changes	469,075,290	171,181,741
Trade and other receivables	(282,898,089)	5,886,757
Staff loans and advances	2,538,679	(1,338,297)
Trade and other payables	14,518,323	8,260,196
Provisions	(5,677,464)	778,948
Investors' compensation fund	62,392,083	40,502,344
Staff benevolent fund	<u>332,113</u>	<u>450,490</u>
Cash generated from operations	<u>260,280,935</u>	<u>225,722,179</u>

23. OPERATING LEASE COMMITMENTS

Operating lease commitments represent rentals payable by the Authority for its office property. Property rental expenses during the year amounted to Kshs 12,328,805 (2007. Kshs 9,299,854). At the balance sheet date, the Authority had outstanding commitments under operating leases, which fall due as follows:

	2008 Kshs	2007 Kshs
Within one year	12,328,805	9,699,424
Between 2-5 years	<u>49,842,878</u>	<u>38,401,877</u>
	<u>62,171,683</u>	<u>48,101,301</u>

## 24. EMPLOYEE BENEFITS EXPENSE

The Authority operates an in-house defined benefits pension scheme for its employees. The investment of the scheme's assets is managed by an independent fund manager, Genesis Kenya Investment Management Limited, on behalf of the Trustees.

The scheme is subjected to triennial valuations by independent actuaries to fulfil the statutory requirements under the Income Tax (Retirement Benefits) Rules 1994 and the Retirement Benefits Rules 2000. The latest actuarial valuation was carried out as at 1 July 2007. The actuarial valuation method adopted, 'Attained Age Method', entailed the comparison of the scheme's assets at the valuation date with its liabilities and an assessment of the ability of the scheme to meet its obligations to members.

The principal actuarial assumptions applied in the valuation are

- Investment returns 9% per annum
- Rates of salary escalation 7% per annum
- Rate of pension increases 3% per annum

Based on the actuarial report, the Actuaries estimate that the present value of past service actuarial liabilities amounted to Kshs 49,919,000 at 1 July 2007, and that the value of scheme's assets exceeded the liabilities by Kshs 4,683,000 at that date.

The following items are included within employee benefits expense:

Retirement benefits costs;	2008 Kshs	2007 Kshs
- Defined benefit scheme	5,757,341	4,935,507
- National Social Security Fund	<u>86,200</u>	<u>81,600</u>
	<u>5,843,541</u>	<u>5,017,107</u>

## 25. RELATED PARTY TRANSACTIONS

	2008 Kshs	2007 Kshs
i) Key management compensation:		
Salaries and other short term benefits	20,949,446	24,800,944
Post employment benefits	<u>1,475,013</u>	<u>1,229,318</u>
	<u>22,424,459</u>	<u>26,030,262</u>
ii) Members' emoluments		

A listing of the members of the Authority is shown on page 2 of the annual report. In 2008 the total remuneration of the members excluding the Chief Executive amounted to Kshs 12,011,510 (2007: Kshs 10,330,024)

**26. PERSONNEL COSTS**

	2008 Kshs	2007 Kshs
Consolidated pay, leave pay and passages	77,316,361	68,731,965
Staff retirement benefits and gratuity	5,757,341	7,479,730
Benevolent fund contributions	123,900	122,400
National Social Security Fund (NSSF)	<u>86,200</u>	<u>81,600</u>
	<u>83,283,802</u>	<u>76,415,695</u>
Average number of employees during the year	<u>37</u>	<u>33</u>

**27. CONTINGENT LIABILITY**

Pending law suits	<u>61,722,700</u>	<u>61,722,700</u>
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Former employees of the Authority have filed suits against the Authority for wrongful dismissal and are seeking damages to the extent of Kshs 61,722,700. Based on the advice of legal counsel, the Authority members have estimated that a liability of Kshs 14,500,000 (2007: Kshs.14, 500,000) will arise from these suits. The estimated liability has been recognised in these financial statements (note 20).

**28. CAPITAL COMMITMENTS**

Commitments at year-end for which no provision has been made in these financial statements:

	2008 Kshs	2007 Kshs
Authorised but not contracted for	<u>26,300,000</u>	<u>33,400,000</u>

**29. CURRENCY RISK**

The Authority operates wholly within Kenya and its assets and liabilities are reported in the local currency. It therefore held no significant foreign currency exposure at 30 June 2008.

**30. COMPARATIVES**

Where necessary comparative figures have been adjusted to conform with changes in presentation in the current year.