

REPUBLIC OF KENYA

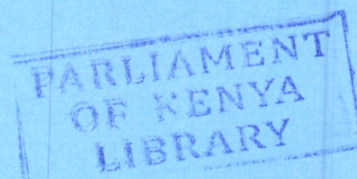


*Enhancing Accountability*

 <b>REPORT</b> THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 10 SEP 2020	DAY: _____
TABLED BY: <b>OF</b>	LEADER OF MAJORITY
CLERK-AT THE TABLE:	SUSAN MARITIM

**THE AUDITOR-GENERAL**

**ON**



**RETIREMENT BENEFITS AUTHORITY**

**FOR THE YEAR ENDED  
30 JUNE 2019**

OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI  
REGISTRY

13 AUG 2020

**RBA RECEIVED**

Retirement Benefits Authority

**International Public Sector Accounting Standards (IPSAS)  
Annual Financial Reporting Template for  
Regulatory and Other Non – Commercial Government Owned Entities**  
*(Semi - Autonomous Government Agencies and Public Funds Established by an Act of Parliament  
or a Legal Notice)*

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**REGULATORY AND OTHER NON-COMMERCIAL ENTITIES  
(RETIREMENT BENEFITS AUTHORITY)**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDING  
JUNE 30, 2019**

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

**Retirement Benefits Authority  
 Annual Reports and Financial Statements  
 For the year ended June 30, 2019**

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**KEY AUTHORITY INFORMATION AND MANAGEMENT**

**(a) Background information**

The *Authority* was incorporated/ established under the Retirement Benefits Act no. 197 of 1997. The Authority is domiciled in Kenya and is established to Regulate and supervise the establishment and management of retirement benefits schemes

**(b) Principal Activities**

The principal activities of the authority are to:

- (a) Regulate and supervise the establishment and management of retirement benefits schemes;
- (b) Protect the interests of members and sponsors of retirement benefits sector;
- (c) Promote the development of the retirement benefits sector;
- (d) Advise the Cabinet Secretary National Treasury on the national policy to be followed with regard to the retirement benefits industry and implement all government policies relating thereto.

**(c) Key Management**

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

1. Board of Directors
2. Chief Executive Officer and
3. 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	Mr. Nzomo Mutuku, MBS
2.	Chief Manager Finance	Mr. Jesse Kiptim
3.	Chief Manager Supervision	Mr. Charles Machira
4.	Chief Manager Human Capital and Administration	Mr. Gordon Bulinda
5.	Chief Manager Legal and Board Secretary	Mrs Praxidis Saisi
6.	Chief Manager Market Conduct	Ms Anne Mugo, MBS
7.	Chief Manager Corporate Communication	Mrs Rose Kwena
8.	Chief Manager Research and Strategy	Dr. Alfred Shem
9.	Manager ICT	Mr. Peter Ngunyi
10.	Manager Internal Audit and Risk	Mrs. Elizabeth Waruingi
11.	Manager Procurement	Mr. George Ogwang

**(e) Fiduciary Oversight Arrangements**

**Board and Audit Committee**

The Retirement Benefits Authority (RBA) has embraced Enterprise Risk Management in both their strategic and operational processes. Strategic Risk Management is already integrated as part of the strategy setting and implementation. In addition the Board of Directors has taken the responsibility of ensuring that an appropriate Enterprise Risk Management Policy Framework is in place to identify, assess, manage and monitor opportunities and threats faced by the Authority in achieving its objectives. These risks include legal and regulatory, reputational, political, operational, human capital, financial and technological risks that are inherent in the nature of the Authority's activities.

The Board has delegated the role of implementing risk management to the Management. They therefore ensure that both policy and practice of the Authority's risk management conforms to principles and guidelines issued by the National Treasury circular no.3/2009. The Authority manages risk by ensuring that appropriate means, processes and tools, as well as control systems and people, are in place throughout the organization. The key practices RBA has developed to manage risks include appropriate policies and procedures, regular environmental scans, integrated planning systems, financial and management reporting systems, as well as monitoring individual performance and business processes across key areas.

The design and effectiveness of the enterprise risk management policy framework, strategy and mitigation strategies is subject to ongoing review by the RBA's Internal Audit and Risk Management department, which is independent and reports on the results of its audits directly to the Board of Directors through the Board's Audit, Risk Management & Governance Committee.

The Board also remains very alive to the impact of external events over which the Authority has no control other than to monitor and, as the occasion arises, to provide mitigation.

The Board of Directors have reviewed RBA's enterprise risk management policy framework and are satisfied that it was implemented effectively during the financial year ended 30<sup>th</sup> June, 2019. The key risks within the Authority have been classified under the following categories:

- Strategic risks,
- Legal and regulatory risks,
- Financial risks,
- Operational risks,
- Human capital risks,
- Technological risks

**(f) RBA Head office**

**Registered Office**

13<sup>th</sup> Floor, Upper hill Road  
Rahimtulla Tower  
P.O. Box 57733-00200 Nairobi

**(g) RBA Contacts**

Tel: +254-20-2809000  
Fax: +254-20-2710330  
Mobile: +254-722-509939  
Mobile: +254-735-339132  
E-mail: [info@rba.go.ke](mailto:info@rba.go.ke)  
Website: [www.rba.go.ke](http://www.rba.go.ke)

**(h) Authority Bankers**

**1. Kenya Commercial Bank Ltd**

Milimani Branch  
NSSF Building, Bishops Road  
P. O. Box 48400 - 00100  
Nairobi

**2. Barclays Bank of Kenya Ltd**

Off Waiyaki Way  
P. O. Box 30120 - 00100  
Nairobi, Kenya  
Tel: +254(20)4254000  
Email: [Barclays.kenya@barclays.com](mailto:Barclays.kenya@barclays.com)

**3. Commercial Bank Of Africa**

CBA Centre  
Mara and Ragati Road, Upperhill  
P.O. Box 30437, 00100 GPO  
Nairobi, Kenya  
Tel: +254 20 2884444  
Email: [contact@cbagroup.com](mailto:contact@cbagroup.com)

**(i) Independent Auditors**

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

**(j) Principal Legal Adviser**

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

**THE BOARD OF DIRECTORS**



**Mr Victor R. Pratt**  
Chairman

Education – Business Administration, Post Graduate Studies in Industrial Development Banking.



**Mr. Nzomo Mutuku, MBS**  
Chief Executive Officer - RBA.

Education - BA, MA - Economics  
Year of Birth -1969



**Hon. Sammy Koech**  
Businessman

Education:  
Year of Birth – 1959



**Mr Joseph Ngugi**  
Alternate Director to CS The National Treasury & Planning.

Education - Bachelor of Arts (Economics), Master of Arts (Economics)  
Year of Birth – 1966



**Mr Steve Gichohi Gichuhi, MBS**  
Education - BBM, Dip. Banking, Dip. Sales & Marketing  
Year of Birth – 1965



**Mr Edwin Rotich**  
A Finance executive  
Bachelor of Commerce (Accounting Option),  
Master of Business Administration (University of Manchester, UK), CPA(K)



**Mr Paul Muthaura, MBS**  
Chief Executive Officer  
Capital Markets Authority

Education – Bachelor of Laws, Masters in Banking and Finance Law.  
Year of Birth – 1978



**Mr. Godfrey K. Kiptum, MBS**  
Chief Executive Officer  
Insurance Regulatory Authority  
Education - Master of Business Administration  
Year of Birth – 1970



**Dr. Margaret Makumi**  
Medical Doctor

Bachelor of Medicine and Bachelor of Surgery  
Master of Public Health  
Year of Birth – 1962



**Mrs. Praxidis Namoni Saisi**  
Chief Manager, Legal Services & Board Secretary

Education - LLB, LLM, PGD-Law, MBA  
Year of birth -1967

**MANAGEMENT TEAM**



Mr. Nzomo Mutuku, MBS  
Chief Executive Officer  
Retirement Benefits Authority  
Education - BA, MA -  
Economics.  
Year of Birth -1969



Ms. Anne Mugo, MBS  
Chief Manager  
Market Conduct  
BCom, MBA, ACII  
Year of birth -1963



Mr. Jesse K. Kiptim  
Chief Manager, Finance  
MBA, CPA-K.  
Year of birth -1959



Ms. Elizabeth Waruingi  
Manager, Internal Audit &  
Risk Management.  
BA, MBA, CPA, CIA, CISA,  
CRMA.  
Year of birth -1971



Ms. Rose Kwena  
Chief Manager, Corporate  
Communications.  
BA, PGD, MSc.  
Year of birth -1961



Mr. Charles Machira  
Chief Manager, Supervision  
BSc, MSc.  
Year of birth -1967



Mr. Gordon Bulinda  
Chief Manager, Human  
Capital.  
Development &  
Administration  
Bed, PGD, MBA.  
Year of birth -1972



Dr. Alfred Shem Ouma  
Chief Manager, Research &  
Strategy  
BA (Econ.), MA (Econ.), PhD  
(Econ.). Year of birth -1964



Mrs. Praxidis Namoni Saisi  
Chief Manager, Legal Services  
& Board Secretary  
LLB, LLM, PGD-Law, MBA,  
CPS. Year of birth -1967



Mr. Peter Ngunyi  
Manager, Information  
Communication Technology  
BCOM (IT), MIS, MBA  
Year of birth -1978



Mr. George Ogwang  
Manager, Procurement &  
Supply Chain  
BCOM, MBA, DSCM  
Year of birth -1974

## **CHAIRMAN'S STATEMENT**

I am delighted to present the Financial Performance Report for Retirement Benefits Authority for the period ended 30<sup>th</sup> June 2019.

The Retirement Benefits Authority mainly depends on levy paid by retirement benefits schemes as a source of revenue. Despite various challenges experienced in the last financial year I am happy to report that we realized a remarkable growth in asset base.

The Authority organized various outreach programs across the country geared towards increasing pension coverage. Our target is to increase pension coverage from 20% to 30% by June 2024.

During the financial year under review, we also commissioned a study to enable us to understand the country's pensions saving culture and assess the impact of our education campaigns; we are pleased to let you know that the findings were incorporated in our new strategic plan now under implementation.

The Authority also aggressively leveraged its social media platforms, i.e. Facebook, Twitter, YouTube and Instagram to target young Kenyans and educate them on the importance of saving for retirement. It was refreshing to know the youth are now ready to discuss the pension subject.

Another key milestone in 2018/19 was the launch by our ICT Department of a Mobile App in May 2019. Through the app, members of the public can now whistle blow, file complaints, make inquiries, track industry trends, monitor schemes performance, and access all registered pension service providers. The move is part of the Authority's ongoing strategy to manage schemes and educate Kenyans on the need to save for retirement.

The highlight of the financial year 2018/19 was the launch of our 5th Strategic Plan 2019-2024 in March this year. The plan sets out the road map for the Authority for the next five years. The launch was both momentous and historic. This is because there are both opportunities and challenges for the pensions industry. We rolled out our new plan at a time when the sector is witnessing radical changes in its configuration. Digital technology is driving this shift. But it is also important to forge new alliances and invest in innovative strategies.

A huge potential lies in the informal sector, which has remained unexploited. This is because the pension industry, as presently designed, is over reliant on the formal sector to generate revenue. In an economy where the informal sector is a key player, this approach is unsustainable. To this end, the 2019-2024 blueprint envisions a product with a broader scope beyond just savings. The product will open the doors for informal sector players to borrow against what they have saved for their sunset years. The implementation of the strategies outlined in the plan will ensure growth and development in the retirement benefits sector. Further, the Authority remains keen to instill good governance in retirement benefit schemes by enacting obligations, controls and regulations, and through proper supervision. In view of the new pillar we promise to continuously review and strengthen existing legislation and guidelines /codes of governance to ensure the products are developed and designed to cater for the informal sector and schemes are managed transparently and efficiently .

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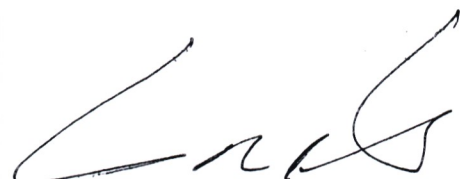
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The financial year 2019/2020 promises to be successful. We have put in place a robust monitoring and evaluation of the system that will track our progress in the achievement of targets set out in the plan. Our monitoring and evaluation framework will encourage good performance by helping us assess the impact and timeliness of our projects and also ensure effective implementation.

As a key player in the financial sector and the wider economy, we are committed to continued collaboration and knowledge exchange with our partners as we live up to our vision of “an inclusive, secure and growing retirement benefits sector.”

I take this opportunity to thank my fellow Board members, the Chief Executive Office Mr. Nzomo Mutuku, staff members and our esteemed partners for their commitment to the institution's vision and mission.

We also appreciate our customers and other stakeholders and promise to continue working together to grow the retirement benefits industry.



**Victor Pratt**  
**Chairman Board of Directors**

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

The Authority continued its steady growth despite various challenges that led to levelling out in growth of assets across the industry segments during the year. Retirement benefits assets under management remained flat at Kshs. 1.16 billion between June 2018 and December 2018 primarily as a result of a nineteen percent drop in the value of quoted equities held.

The year ended 30<sup>th</sup> June 2019, was a very busy year for the Authority with various outreach programs across the country. The Authority continued to undertake various pension education campaigns geared towards increasing pension coverage in the country. As a result of these efforts, pension coverage has risen to 20 percent of Kenya's workforce up from 15 percent a few years ago. This level of coverage is, however still too low. To understand the country's pensions saving culture and evaluate the impact of the Authority's pension education campaigns, the Authority commissioned an impact assessment study for the very first time in July 2018. The findings of this study demonstrate that it is no longer feasible to rely on the formal sector for pension income and this was the basis of incorporating a pillar on expanding coverage in the informal sector in the Authority's new Strategic Plan for 2019/2024. Currently, informal sector workers have an option to join 35 individual pension schemes that the Authority has registered. The new Strategic Plan identifies additional innovative initiatives that the Authority will put in place to bring on board the informal sector centered on increasing awareness, leveraging on technology to create suitable products, bundling pension with other financial sector products that meet the needs of informal sector workers and creating a facilitative regulatory environment to foster confidence and stability.

Already, the Authority is aggressively leveraging its social media platforms, such as, Facebook, Twitter, YouTube and Instagram to target young Kenyans and educate them on the importance of saving for retirement. The sensitization has been quite successful and elicited a tremendous response from the target audience with Twitter impressions reaching 102,000 while Facebook followers grew to 1,500. The posts were purely organic with no paid adverts or influencer engagements - a clear demonstration that Kenyans appreciate the pension subject and are willing to have a conversation around it.

ASK shows provided a platform for the Authority to engage the public and educate them on the importance of saving for retirement as well as respond to questions and complaints. In 2018/2019, the Authority participated in Kisumu, Mombasa, Nairobi, and Eldoret ASK shows. RBA's Corporate Communications department sensitized 71 employers who did not have pension arrangements in place for their staff on the importance of establishing pension plans for their employees and the available channels.

In addition to targeting informal sector coverage, the new Strategic Plan also factors in the Vision 2030, MTP III 2018-2023 and the Big 4 Agenda in which the sector has a big role to play by: entering into mutually beneficial public private partnerships to finance projects, including affordable housing through direct and indirect investment; support to

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manufacturing and agriculture through investment in Private Equity and other vehicles, and; contributing to universal healthcare through the Post-Retirement Medical Fund (PRMF) whose operating framework has been put in place following gazettelement of the necessary guidelines in October 2018. The Authority also encouraged sustainability in investments of pension schemes by supporting the Green Bonds Program - Kenya and other initiatives which facilitate schemes to invest in a responsible manner while still achieving their core mandate of providing a comfortable retirement to their members.

Members, however, will not achieve a comfortable retirement unless the Authority is able to deliver its core mandate of maintaining a stable industry through supervision of retirement benefits schemes. During the year, the Authority continued to use the Risk Based Supervision approach where resources were targeted to areas with greatest risk in terms of probability and impact. These targeted interventions saw the Authority reduce the average risk score of schemes from 3.217 to 3.069 and the compliance rate on statutory returns rise from 88 percent to 97 percent during the year. A low risk score portends a more stable system and less risk faced by members thus endearing increased confidence. However, one emerging risk that affected a few schemes in the public sector, especially the public universities, was an increase in unremitted contributions owed by the sponsor to the scheme. The Authority monitors such schemes closely and has given a number of sponsors notices under the Retirement Benefits Act which provides for Penalties and other sanctions against sponsors failing to remit contributions.

In line with the need for innovation and leveraging technology, the Authority launched a Mobile App in May 2019. The App is meant to offer a convenient and cost-effective platform for engaging Kenyans nationwide. Through the App, members of the public can now whistle blow, file complaints, make inquiries, track industry trends, monitor schemes performance, and access all registered pension service providers. The move is part of the Authority's ongoing strategy to manage schemes and educate Kenyans on the need to save for retirement. The App allows citizens to report any issues relating to Retirement Benefits Schemes bordering on violation of financial regulations, mismanagement of pension funds or assets, corruption, and any other malpractice deemed to be in the interest of the public. We are optimistic that the App will improve service delivery and scheme governance and at the same time stem unethical behavior while simplifying stakeholder interactions.

The Market Conduct department trained scheme members on retirement planning in Seminars across the country. Members were trained on the importance of saving for retirement, how to manage their finances and available channels for savings and investments. Besides encouraging saving for old age, the Authority also endeavors to prepare members on psychological and health challenges they may encounter in retirement and how to avoid them or mitigate them. To strengthen governance of retirement benefits schemes, governance guidelines were gazetted in October 2018 and will be implemented in the new financial year while guidelines on Treating Customers Fairly (TCF) were finalized during the year and submitted for gazettelement.

Internally, the Authority improved its capacity by bringing onboard an additional fourteen technical staff during the year. The Authority also contributed to empowering the youth by training 46 interns/attachees during the year as well as reserving 30 percent of procurements to youth, women and persons with disability. Reaffirming its commitment to providing quality customer services and continual improvement, the Authority retained its ISO 9001:2015 Quality Management System certification following surveillance audits by the Kenya Bureau of Standards. (KEBS) The Authority has also embarked on attaining an additional Information Security Management System (ISMS) ISO 27001 certification

The financial performance of the Authority has been good as demonstrated in the statement of financial performance. The Authority has continuously taken advantage of economies of scale in procurement to ensure there is cost cutting and value for money in every expenditure. During the period the revenue from non-exchange transactions earned was Kshs. 889.6 million compared to Kshs. 836 million in 2017-2018 FY. The total revenue which includes exchange transactions and non-exchange transactions earned in the period increased from Kshs. 885 million in 2017-2018 FY to Kshs. 931 million. On the other hand, the operating expenditure increased from Kshs. 674 million in 2017-2018 FY to Kshs. 796 million.

I would like to extend my sincere gratitude to the senior management team and members of the staff for working together towards the Authority's vision and making the achievements of the financial year 2018/2019 possible. Many thanks go to the Chairman and Board members for their guidance and support; members of staff for their good work and our external stakeholders for their commitment to developing and safeguarding the retirement benefits industry.



**Nzomo Mutuku, MBS**  
**Chief Executive Officer**

## **CORPORATE GOVERNANCE STATEMENT**

### **1. Board Size and Composition**

- Mr. Victor Pratt, Chairman (re-appointed 1<sup>st</sup> June 2019)
- Mr. Henry K. Rotich, EGH Cabinet Secretary, The National Treasury & Planning
- Mr. Joseph Ngugi, Alternate Director to the Cabinet Secretary, The National Treasury & Planning (Appointed 14<sup>th</sup> October, 2015)
- Mr. Godfrey Kiptum, MBS; Member of Chartered Insurance of Institute of UK, Chief Executive Officer, Insurance Regulatory Authority
- Mr. Paul Muthaura, MBS; Director, Chief Executive Officer, Capital Markets Authority
- Mr. Steve Gichohi Gichuhi, MBS, Director (re-appointed 6<sup>th</sup> June 2018)
- Mr. Vincent Rotich, Director (Appointed 2<sup>nd</sup> October 2015) (Retired)
- Mr. Edwin Rotich, Director (Appointed 19<sup>th</sup> December 2018)
- Dr. Margaret M. Makumi, Director (Appointed 6<sup>th</sup> June 2018)
- Hon. Sammy C. Koech, Director (Appointed 8<sup>th</sup> June 2018)
- Mr. Nzomo Mutuku, MBS, Chief Executive Officer (1<sup>st</sup> May 2017)

The Inspector General (Corporations) under section 18(2) of the State's Corporation Act, Cap 446 may attend the meetings of any State Corporation or of any Board or Committee as he deems necessary for the effective performance of his duties under the Act.

### **2. Committees of the Board**

To comply with Chapter one of the Mwongozo, the Board constitutes of four (4) Committees each with its own Charter. The individual Charters set forth the purpose, goals and responsibilities of the Committees as well as the qualifications for Committee membership, the procedure for appointment and removal of a member and the procedure of reporting to the Board. The Committees facilitate efficient decision making of the Board in the discharge of its statutory duties and responsibilities.

All Directors exercise the requisite duty and care in the best interest of the Authority. The current members of the Board and their membership on the Board Committees of the Authority are as follows:

### **3. Technical Committee**

The membership of the Committee is as follows:

- Hon. Sammy Koech- Chairperson
- Mr. Edwin Rotich
- Mr. Stephen Gichohi Gichuhi, MBS
- Godfrey K. Kiptum, MBS
- Mr. Joseph Ngugi - Alternate CS, The National Treasury & Planning

The Technical Committee held four regular meetings and five special meetings in the in the period under review.

#### **4. Staff Welfare and Remuneration Committee**

The membership of this Committee is as follows:

- Dr. Margret M. Makumi - Chairperson
- Mr. Edwin Rotich
- Mr. Paul Muthaura, MBS
- Hon. Sammy C. Koech
- Mr. Joseph Ngugi - Alternate CS, The National Treasury & Planning

The Committee held two regular and two special meetings in the period under review.

#### **5. Finance and Administration Committee**

The membership of this Committee is as follows:

- Mr. Stephen Gichohi Gichuhi, MBS - Chairperson
- Mr. Godfrey Kiptum MBS
- Mr. Joseph Ngugi - Alternate CS, The National Treasury & Planning
- Dr. Margret Makumi
- Hon. Sammy Koech

The Committee held four regular meetings and four special meetings in the period under review.

#### **6. Audit, Risk Management and Governance Committee**

The membership of this committee is as follows:

- Mr. Edwin Rotich - Chairperson
- Dr. Margaret M. Makumi
- Hon. Sammy C. Koech
- Mr. Paul Muthaura, MBS
- Mr. Joseph Ngugi - Alternate CS, The National Treasury & Planning

The Committee held four regular and one special meeting in the period under review.

#### **7. The Board Meetings**

During the period under review, the Board held four regular full board meetings and one special meeting as shown below for each board member.

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Main Board & Committee Membership and Number of Meeting in the Quarter:								
	Board Member	Classification	Designation	Finance & Administration Committee (FAC): Total No. of meetings 8 (4 scheduled + 4 special meetings)	Audit and Risk Management Committee (AC): Total No. of meetings 6 (4 scheduled and 2 special meeting)	Technical Committee (TC): Total No. of meetings 9 (4 scheduled + 5 special meetings)	Staff Welfare and Remuneration Committee (SWRC): Total No. of meetings 4 (2 scheduled + 2 special meetings)	Main Board meeting (4 scheduled + 1 special meeting)
1	Mr. Victor Pratt	Independent	Board Chairman					5/5
2	Mr. Joseph Ngugi	Representing the Cabinet Secretary, National Treasury	Member	6/8	5/6	8/9	3/4	4/5
3	Mr. Paul Muthaura, MBS	CEO, Capital Markets Authority	Member		5/6		3/4	4/5
4	Mr. Godfrey K. Kiptum, MBS	CEO, Insurance Regulatory Authority	Member & Chairperson TC	6/8		7/9		5/5
5	Mr. Steve Gichohi Gichuhi, MBS	Independent	Member & Chairperson FAC	8/8		9/9		5/5
6	Hon. Sammy Koech	Independent	Member	7/8	6/6	8/9	4/4	5/5
7	Dr. Margaret Makumi	Independent	Member	8/8	6/6		4/4	4/5
8	Mr. Vincent Rotich	Independent	Member		4/6	4/9	2/4	2/5
9	Mr. Edwin Rotich	Independent	Member		1/6	3/9	2/4	2/5
10	Mr. M'noti Maingi	Inspectorate of State Corporation		7/8	5/6	6/9	2/4	4/5

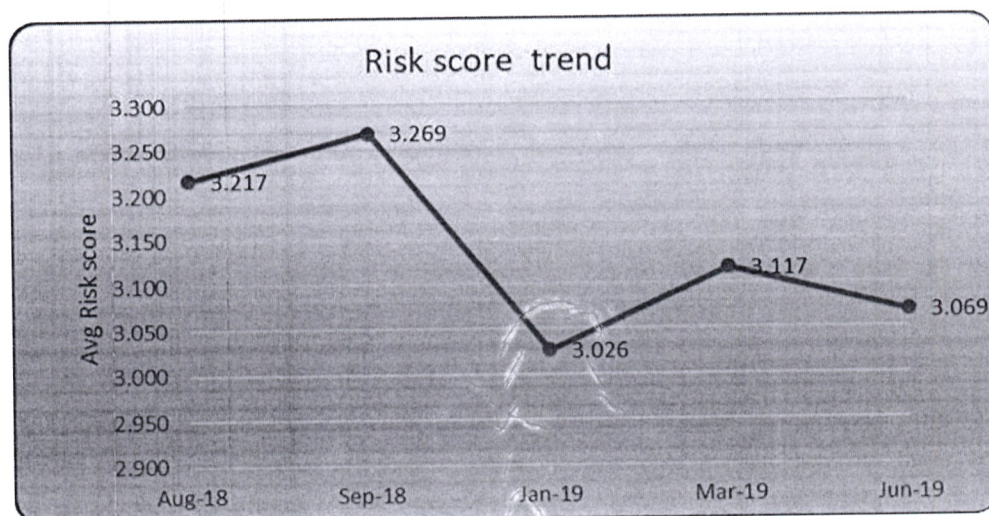
## MANAGEMENT DISCUSSION AND ANALYSIS

### 1. SUPERVISION REPORT

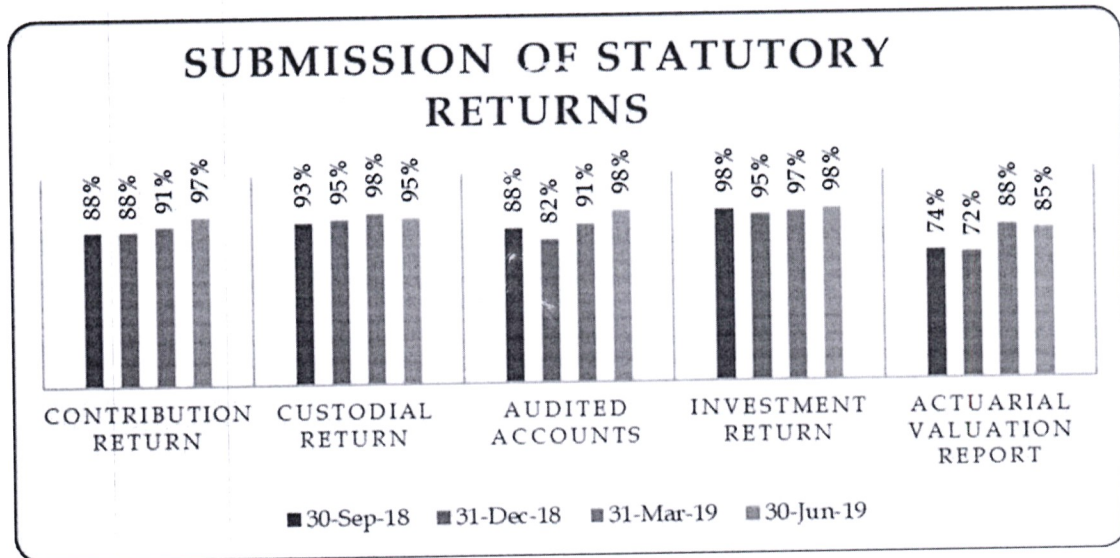
During the year under review, the pension industry has continued to experience growth pension assets, registration and licensing of new retirement benefits schemes and service providers. This growth has been coupled with new challenges, which has necessitated the department to be innovative to deal with the challenges to ensure pension is attractive.

The following are some of the activities carried out within the year:-

- The Retirement Benefits (Post-Retirement Medical Funds) Guidelines, 2018 were developed and gazetted on 25<sup>th</sup> October 2018. This has afforded the members of retirement benefits schemes an avenue to save towards financing their retirement medical expenses
- In line with International Organization of Pension Supervision (IOPS) Principles of Private Pension Supervision, the Authority revamped and implemented a revised supervision framework. The review was done to assess the efficacy of the existing risk-based supervision framework, incorporate the emerging risks and adopt new methods of supervision in the financial sector and pension sub-sector.
- To mitigate against any possibility of failure in the pension sub-sector, the department undertook supervisory enforcement action based on risk rating output from the revised framework. Onsite inspections, appointment of investigators and interim administrators together with invoking of sanctions provided under the Retirement Benefits Act have together contributed to reduction of the sub-sector risk as shown here below:



- The supervisory actions have also contributed to the improvement in submission of statutory returns to the Authority that increased to 97% as at 30<sup>th</sup> June 2019. Below is a table showing the improvement of submission rate:-



## 2. MARKET CONDUCT

### a) Scheme Governance Framework Development

The Authority has embarked on market conduct regulation with the development of Guidelines for use as tools to enhance governance in the retirement benefits sector and ensure that: -

- Delivery of services to customers in the retirement benefits sector is enhanced;
- Consumer education in the sector is emphasized by all sector players;
- Good governance is maintained among service providers in the sector.

During FY 2018-19, the Authority completed the first Market Conduct Guidelines titled The Retirement Benefits (Good Governance Practices) Guideline, 2018 that were gazetted on 25<sup>th</sup> October 2018 as Legal Notice No. 193 and subsequently approved for implementation by Parliament in December 2018. The Guidelines are under implementation with continuous sensitization to the Sector to enhance the governance structures and relationships between trustees and various service providers.

The Authority has completed the drafting of new guidelines titled The Retirement Benefits (Treating Customers Fairly) Guidelines, 2019 ready for gazette to guide the Sector on

customer services and dispute resolution in the management of retirement benefits schemes. Drafting of a third set of guidelines - The Retirement Benefits (Trustee Remuneration Policy and Service Providers Fees) Guidelines 2019 also started in the same FY to assist trustees in implementation of a new requirement in the law regarding their remuneration.

The Prudential Guideline No. RBA 001/2013 - Trustees Development Program Kenya (TDPK) - was reviewed during the FY with a new curriculum adopted. Training tools development is nearing completion to enhance the basic training offered to new Trustees. The Authority is also seeking funding to roll out a continuous development programme for trustees as well as e-learning to reach all counties with this training. The Authority proposes to fund a similar Programme for scheme administrators to be titled Administrators Development Programme Kenya (ADPK) over the period 2019-2021.

#### **b) Consumer Education**

In 2018/19, the Authority trained a total of 180 schemes comprising 150 occupational schemes, 18 individual pension plans (IPP) and 12 umbrella schemes. Training was conducted in 25 counties including 13 new counties reached during the FY being Bomet, Elgeyo Marakwet, Isiolo, Kilifi, Marsabit, Muranga, Narok, Samburu, Siaya, Taita Taveta, Trans-nzoia and Turkana Counties. Training was carried out more than once in many of the Counties to reach more members.

Members received training on financial management, psychological preparation for retirement and how to manage their health as they approach retirement and after leaving employment. The training was carried out with the help of consultants procured by the Authority. The Authority also engaged members at ASK shows in Nairobi, Mombasa, Kisumu and Eldoret to disseminate information on their schemes.

#### **c) Consumer Protection**

The Retirement Benefits Act in Section 5 (b) gives the Authority the mandate to protect the interests of members and sponsors of retirement Benefits schemes. In 2018/19, the Authority received 117 formal complaints from various scheme members (an increase from the 77 complaints received in FY 2017/18), which were resolved within an average of 13 days against a required maximum of 20 days set by the Commission for Administrative Justice (CAJ). The Authority was scored by the CAJ at an average of 99% in its complaints management activities carried out in the FY.

The Authority also participated in the Complaints Referral Partners Network (CRPN) activities with other public service institutions. The CRPN, a network of institutions that handle disputes and complaints from the public, held four (4) quarterly meetings during

the FY to enhance development, strengthening and formalizing cooperation between Partner Institutions, including RBA.

### **3. CORPORATE COMMUNICATION**

#### **a) Pension Education Campaign**

In its effort to promote the development of the pension sector, the Authority has undertaken various pension education campaigns geared towards enhancing the scope of the covered population in the country. Despite these efforts, pension coverage remains at only 20 percent of Kenya's workforce.

To understand the main barriers to pensions saving and the impact of the Authority's pension education campaigns, an impact assessment study was carried out for the very first time from July to November 2018. The findings of the study have been incorporated in the Authority's 2019/2024 Strategic plan, ready for implementation.

#### **b) County Government Sensitization/Registration**

During the 2018/2019 financial year, the Authority partnered with County Governments in Nakuru, Kajiado, Siaya, Garissa, Meru and Nandi to mobilize and sensitize Micro, Small & Medium Enterprises with the objective of converting awareness to conversion. During the sensitization, 4,120 informal sector workers were sensitized on the importance of saving for retirement and the available channels.

#### **c) Social Media Platform**

The Authority also aggressively leveraged its social media platforms, i.e. Facebook, Twitter, YouTube and Instagram to target young Kenyans and educated them on the importance of saving for retirement. The sensitization was quite successful and elicited tremendous response from the target audience with Twitter impressions reached 102,000 while Facebook followers grew to 1,500. The posts were purely organic with no paid adverts or influencer engagements – a clear demonstration that Kenyans appreciate the pension subject and are willing to have a conversation around it.

#### **d) Mobile APP**

The Authority also launched a Mobile App in May 2019. The App is meant to offer a convenient and cost-effective platform for engaging Kenyans from all parts of the country. Through the app, members of the public can now whistle blow, file complaints, make enquiries, track industry trends, monitor schemes performance and access all registered pension service providers. The move is part of the Authority's ongoing strategy to manage schemes and educate Kenyans on need to save for retirement.

**e) ASK Shows**

ASK shows provide a platform for the Authority to engage the general public and educate them on the importance of saving for retirement as well as respond to questions and complaints. In 2018/2019, the Authority participated in Kisumu, Mombasa, Nairobi and Eldoret ASK shows.

**f) Employer Sensitization**

The Authority sensitized 71 employers on the importance of establishing a pensions arrangement for their employees and the available channels. The Authority hosted an open employer workshop on 28<sup>th</sup> February 2019 in Nairobi and carried out in-house sensitizations as well.

**4. INFORMATION COMMUNICATION TECHNOLOGY**

**a) RBA Mobile App**

During the year, the Authority unveiled a mobile app to allow industry stakeholders track performance of pension schemes, file complaints, whistle blow and make online enquiries.

The move is part of the Authority's ongoing strategy to manage schemes and educate Kenyans on need to save for retirement.

Dubbed, RBA Mobile, the app allows members of the public to whistle blow or report any issues relating to Retirement Benefits Schemes bordering on violation of financial regulations, mismanagement of pension funds or assets, corruption and any other malpractice deemed to be in the interest of the public.

The App will improve scheme governance and stem unethical behavior while simplifying interaction between scheme members and the Authority. Further, users can view updated lists of all registered service providers to ensure Kenyans are not misled into joining or dealing with unregistered schemes or companies.

The app is currently available for download via Android app store. It is designed with the customer in mind and provides a simple way to access latest industry trends at a touch of a button. The new app will complement other Authority's digital platforms including the portal, website, social media outlets and the toll free line, all aimed at meeting the ever-changing needs and demands of our stakeholders.

By enabling customers to lodge complaints and access FAQs via the mobile app, the Authority expects to see a reduction in queries, thereby freeing up its customer-facing staff to provide improved one-on-one support to those customers who really need it.

Our goal is to provide customers with an accessible and efficient self-service platform for improved overall customer experience when engaging with the Authority.

**b) Automation of the New Risk Based toolkit**

On automation, the Authority has fully automated the new risk based tool kit. The automated toolkit mines data from the RBSS system and focuses on the identification of potential risks faced by pension funds. It assesses the financial and operational factors in place to minimize and mitigate these risks. The system ranks and rates these scheme risks and therefore allows the Authority to prioritize its resources to schemes that have the highest risk based on the information provided.

**c) Whistle Blower and Complaints Portals**

The Authority has also implemented a Whistle-blower portal. This is an online portal that allows members of the public to report any issues relating to Retirement Benefits Schemes bordering on violation of financial regulations, mismanagement of public funds and assets, financial malpractice or fraud and theft or any other malpractices that are deemed to be in the interest of the public.

In addition, the Authority has also implemented a Complaints Portal, an online platform that allows members of retirement benefits schemes, who are aggrieved with the decision of trustees or service providers to file a complaint without having to physically visit the Authority's offices. The portal can be accessed through the following link: <https://portal.rba.go.ke/>

**5. INDUSTRY PERFORMANCE**

**a) Overall Assets Under Management**

On overall, the retirement benefits assets under management decreased by 0.02 percent from Kshs. 1,166.70 billion in June 2018 to Kshs. 1,166.49 billion in December 2018. However, compared to the same period last year (December 2017) the assets grew by 8 percent, up from Kshs. 1,080.1 billion. The decrease in the assets during the half year can be attributed to the volatility in the stock market of which investment in quoted equities decreased by 19.83 percent.

The fund managers and approved issuers held majority of the assets amounting to Kshs. 980.06 billion. A total of Kshs. 83.98 billion of investments was internally administered by the National Social Security Fund (NSSF)<sup>1</sup>, while Kshs. 102.4 billion of property

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<sup>1</sup> The amount is the difference of the funds accounted for by the Fund Managers and the total assets under management reported by NSSF.

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investments was directly managed by the trustees of the various schemes<sup>2</sup>. The assets under fund management include Kshs. 125.91 billion of NSSF funds, which are managed by four (4) external managers. Assets managed internally by NSSF<sup>3</sup> are majorly in immovable property, quoted equities, cash and demand deposits, fixed deposits, as well as unquoted securities. The schemes continued to invest heavily in government securities with the asset class recording 39.41 percent of the total assets under management.

Majority of the investments in the various asset categories decreased during the half-year period. Commercial Paper non-listed bonds decreased by 297.4 percent, REITs by 42.76, quoted equities decreased by 19.83 percent, and offshore investments decreased by 14.47 percent. Government securities still accounted for the biggest share of the total assets at 39.41 percent, followed by immovable property, which accounted for 19.71 percent, investments in quoted equities accounted for 17.27 percent, investments in guaranteed funds accounted for 14.36 percent. Investment in alternative assets by schemes has gained traction with an inclusion of Private Equity & Venture Capital as an asset class. Investment in private equity and venture capital increased by 51.04 percent from 422.99 million in June 2018 to 863.94 million in December 2018 to account for 0.07 percent of the total assets. The table below provides detailed aggregate investments by schemes by the various asset classes.

**Overall Industry Investment Portfolio (KSHS. BILLION)**

	Assets Category	Dec 16		June 17		Dec 17		Jun 18		Dec 18	
		Kshs	%	Kshs	%	Kshs.	%	Kshs	%	Kshs	%
1	Government Securities	349.15	38.26	353.47	36.7	394.19	36.49	423.7	36.32	459.68	39.41
2	Quoted Equities	159.07	17.43	180.35	18.73	210.17	19.46	241.46	20.7	201.51	17.27
3	Immovable Property	178.42	19.55	204.6	21.25	226.72	20.99	229.32	19.66	229.91	19.71
4	Guaranteed Funds	129.58	14.2	103.67	10.76	142.97	13.24	159.63	13.68	167.45	14.36
5	Listed Corporate Bonds	46.95	5.14	46.83	4.86	41.99	3.89	41.51	3.56	40.28	3.45
6	Fixed Deposits	24.57	2.69	45.49	4.72	32.88	3.04	31.62	2.71	36.39	3.12
7	Offshore	6.96	0.76	9.68	1	12.77	1.18	15.03	1.29	13.13	1.13
8	Cash	12.93	1.42	13.91	1.44	12.95	1.2	18.99	1.63	12.72	1.09
9	Unquoted	3.95	0.43	3.91	0.41	4.06	0.37	3.78	0.32	3.79	0.33

<sup>2</sup> Internally managed property is investments in Property not reported by Fund Managers but are in the Schemes Financial Accounts for 2017.

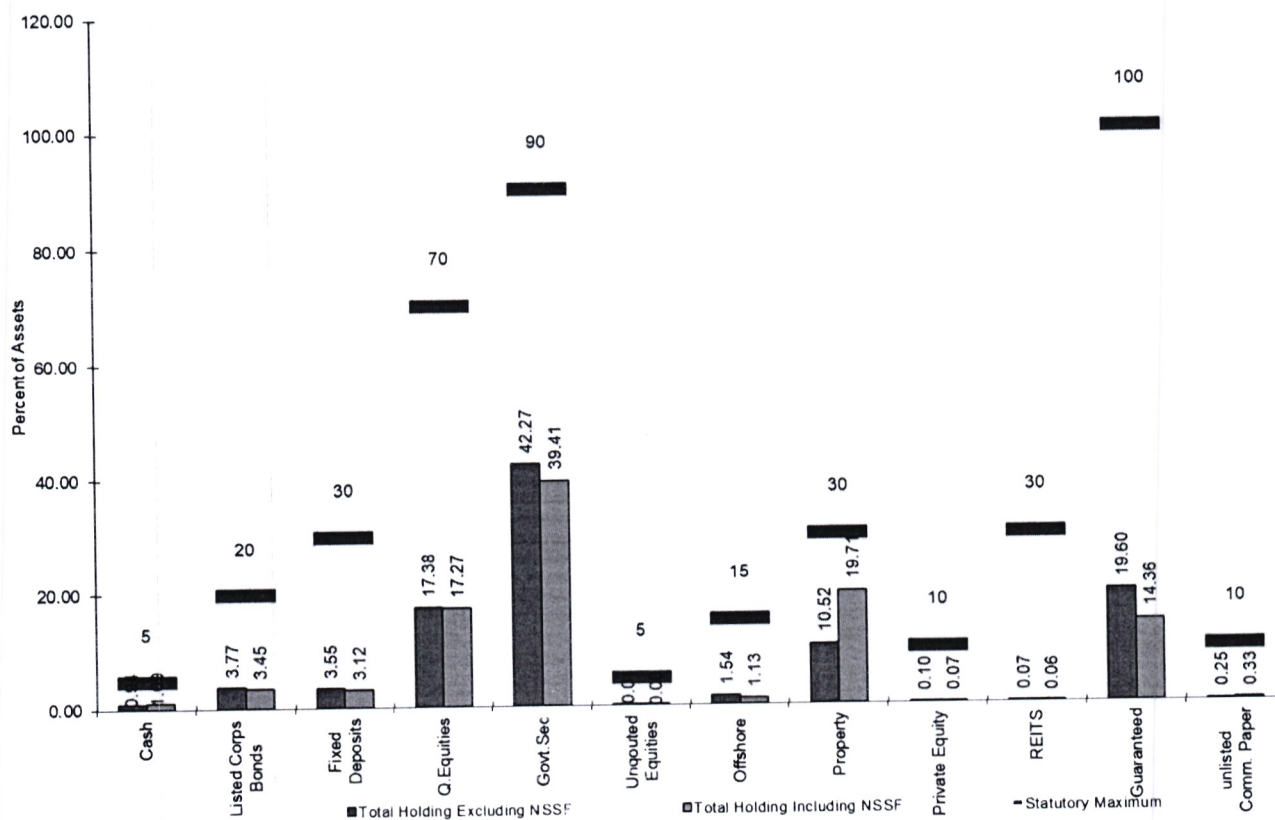
<sup>3</sup> This includes property amounting to Kshs. 37.6 billion, Government securities Kshs. 18.73 billion, quoted equities Kshs. 18.53 billion; fixed deposits, Kshs. 1.98 million, Cash and demand deposits, Kshs. 2.92 billion, corporate bonds Kshs. 2.51 and unlisted shares amounting to Kshs. 1.68 billion.

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	Equities										
10	Private Equity	0.22	0.02	0.25	0.03	0.322	0.03	0.42	0.04	0.86	0.07
11	REITS	0.84	0.09	0.888	0.09	1.03	0.1	1.01	0.09	0.71	
12	Commercial paper, non-listed bonds by private companies <sup>4</sup>			0.002	0	0.062	0.01	0.22	0.02	0.06	0.00
	<b>TOTAL</b>	<b>912.66</b>	<b>100</b>	<b>963.05</b>	<b>100</b>	<b>1,080.11</b>	<b>100</b>	<b>1,166.70</b>	<b>100</b>	<b>1,166.49</b>	<b>100</b>

On average, all categories of investments were within the statutory investment limits provided in the Retirement Benefits Regulations.

**Overall Industry Investment Vs Statutory Maximum**

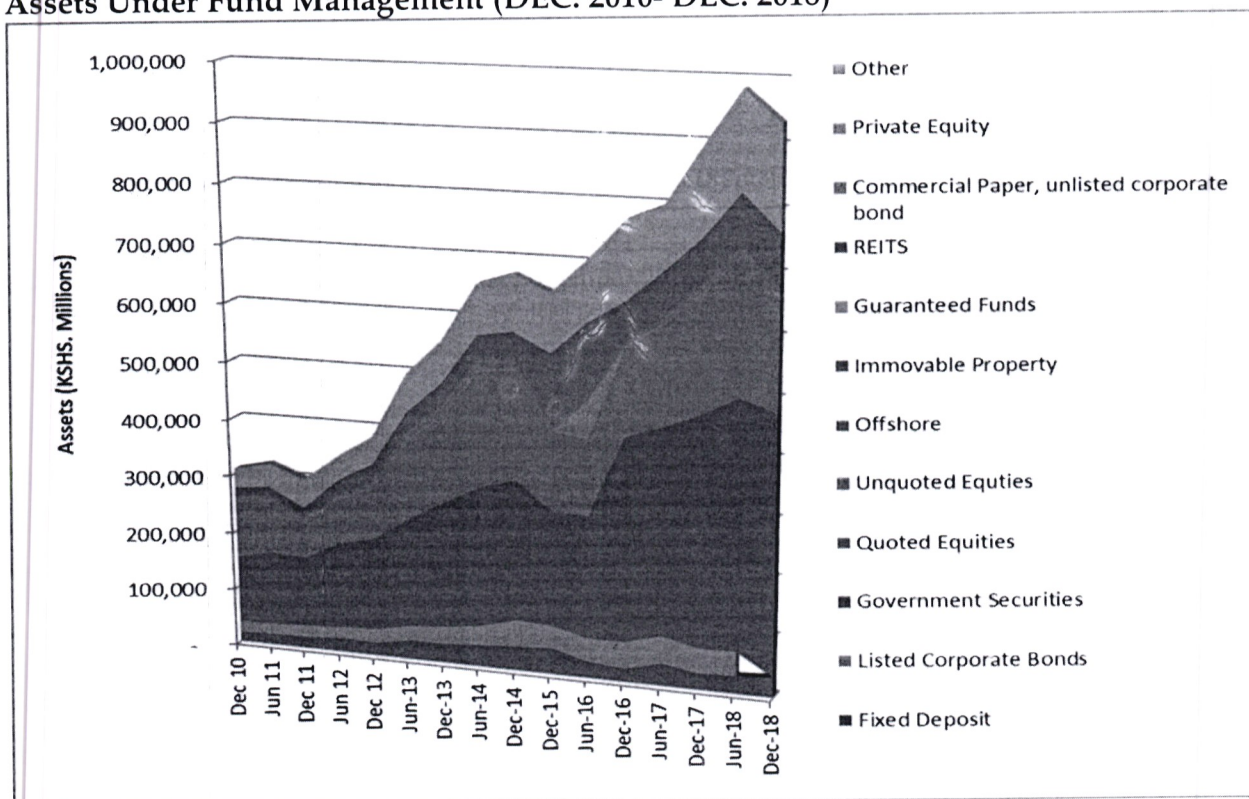


**b) Assets Held by Fund Managers and Approved Issuers**

For the period ending December 2018, 16 fund managers and 15 approved issuers, submitted 1,236 scheme reports with a total fund value of Kshs. 980.06 billion representing 1.81 percent decrease in the total assets under fund management from Kshs. 998.17 in June 2018. However, this was an 8 percent increase compared to the December 2017, which the total assets under fund management was Kshs. 904.91 billion. The total assets managed by fund managers amounted to Kshs. 812.61 billion while the approved issuers managed only Kshs. 167.45 billion.

The asset diversification remained similar to the previous periods with most of the asset classes recording minimal decreases/increases. Fund managers and approved issuers did not report any investments under the “any other asset class category” during the period. The drop in the investments under any other assets can be attributed to the introduction of new assets /classes<sup>5</sup>.

**Assets Under Fund Management (DEC. 2010- DEC. 2018)<sup>6</sup>**

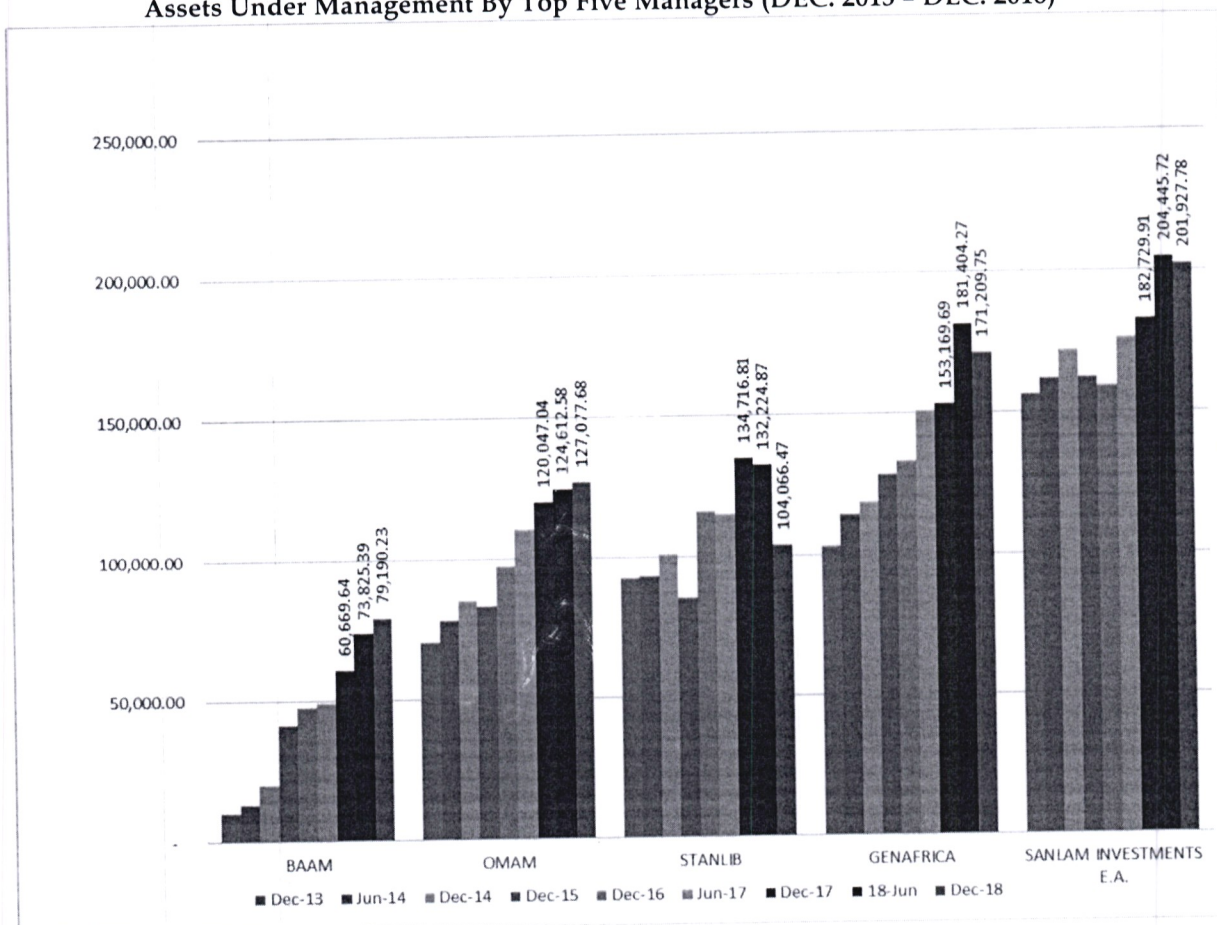


<sup>5</sup> For more details, see legal notice No. 107 on the Retirement Benefits (Forms and Fees) Amendment Regulations, 2016. Table G was amended to incorporate new assets classes.

<sup>6</sup> During the period June 2016, a total of Kshs. 117.55 billion of investments was reported unclassified. However, during the subsequent periods, December 2016 and June 2017 all the investments were classified. Similarly, new asset classes (Private Equity, REITs and Derivatives) were introduced around this period.

In terms of investments by specific fund managers and approved issuers, Sanlam Investments East Africa Company limited remained the fund manager with the largest assets under management with total assets under management at Kshs. 201.93 billion which constitute 20.60 percent of the total assets under fund management. The top five fund managers during the period were (Sanlam Investments East Africa, GENAFRICA Asset Managers, Old Mutual Investment Group Limited, Stanlib Kenya, and British - American Asset Managers Ltd) manages the bulk of the investments with the total assets under management amounting to Kshs. 683.47 billion constituting 69.74 percent of the entire assets under fund management. The analysis considered each entity according to its registration hence, where a parent company has both an approved issuer and fund manager, the two were considered as distinct entities.

**Assets Under Management By Top Five Managers (DEC. 2013 - DEC. 2018)**



**c) Assets Held by National Social Security Fund (NSSF)**

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The total assets held by NSSF decreased by Kshs. 11.47 billion in December 2018 to stand at Kshs. 209.89 billion from Kshs. 221.36 billion in June 2018 representing a 5.18 percent decline. However, compared to December 2017, the fund registered a marginal increase of 630 million in the assets from Kshs. 209.26 billion in December 2017. Out of the total amount of Kshs.209.89 billion, Kshs. 83.89 billion<sup>7</sup> was internally managed by NSSF. The externally managed funds decreased over the period from Kshs.155.26 billion in June 2018 to Kshs. 125.91 billion in December 2018. The table below shows the distribution of the funds to the various fund managers.

**NSSF Portfolio of the External Managers (Dec. 2014 -Dec. 2018)**

Assets in Millions							
Fund Manager	Dec. 14	Dec. 15	Dec. 16	Jun. 17	Dec. 17	Jun. 18	Dec. 18
British-American Asset Managers Limited	-	17,860	22,033	24,289	27,260	30,402.30	31,099.44
Gen Africa Asset Managers	13,125	30,096	31,667	36,009	35,635	38,038.24	37,413.03
ICEA Lion Asset Management Limited	13,269	18,058	20,534	23,826	25,953	-	-
Old Mutual Asset Managers (Kenya) Limited	13,352	17,945	20,620	24,190	26,718	29,636.23	30,395.65
Stanlib Investments Kenya Limited	12,246	18,494	21,639	25,316	27,738	30,462.79	-
African Alliance Kenya Investment Bank Limited						26,735.70	27,005.72
Pinebridge Asset Managers	14,962	-	-	-	-	-	-
Co-op Trust	12,652	-	-	-	-	-	-
<b>Total</b>	<b>79,606</b>	<b>102,453</b>	<b>116,493</b>	<b>133,630</b>	<b>143,303</b>	<b>155,275.26</b>	<b>125,913.84</b>

The overall NSSF portfolio is heavily invested in government securities, quoted securities and immovable property at 46.98 percent, 25.28 percent and 17.92 percent respectively. The portfolio allocation complies with the investment guidelines.

**d) Future Outlook**

The retirement benefits sector is expected to grow in the 2019 given the relatively stable political environment and the gradual comeback of the stock market. The schemes are also expected to venture into alternative assets given the broadening of the allowable investment categories and take advantage of the public infrastructural projects and more so under the big four agenda. However, the scheme investments may be affected by the prolonged drought due to delayed long rains and volatility in global markets due to

<sup>7</sup> These represent investments in immovable property (Kshs. 43.5 billion), unquoted securities (1.49 billion), fixed deposit (750m), Kshs. 15.5 billion in quoted equities and 4.7 billion in cash.

uncertainties with Brexit and trade tensions between China and USA, which may adversely affect offshore investments.

## **6. RESEARCH AND DEVELOPMENT**

During the financial year four research papers were developed:

- **Role of Pensions Funds in Provision of Affordable Housing:** The objective of the study was to gain in-depth insights from stakeholders on general investment of scheme assets and more particularly investment in affordable housing and support of the government “big four agenda”.
- **Segmentation of Retirement Benefits Schemes in Kenya:** The overall objective of this research was to assess the current retirement benefit industry and provide a framework for market segmentation of retirement benefits schemes.
- **Overcoming Challenges in Extending Pension Coverage to the Informal Sector Workers in Kenya:** The study was to identify barriers of extending pension coverage to informal sector workers, who form the huge majority of the workforce, and explore ways of encouraging and increasing their savings for retirement.
- **Emerging Risks for Pension Funds in Kenya:** The study sought to identify risks in the retirement benefits sector and develop a frame work that can be used to identify and mitigate those risks.

### **Sensitization of Stakeholders on Alternative investments**

The Authority in collaboration with FSD Kenya and Green Bonds Program Kenya organised the Green Bond Market Conference with the aim of sharing information on green bonds investment and other alternative investment options in new assets to trustees and fund managers. The conference was held at Intercontinental Hotel, Nairobi, on 11 and 12 September 2018. Green bonds are designated bonds intended to encourage sustainability and to support climate-related or other types of special environmental projects.

Previously, most investors were not alive to environmental concerns. However, with global temperatures expected to heat up by at least 1.5 degrees by 2050, green investments are gaining traction as a plausible counter to extreme weather conditions.

For example, in Kenya, we already are seeing glimpses of how environmental concerns have derailed real estate investors. The demolitions by the National Environment Management Authority (NEMA) of buildings that encroached on riparian land reserves demonstrated the business case for environmentally and socially-responsible investments. The Acorn Kshs. 5 billion note backed by Guarant Co and Helios and certified by Climate Bonds Initiative in conjunction with the Green Bonds Program - Kenya, is another good example of an investment opportunity that is sustainable, innovative and protective of the environment.

Budget Changes 2018/2019

During the financial year, the following budget changes that affect the retirement benefits industry were presented by the Cabinet Secretary for the National Treasury, in the Budget Statement for period 2018/2019. The budget changes gave the Authority among other things the powers to intervene directly when there are cases of unremitted contributions and penalties on late submission of statutory returns by the schemes and service providers.

Issue	Change	Implications	Clause/ Effective date
<b>CHANGES TO THE RETIREMENT BENEFITS ACT,1997</b>			
<p><b>Penalties of late submission of statutory returns</b></p>	<p>Section 34 of the Retirement Benefits Act, 1997 has been amended by deleting subsection (4C) and adding the following new subsections:</p> <p><b>(4C)</b> A <b>trustee</b> who fails to submit a copy of Audited Accounts of the scheme to the Chief Executive Officer by the due date to pay a penalty of <b>KES. 100,000</b>; where the returns remain un-submitted, the trustee, in addition to the prescribed penalty, shall pay a further fine of <b>KES. 1000</b> for each day or part thereof during which the returns remain un-submitted:</p> <p><b>(4D)</b> A <b>fund manager</b> who fails to submit an Investment return of a scheme to the Chief Executive Officer by the due date shall pay a penalty of <b>KES. 10,000</b> where the returns remain un-submitted, the fund manager, in addition to the prescribed penalty shall pay a further fine of <b>Ksh.1000</b> for every day or part thereof during which the returns remain un-submitted.</p> <p><b>(4E)</b> An <b>administrator</b> who fails to submit contribution returns of a scheme to the Chief Executive Officer by the due date shall pay a penalty of <b>KES. 10,000</b> and where the returns remain un-</p>	<p>The new section will deal with penalties payable for late submission of audited accounts, investment returns and contribution returns by the fund manager and administrator respectively.</p>	<p>The Finance Bill 2018  1<sup>st</sup> October 2018</p>

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Issue	Change	Implications	Clause/ Effective date
	submitted, the administrator, in addition to the prescribed penalty, shall pay a further fine of <b>KES. 1,000</b> for every day or part thereof during which the returns remain un-submitted.		
<b>Power to recover unremitted contribution</b>	<p>The Retirement Benefits Act, 1997 has been amended by Inserting the following new section immediately after section 53A –</p> <p><b>53B.</b> Notwithstanding the provisions stated under section 53A, where there is non-remittance of the contribution by the employer, the Authority shall</p> <p>(a) require the employer to:</p> <p>(i) pay the contributions and interest accrued to the scheme in full within the period specified in the notice and a penalty of 5% of unremitted contributions or <b>KES 20,000</b> whichever is higher, payable to the Authority within <b>7 days</b> of receipt of the notice;</p> <p>(ii) pay the penalty specified in paragraph (a) (i) and submit to the Authority for approval a remedial plan providing the period within which the accumulated contributions and interest thereon shall be offset;</p> <p>or</p> <p>(iii) immediately cease further deductions from employees' emoluments and notify all the members of the scheme of the cessation: Provided that -</p> <p>(A) the Authority may lift the cessation order where it is satisfied that the employer is able to remit the employee emoluments as and when they</p>	The Authority has been given powers to intervene directly against Sponsors who fail to remit employee deductions and contributions to schemes as and when they become due	The Finance Bill 2018  1 <sup>st</sup> October 2018

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Issue	Change	Implications	Clause/ Effective date
	<p>fall due;</p> <p>(B) where there is a failure by an employer to comply with a direction to cease deductions from employees' emoluments under this provision, the Authority shall take the necessary action or issue such other directions as it may deem necessary and expedient in protecting the interests of the members, including instituting summary proceedings to recover the amounts due to the scheme; and</p> <p>(b) Initiate the process of winding up the scheme and facilitate members to join individual schemes where their contributions shall be remitted.</p>		
<b>CHANGES TO THE RETIREMENT BENEFITS OCCUPATIONAL REGULATIONS</b>			
<b>Definition of a medical fund</b>	<p>The regulations have been amended by inserting the following definition:</p> <p><b>"medical fund"</b> means a fund into which all contributions, investment earnings, income and all other moneys payable under the scheme rules or the provisions of this Act and subsidiary Regulations shall be paid for the purposes of accessing medical benefits in retirement</p>	<p>Medical fund has been defined for purposes of accessing medical benefits in retirement</p>	<p>Legal Notice No. 138</p> <p>14<sup>th</sup> June 2018</p>
<b>Conflict of interest</b>	<p>Regulation 8 of the principal Regulations has been amended by adding the following new paragraph immediately after paragraph (4)</p> <p>(5) No trustee engaged in any profession or business shall be engaged in</p>	<p>Board of Trustees are required to seek independent professional services in the management of</p>	<p>Legal Notice No. 138</p> <p>14<sup>th</sup> June 2018</p>

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Issue	Change	Implications	Clause/ Effective date
	professional services done by him or his firm in connection to the scheme.	the scheme	
<p><b>Commutation of retirement benefits</b></p> <p><b>Medical Fund</b></p> <p><b>Income Draw Down</b></p>	<p>Regulation 25 of the principal Regulations is amended – (a) by deleting paragraph (a) of the provision to paragraph (1) and substituting therefore the following new paragraph</p> <p>(a) Subject to the amount not exceeding ten percent of the total accrued benefits transferred to a medical fund, not more than one-quarter of the remaining retirement benefits may be commuted in a scheme where members do not make contributions and not more than one-third of the remaining retirement benefits may be commuted in a scheme where members make contributions;</p> <p>(b) By deleting paragraph (6) and substituting therefore the following paragraph –</p> <p>(6) The scheme rules may provide for the payment of retirement benefit by way of an income draw down, as an alternative or in addition to the purchase of annuity for members at retirement age: Provided that the scheme members shall take a minimum period of ten years.</p>	<p>Members have an option of transferring up to 10% of the total accrued benefits to a medical fund</p> <p>Members now have an option of taking an income draw down or annuity at retirement.</p>	<p>Legal Notice No. 138</p> <p>14<sup>th</sup> June 2018</p>
<b>Retirement Benefits Levy</b>	<p>Regulation 39 of the principal Regulations is amended –</p> <p>(a) In paragraph (1), by deleting the expression “three months” and</p>	Levy will be payable within four months after	<p>Legal Notice No. 138</p> <p>14<sup>th</sup> June</p>

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Issue	Change	Implications	Clause/ Effective date
	<p>substituting therefore the expression "four months"</p> <p>and</p> <p>(b) In paragraph (3), by inserting the words "less the amount of the medical fund" at the end of subparagraph (a) of the proviso.</p>	<p>the end of the scheme's financial year</p> <p>In support of the Big 4 Agenda item on universal healthcare, Medical Fund exempt from paying levy</p>	2018

**Strategic Plan 2019/2024**

During the financial year, the Authority developed a new strategic plan aligned to the Vision 2030 Medium Term Plan (MTP) III and the Big Four Agenda. The plan was officially launched on 7<sup>th</sup> May 2019 at Kenyatta International Convention Centre, Nairobi. This is the fifth strategic plan and third five-year plan the Authority has unveiled since its inception. The plan proposes innovative ways to mobilise long-term savings to finance investment in the Big Four Agenda, that is, affordable housing, universal healthcare, food security and manufacturing. The Authority targets to increase pension coverage to 30% by June 2024 from the current 20% and to double the current asset base to Ksh2.4 trillion. This will be made possible through targeted awareness programmes and products designed to reach out to segmented groups and a diversified set of investment portfolio to invest the pension funds. The Strategic Plan will be monitored based on key performance indicators as set in the plan through the Balanced Scorecard, departmental workplans and performance contracting.

**7. OVERALL FINANCIAL PERFORMANCE**

The Financial Performance of the Authority for the period ended 30th June 2019 is presented herewith in accordance with the requirements of the Retirement Benefits Act, the Public Audit Act and the International Public Sector Accounting Standards.

**a) Income**

Levy collected in the Period was Kshs. 874.9 m compared to Kshs. 832.9 m in the previous Period. Total revenue earned in the period also increased to Kshs. 931 m in the current Period from Kshs. 885.5 m in the preceding Period. The increase in revenue is due to change in the Retirement Benefits Act which introduced the statutory penalties on late submission of returns and non-remittance of contributions to schemes by employers.

The position of the investment portfolio as at 30th June 2019 was Kshs. 638 m in the Treasury Bills compared to Kshs. 588 m in the previous period. All the revenues collected were invested in treasury bills, as a result of the above the bank balances also reduced to Kshs. 48 m in the period compared to Kshs. 132 m in the last financial year 2017-2018. Long term deposits however, increased to 319.6 m in Period ended 30<sup>th</sup> June 2019 compared to 313 m in last Period ended 30<sup>th</sup> June 2018 due to the increased rent guarantee as a result of the additional space acquired by the Authority and capitalised interest on Mortgage deposits.

The Authority, like in the previous periods, continued to invest most of its funds in 91 days Treasury Bills with some funds placed in fixed deposit accounts in the Authority's banks to meet the requirements of bank guarantees for goods and services and as well as facilitate the staff house mortgage and car loan schemes.

**d) Cash Flow Statement**

Cash flows from the operations of the Authority are detailed in the Statement of cash flow for the period ended 30th June 2019. The cash and cash equivalent as at 30<sup>th</sup> June 2019 is Kshs. 686 m compared to Kshs. 720 m as at 30<sup>th</sup> June 2018.



Nzomo Mutuku, MBS  
Chief Executive Officer

## CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

The Authority over the years has always endeavoured to undertake corporate social responsibility by giving back to the society. Some of the Activities that were carried out during the financial year under review include:

### a) Participation in ASK Shows

ASK shows provide a platform for the Authority to engage the general public and educate them on the importance of saving for retirement as well as respond to questions and complaints. In the process it gives the Authority the opportunity to give the public some of the branded give aways. In 2018/2019, the Authority participated in Kisumu, Mombasa, Nairobi and Eldoret ASK shows.

### b) County Government Sensitization/Registration

The Authority also partners with county governments in the cleaning of markets as part of conservation of the environment and engaging with the people. While doing this the Authority distributes its branded give aways which are bearing messages on pension education. The Authority also during the market cleaning exercise purchases some of the cleaning materials and tools which after every cleaning exercises are donated to the county governments.

During the 2018/2019 financial year, the Authority partnered with County Governments in Nakuru, Kajiado, Siaya, Garissa, Meru and Nandi to mobilize and sensitize Micro, Small & Medium Enterprises with the objective of converting awareness to registration in schemes. During the sensitization, 4,120 informal sector workers were sensitized on the importance of saving for retirement and the available channels.



Nzomo Mutuku, MBS  
Chief Executive Officer

## REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of the Authority's affairs.

### Principal activities

The principal activities of the Authority are:

- a) Regulate and supervise the establishment and management of retirement benefits schemes;
- b) Protect the interests of members and sponsors of retirement benefits sector;
- c) Promote the development of the retirement benefits sector;
- d) Advise the Cabinet Secretary National Treasury on the national policy to be followed with regard to the retirement benefits industry and implement all government policies relating thereto.

### Results

The results of the Authority for the year ended June 30, 2019 are set out on page 1 to 6

### Directors

The members of the Board of Directors who served during the year are shown on page vi. During the year one director retired and The Chairman of the Board was also reappointed with effect from 1<sup>st</sup> July 2019.

### Dividends/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 remitted Kshs 163.97 Million relating to 2017/2018 financial year.

### Auditors

The Auditor General is responsible for the statutory audit of the Authority in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015. The Auditor General is therefore responsible for carrying out the audit of the Authority for the year/period ended June 30, 2019.

By Order of the Board



Praxidis Saisi  
Corporate Secretary  
Nairobi  
Date:.....

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012, section 14 of the State Corporations Act and The Retirement Benefits 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/period and the operating results of the Authority for the year/period. 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.

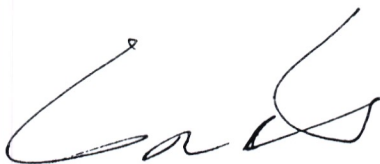
The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining 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; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012, the State Corporations Act and the Retirement Benefits Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority's transactions during the financial year ended June 30, 2019, and of the Authority's financial position as at that date. The 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.

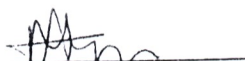
Nothing has come to the attention of the Directors to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

### Approval of the financial statements

The Authority's financial statements were approved by the Board on 13<sup>th</sup> September 2019 and signed on its behalf by:



Director



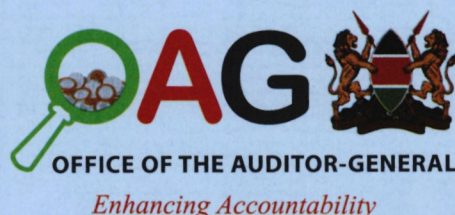
Director



Director

# REPUBLIC OF KENYA

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Website: www.oagkenya.go.ke



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

## **REPORT OF THE AUDITOR-GENERAL ON RETIREMENT BENEFITS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2019**

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

#### **Opinion**

I have audited the accompanying financial statements of Retirement Benefits Authority set out on pages 1 to 25, which comprise the statement of financial position, statement of financial performance, statement of changes in net assets, statement of cash flows and the 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 Retirement Benefits 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 Retirement Benefits Act CAP 197, 1997 and the Public Finance Management Act, 2012.

#### **Basis for Opinion**

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Retirement Benefits Authority management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement are of most significance in the audit of the financial statements. There were no key audit matters to 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.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan to 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.

### **Basis for Conclusion**

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 overall 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 the Board of Directors**

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 overall governance.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters

related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Authority or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the 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 Authority 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 overall 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 overall 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**

**6 August 2020**

**Retirement Benefits Authority**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2019**

**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 30 JUNE 2019**

	Note	2018-2019 Kshs	2017 -2018 Kshs
<b>Revenue from non-exchange transactions</b>			
Revenue from Non-Exchange	6	889,558,624	836,234,683
		<u>889,558,624</u>	<u>836,234,683</u>
<b>Revenue from exchange transactions</b>			
Revenue from Exchange Transactions	7	29,941,016	36,639,679
Other income	8	11,618,731	12,586,545
		<u>41,559,747</u>	<u>49,226,225</u>
<b>Total revenue</b>		<u><u>931,118,371</u></u>	<u><u>885,460,908</u></u>
<b>Expenses</b>			
Employee costs	9	346,465,190	304,935,949
Remuneration of Directors	10	28,065,193	18,709,175
Depreciation and Amortization Expense	11	13,962,424	18,062,592
Repairs and maintenance	12	6,094,891	7,207,159
General expenses	13	400,837,549	325,220,293
Finance costs	14	867,933	609,421
<b>Total expenses</b>		<u><u>796,293,180</u></u>	<u><u>674,744,590</u></u>
<b>Other gains/(losses)</b>			
Gains on sale of assets	15	782,054	-
<b>Impairment loss</b>			-
<b>Total other gains/(losses)</b>		<u>782,054</u>	<u>-</u>
<b>Surplus before tax</b>		<u><u>135,607,245</u></u>	<u><u>210,716,318</u></u>
Remission to National Treasury	16	163,972,694	163,448,114
<b>Net Surplus /deficit for the year</b>		<u><u>(28,365,450)</u></u>	<u><u>47,268,204</u></u>

The notes set out on pages 7 to 27 form an integral part of these Financial Statements

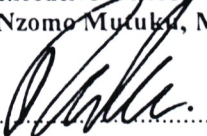
STATEMENT OF FINANCIAL POSITION  
 AS AT 30 JUNE 2019

Assets	Note	2018-2019 Kshs	2017-2018 Kshs
Current assets			
Cash and cash equivalents	17	686,258,493	720,216,559
Receivables from Non-Exchange Transactions	18	16,341,319	8,159,648
Prepayments from Exchange Transactions	19	4,708,131	3,255,193
<b>Total Current Assets</b>		<b>707,307,944</b>	<b>731,631,400</b>
Non-current assets			
Property, plant and equipment	20	65,835,863	65,927,333
Investments	21	319,623,018	313,102,870
<b>Total non - current assets</b>		<b>385,458,880</b>	<b>379,030,203</b>
		<b>1,092,766,824</b>	<b>1,110,661,603</b>
<b>Total assets</b>			
Liabilities			
Current liabilities			
Employers Obligations	22	16,711,545	16,711,545
Sundry Creditors	23	28,572,856	18,102,191
<b>Total current liabilities</b>		<b>45,284,401</b>	<b>34,813,736</b>
Non-current liabilities			
<b>Net Assets</b>		<b>1,047,482,422</b>	<b>1,075,847,867</b>
<b>Total liabilities</b>			
Net assets			
Capital Fund	24	109,357,000	109,357,000
Accumulated surplus	25	938,125,422	966,490,848
<b>Total net assets</b>		<b>1,047,482,422</b>	<b>1,075,847,848</b>
<b>Total net assets and liabilities</b>		<b>1,092,766,824</b>	<b>1,110,661,584</b>

The Financial Statements set out on pages 1 to 27 were signed on behalf of the Board of Directors by:

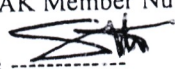
Chief Executive Officer  
 Name: Nzomo Mutuku, MBS

Date: .....



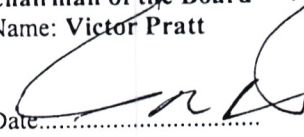
Head of Finance  
 Name: Seth Onyango  
 ICPAK Member Number: 11627

Date: .....



Chairman of the Board  
 Name: Victor Pratt

Date: .....



**Retirement Benefits Authority**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2019**

**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED 30 JUNE 2019**

	Capital Fund	General Fund	Total Fund
	Kshs	Kshs	Kshs
At 1 July 2018	109,357,000	966,490,848	1,075,847,848
Surplus/Deficit for the period		135,607,245	135,607,245
Surplus Paid	-	163,972,694	- 163,972,694
At 30 June 2019	<u>109,357,000</u>	<u>938,125,398</u>	<u>1,047,482,398</u>
At 1 July 2017	109,357,000	919,222,664	1,028,579,664
Surplus / Deficit for the period		210,716,317	210,716,317
Surplus paid	-	163,448,114	- 163,448,114
At 30 June 2018	<u>109,357,000</u>	<u>966,490,868</u>	<u>1,075,847,868</u>

**Retirement Benefits Authority**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2019**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2019**

		2018-2019 Kshs.	2017-2018 Kshs
<b>Cash flows from operating activities:-</b>	<b>NOTE</b>		
Net Surplus of the year		135,607,245	210,716,317
Adjusted for:			
Gain & Loss on disposal written back	14	(782,054)	-
Depreciation written back	19	13,962,424	18,062,587
		<u>148,787,615</u>	<u>228,778,904</u>
<b>Working capital changes</b>			
(Increase )/Decrease in receivable	18	(9,634,609)	3,693,081
Increase / (Decrease) in payable	19	10,470,665	6,793,555
<b>Cash generated from operations</b>		<u>836,056</u>	<u>10,486,636</u>
<b>Net cash flows from operating activities</b>		<u>149,623,671</u>	<u>239,265,540</u>
<b>Cash flows from investing activities :-</b>			
Purchase of Property & Equipment	19	(14,394,995)	(22,658,226)
Proceeds from Sale of Assets	14	1,306,100	-
<b>Net cash used in investing activities</b>		<u>(13,088,895)</u>	<u>(22,658,226)</u>
<b>Cash flows from financing activities :-</b>			
Increase in deposits	20(b)	(6,520,148)	(3,375,311)
Surplus /Tax paid to KRA	23	(163,972,694)	(163,448,114)
(Decrease)/Increase in Staff Benevolent Fund		-	-
<b>Net cash used in financing activities</b>		<u>(170,492,842)</u>	<u>(166,823,425)</u>
<b>Net increase/(decrease) in cash and cash equivalent in the year</b>		<u>(33,958,066)</u>	<u>49,786,201</u>
Cash and cash equivalents as 1 JULY 2017		<u>720,216,559</u>	<u>670,430,357</u>
<b>Cash and cash equivalents as 30 June 2018 &amp; 30 June 2017</b>		<u>686,258,493</u>	<u>720,216,559</u>

**Retirement Benefits Authority**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2019**

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**FOR THE YEAR ENDED 30 JUNE 2019**

	Original Budget	Adjustments	Final Budget	Actual on comparable basis	Performance difference	Notes
	2018-2019	2018-2019	2018-2019	2018-2019	2018-2019	
	Kshs	Kshs	Kshs	Kshs	Kshs	
Fees Income	3,200,000	-	3,200,000	3,450,000	250,000	
Interest from Bank Deposit	3,200,000	-	3,200,000	3,693,192	493,192	A
Investment Income	29,000,000	-	29,000,000	26,247,824	(2,752,176)	
Miscellaneous Income	9,500,000	-	9,500,000	11,602,331	2,102,331	B
Retirement Benefits Levy	830,000,000	-	830,000,000	874,906,833	44,906,833	
Tribunal Fees	60,000	-	60,000	16,400	(43,600)	C
Statutory Penalties	-	-	-	11,201,791	11,201,791	D
<b>Total Trading Income</b>	<b>874,960,000</b>	<b>-</b>	<b>874,960,000</b>	<b>931,118,371</b>	<b>56,158,371</b>	
<b>Gross Profit</b>	<b>874,960,000</b>	<b>-</b>	<b>874,960,000</b>	<b>931,118,371</b>	<b>56,158,371</b>	
<b>Expense</b>						
Bank Charges	720,000	-	720,000	867,933	(147,933)	E
Board Expenses	23,696,000	4,000,000	27,696,000	28,065,193	(369,193)	
Cleaning Expenses	3,469,440	-	3,469,440	3,365,397	104,043	
Consumer Protection (Education)	35,000,000	-	35,000,000	32,926,933	2,073,067	
Depreciation	34,538,000	-	34,538,000	13,962,424	20,575,576	F
Financial Literacy (Scheme Visit)	15,500,000	(1,500,000)	14,000,000	9,333,584	4,666,416	G
Hire of Equipment	2,336,000	-	2,336,000	883,300	1,452,700	H
Information Technology Systems	26,206,726	-	26,206,726	21,441,310	4,765,416	i
Library Expenses	3,700,000	-	3,700,000	2,251,516	1,448,484	j
Maintenance Insure & Security of Equipment	5,280,000	-	5,280,000	2,367,086	2,912,914	k
Medical Expenses	29,535,000	-	29,535,000	23,041,046	6,493,954	l
Member Education Seminars	30,000,000	3,000,000	33,000,000	33,826,917	(826,917)	
Motor Vehicle Maintenance & Security	7,100,000	-	7,100,000	3,727,805	3,372,195	m
Office Running Expenses	10,983,160	(1,975,500)	9,007,660	7,176,301	1,831,359	n
Official Entertainment	3,500,000	-	3,500,000	2,826,112	673,888	p
Pension Contribution	46,838,400	-	46,838,400	33,686,600	13,151,800	q
Pension Education (Electronic Media)	3,000,000	1,500,000	4,500,000	4,419,276	80,724	
Personnel Emoluments	366,023,000	-	366,023,000	289,737,544	76,285,456	r
Post & Telephone	8,882,000	-	8,882,000	8,877,311	4,690	
Power & Lighting	6,960,000	-	6,960,000	5,074,002	1,885,998	s
Printing & Stationary	3,838,980	-	3,838,980	3,130,589	708,391	t
Professional Charges	60,225,000	(17,500,000)	42,725,000	36,225,580	6,499,421	u
Rent & Ground Rates	40,791,600	-	40,791,600	37,342,340	3,449,260	
Research & Development	46,000,000	14,500,000	60,500,000	59,903,223	596,777	

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Sports & Recreation	13,900,000	1,975,500	15,875,500	16,364,761	(489,261)	
Training & Development	52,000,000	-	52,000,000	56,723,807	(4,723,807)	
Travel & Accommodation	55,000,000	-	55,000,000	58,542,492	(3,542,492)	
Tribunal Expenses	8,670,000	(4,000,000)	4,670,000	202,800	4,467,200	v
<b>Total Expenses</b>	<b>943,693,306</b>		<b>943,693,306</b>	<b>796,293,180</b>	<b>(147,400,126)</b>	
Gain/loss on Sale of Assets	-	-	-	782,054	-	
<b>Total Gain/Losses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Surplus before Tax Transferred to G/Fund</b>	<b>(68,733,306)</b>	<b>-</b>	<b>(68,733,306)</b>	<b>135,607,245</b>	<b>(204,340,551)</b>	
Instalment 90% paid	-	-	-	163,972,694	(163,972,694)	
<b>Surplus Fund after 90%</b>	<b>(68,733,306)</b>		<b>(68,733,306)</b>	<b>(28,365,450)</b>		

## BUDGET NOTES

### 1. Explanation on differences between actual and budgeted amounts (10% over/ under) as per IPSAS 24.14

#### A Interest From Bank Deposits

The interest from bank deposit increased because the Authority was able to negotiate for higher interest rates from the un-utilized funds on car loan and mortgage facilities administered on behalf of the Authority by the banks.

#### B Miscellaneous Income

Miscellaneous income collected was above the budgeted due to reimbursement of salary for RBA staff seconded to PCF. The reimbursement includes the salary increments which was not factored in the budget. Also included in the miscellaneous income is amounts realised from sale of obsolete equipment's.

#### C Tribunal Income

Since the tribunal was not constituted in the better part of the year there were fee applications file for there hearing. The tribunal was however, later constituted in the last quarter of the financial year.

#### D Statutory Penalties

Due to change in RBA act through the Finance bill 2018, statutory penalties on late filing of returns and non-remission of pension contribution by employers, the Authority realised Kshs. 11 million as revenue from the penalties which had not been planned.

#### E Bank Charges

The increase in bank charges was due to

commission charged on a bank guarantee deposit with KCB for office rent due to increased office space on 4th floor of Rahimtulla.

#### f Depreciation

During budgeting the Authority had planned to purchase additional one vehicle. Later in the year three of the existing vehicles were sold out and a replacement of the same was projected in the fourth quarter through reallocation of funds from furniture and fittings. however, the four envisaged motor vehicles were never bought and the fleet of three vehicles were also sold. Due to these the planned depreciation on motor vehicles was not realised.

#### g Financial Literacy

The Authority reduced the number of scheme visits during the year and most discussions with schemes were carried out on need basis. The members of staff were also engage on the strategic planning for the new year and the revision of the new supervision toolkit which is meant to enhance surveillance.

#### h Hire of Equipment's

The number of hired equipment's reduced since some of the existing ones were not working. This led low expenditure on the vote.

#### i Information Technology systems

There was under expenditure on the vote due to government policy which requires that all ICT procurements be done through the ministry of information. The ministry provided for a

framework contract for purchase of ICT equipment's later in the year.

**J Library services**

During budgeting the Authority had budgeted to procure some journals and books to be stocked in the Authority's library. However, due exigency of work during strategic planning the Authority was not able to start and end the procurement.

**K Maintenance, Insurance & security of equipment's**

The Authority hired most of the office equipment's such as printers and photocopiers through an operating lease agreement. This has reduced the cost of Maintenance of equipment's.

**L Medical Expenses**

The Authority had planned to operationalize the Post Retirement Medical Scheme in the year under review. The scheme did not take off since the consultant delayed to secure a better package that would be implemented by the Authority.

**M Motor vehicle Maintenance and security**

The Authority disposed off some of the old motor vehicles whose maintenance cost were very high. This lead to reduced cost of repair for motor vehicles.

**O Office running expenses**

The under expenditure was because the Authority was able to take advantage of economies of scale in procurements of services such as catering services.

**P Official entertainment**

There was a reduction in the number of budgeted meetings leading to official entertainment expenses being underutilized.

**q Pension contribution**

During budget the Authority planned to engage 14 new staff who were later recruited in course of the year. As per RBA policy staff are admitted to the pension scheme after serving 6 months probation. The staff were therefore admitted to the pension scheme in the fourth quarter leading to under expenditure.

**r Personnel emolument**

During budgeting the number of employees planned for recruitment were more; however, the Authority was able to get approval to recruit only 14 staff whose recruitment and later appointment was done in the second quarter of the year. Due to these the Authority was unable to absorb the budgeted amount.

**s Power and lighting**

Due to the reduced number of office equipment's the consumption of the power reduced within the year. The Authority also monitored the use of power and introduced the policy of switching off of all lightings after work.

**t Printing and stationery**

The Authority has continuously embraced the use of emails as the main means of internal communication reducing the use of prints. Printing is therefore on necessary occasions where hard copy communications are required particularly official communications outside the Authority and printing of board papers for

records.

**U Professional services**

Some of the consultancy services which had been planned under the vote were financed by Financial Sector support programme leading to under expenditure.

**v Tribunal expenses**

In the better part of the year the RBA appeals tribunal was not constituted, the budget therefore remained un-utilized up to third quarter when the members of the tribunal were appointed.

**2. Explanation of changes between original and final budget as per IPSAS 24.29**

**a) Board Expenses**

The original Board expenditure budget was Kshs. 23,696,000, this was revised to Kshs. 27,696,000 through re-allocation. The re-allocation was necessary due to the additional board meetings during strategic planning, some additional new board members were also appointed in course of the year who required to be inducted.

**b) Financial Literacy**

The original budget was Kshs. 15,500,000, this was revised to Kshs. 14,000,000. The reallocation was done to enhance the budget for procurement of a digital content under pension education.

**c) Member Education Seminar**

Original budget was Kshs. 30,000,000, this was revised to Kshs. 33,000,000. The additional Kshs. 3,000,000 was re-allocated to cater for procurement of merchandizes used during the launch of strategic plan.

**d) Office Running Expenses**

The original budget was reduced by Kshs. 2 million to finance the joint financial regulators sports day and other staff recreation activities.

**e) Pension Education**

The increase in budget was reallocated from financial literacy to finance the procurement of digital content used in the media activation as part of pension education to the public.

**f) Professional Charges**

The original budget of Kshs.60 million was reallocated downwards to Kshs. 42.7 million to finance strategic plan cascading to department and individual staff scorecards, the launch of the strategic plan and printing of the same.

**g) Research and Development**

The original budget was Kshs. 46 million, this was reallocated to Kshs. 60.5 million. The increase of Kshs. 14.5 million catered for strategic plan cascading for departments and individual staff scorecards, the launch of the strategic plan and printing of the same

**h) Sports and recreation**

The budget was revised upwards by Kshs. 2 million to cater for staff recreation and Joint financial sector sports day. The available budget was inadequate to finance all the staff recreating activities planned for the year.

**i) Tribunal Expenses**

The original budget for tribunal expenses of Kshs. 8.7 million was rationalized to finance the board expenses. The tribunal was not constituted in the better part of the year and therefore the budget wouldn't have been absorbed. This necessitated reallocation of the funds.

**NOTES TO THE FINANCIAL STATEMENTS**

**1. GENERAL INFORMATION**

Retirement Benefits Authority is established by and derives its authority and accountability from Retirement Benefits Act (Cap 197). The Authority is wholly owned by the Government of Kenya and is domiciled in Kenya. The Authority's principal activity is Regulate and supervise the establishment and management of retirement benefits schemes.

**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

The financial statements have been prepared on a 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 management to exercise judgement in the process of applying the *Authority's* accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note xx

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, Retirement Benefits Act, and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the 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**

Standard	Impact
IPSAS 40: 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. This standard did not have any effect on the Authority's financial statements.

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019

Standard	Effective date and impact:
<p><b>IPSAS 41:</b> Financial Instruments</p>	<p><b>Applicable: 1<sup>st</sup> January 2022:</b>            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 Authority's future cash flows.            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 Authority's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li> </ul>
<p><b>IPSAS 42:</b> Social Benefits</p>	<p><b>Applicable: 1<sup>st</sup> January 2022</b>            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 have early – adopt of any of the new or amended standards in year 2019.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) Revenue recognition**

**i) Revenue from non-exchange transactions (IPSAS 23)**

**Fees, taxes and fines**

The Authority recognizes revenues from Levies, fees and Penalties when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. 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.

**Transfers from other government entities**

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Authority and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds

**ii) Revenue from exchange transactions (IPSAS 9)**

**Investment and Interest income from Bank Deposit**

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

**b) Budget information (IPSAS 24)**

The original budget for FY 2018-2019 was approved by the National Treasury on 28<sup>th</sup> September 2018. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Authority upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Authority recorded no additional appropriations of funds on the 2018-2019 budget following the governing body's approval. The Authority's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

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In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section two of these financial statements.

**b) Property, plant and equipment (IPSAS 17)**

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.

**c) Leases (IPSAS 13)**

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.

**d) Intangible assets (IPSAS 31)**

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.

**e) 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.

**i) Inventories (IPSAS 12)**

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.

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.

**j) Provisions (IPSAS 19)**

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.

**k) Nature and purpose of reserves**

The Authority creates and maintains reserves in terms of specific requirements. Currently the Authority does not maintain any reserves

**l) 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.

**m) Employee benefits (IPSAS 39)**

**Retirement benefit plans**

The Authority provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an Authority pays fixed contributions into a separate Authority (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 contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

**n) Foreign currency transactions (IPSAS 4)**

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.

**o) Related parties (IPSAS 20)**

The Authority regards a related party as a person or an Authority 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.

**p) 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

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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.

**q) Cash and cash equivalents**

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

**r) Comparative figures**

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

**s) 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**

The preparation of the Authority's financial statements in conformity with IPSAS requires management to make judgments, estimates 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 consolidated 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. IPSAS 1.140

**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 employed 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

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**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 xxx.

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. The Provisions are made on the absolute amount of debts which are doubtful, other provisions provided in the financial statements is the provision for payment of 90% surplus funds as provided by the Public Finance Management Act, 2012.

**6. REVENUE FROM NON EXCHANGE TRANSACTIONS**

Description	2018-2019 Kshs	2017-2018 Kshs
Retirement Benefits Levy	874,906,833	832,884,683
Service Provider Licensing Fee	3,450,000	3,350,000
Statutory Penalty	11,201,791	-
<b>Total</b>	<b>889,558,624</b>	<b>836,234,683</b>

**7. REVENUE FROM EXCHANGE TRANSACTIONS**

Description	2018-2019 Kshs	2017-2018 Kshs
Interest income from Treasury Bills	26,247,824	32,638,849
Interest income from bank deposits	3,693,192	4,000,830
<b>Total</b>	<b>29,941,016</b>	<b>36,639,679</b>

**8. OTHER INCOME**

Description	2018-2019 Kshs	2017-2018 Kshs
Tribunal Fee	16,400	23,380
Miscellaneous Income	11,602,331	12,563,165
Income from Sale of Tender	-	-
Insurance Recovery	-	-
<b>Total</b>	<b>11,618,731</b>	<b>12,586,545</b>

**9. EMPLOYEE COSTS**

Description	2018-2019 Kshs	2017-2018 Kshs
Personnel Cost	289,737,544	254,178,944
Pension contributions	33,686,600	30,747,800
Medical expenses	23,041,046	20,009,205
Travel and accommodation allowances	-	-
<b>Total</b>	<b>346,465,190</b>	<b>304,935,949</b>

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**10. REMUNERATION OF DIRECTORS**

Description	2018-2019 Kshs	2017-2018 Kshs
Chairman's Honoraria	960,000	960,000
Directors emoluments	4,096,000	4,752,000
Other allowances & expenses	23,009,193	12,997,175
<b>Total</b>	<b>28,065,193</b>	<b>18,709,175</b>

**11. DEPRECIATION AND AMORTIZATION EXPENSE**

Description	2018-2019 Kshs	2017-2018 Kshs
Property, plant and equipment	13,962,424	18,062,592
Intangible assets	-	-
Investment property carried at cost	-	-
<b>Total</b>	<b>13,962,424</b>	<b>18,062,592</b>

**12. REPAIRS AND MAINTENANCE**

Description	2018-2019 Kshs	2017-2018 Kshs
Property	-	-
Equipment and machinery	2,367,086	4,034,345
Motor Vehicle	3,727,805	3,172,814
Furniture and fittings	-	-
<b>Total</b>	<b>6,094,891</b>	<b>7,207,159</b>

**13. GENERAL EXPENSES**

Description	2018-2019 Kshs	2017-2018 Kshs
Member Education Services	33,826,917	33,478,362
Financial Literacy Activities	9,333,584	6,926,750
Pension Industry Development	4,419,276	17,490,180
Consumer Protection (Education)	32,926,933	26,008,462
Professional Charges	36,225,580	39,716,127
Cleaning Expenses	3,365,397	2,915,145
Power & Lighting	5,074,002	6,106,411
Official Entertainment	2,826,112	2,673,094
Office Running Expenses	7,176,301	7,215,100
Library Expenses	2,251,516	2,696,264
Rent & Ground Rates	37,342,340	38,286,082
Training & Development	56,723,807	31,920,701
Staff welfare- Sports & recreation	16,364,761	11,499,748
Post & Telephone	8,877,311	7,985,303
Travel & Accommodation	58,542,492	44,689,731
Tribunal expenses	202,800	159,000

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Hire of Equipment	883,300	789,800
Research & Development	59,903,223	18,855,310
Information & Technology Systems	21,441,310	22,769,534
Printing & stationery expenses	3,130,589	3,039,190
<b>Total General Expenses</b>	<b>400,837,549</b>	<b>325,220,293</b>

**14. FINANCE COST**

Description	2018-2019 Kshs	2017-2018 Kshs
Bank charges	867,933	609,421
<b>Total finance costs</b>	<b>867,933</b>	<b>609,421</b>

**15. GAIN ON SALE OF ASSETS**

Description	2018-2019 Kshs	2017-2018 Kshs
<b>Property, plant and equipment</b>		
Cost	8,928,629	-
Less: Accumulated Depreciation	8,404,583	-
<b>Netbook value</b>	<b>524,046</b>	
Proceeds from sales	1,306,100	-
<b>Total gain on property, plant and equipment</b>	<b>782,054</b>	
Intangible assets	-	-
Other assets not capitalised	-	-
<b>Total gain on sale of assets</b>	<b>782,054</b>	

**16. REMISSION TO NATIONAL TREASURY**

Description	2018-2019 Kshs	2017-2018 Kshs
90% surplus remitted	163,972,694	163,448,114
<b>Total</b>	<b>163,972,694</b>	<b>163,448,114</b>

**17. CASH AND CASH EQUIVALENTS**

Description	2018-2019 Kshs	2017-2018 Kshs
<b>a) Current account</b>		
KCB-Milimani (Main Account)	25,131,110	81,686,173
KCB-Milimani (Revenue A/C)	11,157,870	17,830,109
Barclays Bank (Office Account)	6,634,833	32,600,277
Commercial Bank of Africa	4,999,180	-
<b>Sub-total</b>	<b>47,922,993</b>	<b>132,116,559</b>
CBK- 91 Treasury Bills	638,335,500	588,100,000
CBK-182 Treasury Bills	-	-
<b>Sub-total</b>	<b>638,335,500</b>	<b>588,100,000</b>
<b>Total</b>	<b>686,258,493</b>	<b>720,216,559</b>

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**18. RECEIVABLES FROM EXCHANGE TRANSACTIONS**

Description	2018-2019 Kshs	2017-2018 Kshs
<b>Current receivables</b>		
Interest receivable on T-bills	8,720,973	8,159,648
RBA Levy Receivable	7,620,347	-
<b>Total current receivables</b>	<b>16,341,319</b>	<b>8,159,648</b>

**19. PREPAYMENTS FROM EXCHANGE TRANSACTIONS**

Description	2018-2019 Kshs	2017-2018 Kshs
Prepayment Account- Sundry Debtors	4,008,325	1,681,265
Prepayable (others)	1,607,684	2,493,576
Staff outstanding Imprest	11,769	
Provision for doubtful debt	- 919,647	- 919,647
	<b>4,708,131</b>	<b>3,255,193</b>

**20. PROPERTY, PLANT AND EQUIPMENT**

	Motor Vehicles Shs	Furniture and fittings Shs	Plant & Equipment Shs	Total Shs
<b>Cost</b>				
At 1 July 2017	47,344,035	34,634,380	106,395,592	188,374,007
Additions		7,625,965	15,032,261	22,658,226
Disposals				-
Transfers/ adjustments	-	-	-	-
<b>At 30th June 2018</b>	<b>47,344,035</b>	<b>42,260,345</b>	<b>121,427,853</b>	<b>211,032,233</b>
Additions	4,153,224	3,474,789	6,766,982	14,394,995
Disposals	7,885,192	64,334	979,103	8,928,629
Transfers/ adjustments	-	-	-	-
<b>At 30th June 2019</b>	<b>43,612,067</b>	<b>45,670,800</b>	<b>127,215,732</b>	<b>216,498,599</b>
<b>Depreciation and impairment</b>				
At 1 July 2017	25,211,246	18,781,234	83,049,828	127,042,308
Depreciation	5,533,197	2,934,889	9,594,506	18,062,592
Depreciation written back on disposal				-
Impairment	-	-	-	-
<b>At 30th June 2018</b>	<b>30,744,443</b>	<b>21,716,123</b>	<b>92,644,334</b>	<b>145,104,900</b>
Depreciation	4,189,870	2,723,141	7,049,408	13,962,419
Disposals	7,499,551	37,603	867,429	8,404,583
Transfers/ adjustments	-	-	-	-
<b>At 30th June 2019</b>	<b>27,434,762</b>	<b>24,401,661</b>	<b>98,826,313</b>	<b>150,662,736</b>
<b>Net book values</b>				
At 30th June 2019	16,177,305	21,269,138	28,389,419	65,835,863
At 30th June 2018	16,599,592	20,544,222	28,783,519	65,927,333

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**21. INVESTMENTS**

Description	2018-2019 Kshs	2017-2018 Kshs
RBA Rent Guarantee Deposit	8,354,778	4,896,534
KCB S&L Mortgage deposit	311,268,240	308,206,336
<b>Total</b>	<b>319,623,018</b>	<b>313,102,870</b>
<b>a) On- Call Deposits</b>	<b>2018-2019</b>	<b>2017-2018</b>
RBA rent guarantee deposit	8,354,778	4,896,534
<b>Sub-total</b>	<b>8,354,778</b>	<b>4,896,534</b>
<b>b) Staff car loan/ mortgage</b>	<b>2018-2019</b>	<b>2017-2018</b>
KCB Car loan security account	36,005,248	36,005,248
S&L mortgage deposits	232,118,631	230,646,808
NIC car loan deposit	10,711,849	9,989,239
HFCK mortgage deposits	32,432,512	31,565,041
<b>Sub-total</b>	<b>311,268,240</b>	<b>308,206,336</b>

**22. EMPLOYERS OBLIGATIONS**

Description	2018-2019 Kshs	2017-2018 Kshs
Staff bonus	12,411,545	12,411,545
Staff gratuity	1,100,000	1,100,000
Board bonus	3,200,000	3,200,000
<b>Total Employer Obligations</b>	<b>16,711,545</b>	<b>16,711,545</b>

**23. SUNDRY CREDITORS**

Description	2018-2019 Kshs	2017-2018 Kshs
Audit fees	750,000	750,000
Board Expenses	-	-
Cleaning Expenses	4,042	-
Consumer Education	-	30,550
Employer Awareness	408,320	-
Financial Literacy	409,690	-
Furniture & Fittings	1,337,930	6,190,788
Information system expenses	5,013,955	-
Insurance & maintenance of mv expenses	163,585	108,728
Library Expenses	73,098	-
Market Conduct	955,650	-
Maintenance of Office Equipment	63,800	73,107
Medical Expenses	2,798,326	3,666,304
Office Equipment @ cost	-	-
Office Running Expenses	70,176	197,763
Official Entertainment	14,758	309,910
Pension Industry Development	4,409,863	2,240,000
Personnel Emoluments	28,288	-
Power & Lighting	-	-
Printing & Stationary	-	-
Professional service expenses	1,940,844	627,720

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Rent	-	105,075
Research & Development	9,294,432	3,054,148
Sports & Recreation	44,324	362,834
Telephone & other communication expenses	301,890	8,195
Travel & Accommodation	489,886	377,069
<b>Sub Total</b>	<b>28,572,856</b>	<b>18,102,191</b>

**24. CAPITAL FUND**

Description	2018-2019 Kshs	2017-2018 Kshs
Capital Fund (Seed Capital)	45,457,000	45,457,000
Additional GOK Grants (FLSTP) project	63,900,000	63,900,000
	<b>109,357,000</b>	<b>109,357,000</b>

The Additional GOK grant was used to procure systems and ICT equipment's for the Authority.

**25. ACCUMULATED SURPLUS**

Description	2018-2019 Kshs	2017-2018 Kshs
General reserve fund	588,826,645	919,222,644
Transfer of 90% surplus fund	-	163,448,114
Net Profit (accumulated )	213,691,533	210,716,317
Net Profit (current year)	135,607,245	
<b>Total</b>	<b>938,125,422</b>	<b>966,490,848</b>

**26. FINANCIAL RISK MANAGEMENT**

The Authority's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Authority's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Authority does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Authority's financial risk management objectives and policies are detailed below:

**(i) Credit risk**

The Authority has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Authority's management based on prior experience and their assessment of the current economic environment.

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

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

**(ii) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Authority's directors, who have built an appropriate liquidity risk management framework for the management of the Authority's short, medium and long-term funding and liquidity management requirements. The Authority manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the Authority under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

**(iii) Market risk**

The board has put in place an internal audit function to assist it in assessing the risk faced by the Authority on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

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 Audit and Risk Management Committee.

The Authority's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the Authority's exposure to market risks or the manner in which it manages and measures the risk.

**a) Foreign currency risk**

The Authority has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

**iv) Capital Risk Management**

The objective of the Authority's capital risk management is to safeguard the Board's ability to continue as a going concern. The Authority capital structure comprises of the following funds:

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Description	2018-2019	2017-2018
	Kshs	Kshs
Capital Fund (Seed Capital)	45,457,000	45,457,000
Additional GOK Grants (FLSTP) project	63,900,000	63,900,000
	<b>109,357,000</b>	<b>109,357,000</b>

**27. RELATED PARTY BALANCES**

**Nature of related party relationships**

Entities and other parties related to the Authority include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

**Government of Kenya**

The Government of Kenya is the principal shareholder of the *Authority*, holding 100% of the *Authority's* equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the Authority, both domestic and external. Other related parties include:

- i) The National Government;
- ii) The National Treasury and Planning;
- iii) Key management;
- iv) Board of directors;

Description	2018-2019	2017-2018
	Kshs	Kshs
The National Government 90% remittance	163,448,114	157,864,775
The National Treasury	-	-
Key Management	48,320,000	48,320,000
Board of Directors	28,065,193	18,709,175
<b>TOTAL</b>	<b>217,240,114</b>	<b>212,104,775</b>

**28. DIVIDENDS/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 remitted Kshs 163 million.

**29. EVENTS AFTER THE REPORTING PERIOD**

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

**30. ULTIMATE AND HOLDING AUTHORITY**

The Authority is a State Corporation/ or a Semi- Autonomous Government Agency under The National Treasury and Planning. Its ultimate parent is the Government of Kenya.

**31. Currency**

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

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**APPENDIX 1: FINANCIAL SUPPORT RECEIVED BY THE AUTHORITY**

FSSP Support for 2018-2019 FY		
Name	Details	KSh.
IPSOS Limited P.O.BOX 68230-00200 Nairobi	RBA - Consultancy to Peer Review the Effectiveness and Quality of the RBAs Pension Education Campaigns	950,101.30
IPSOS Limited P.O.BOX 68230-00200 Nairobi	RBA - Consultancy to Peer Review the Effectiveness and Quality of the RBAs Pension Education Campaigns	51,823.70
Public Administration International ( PAI), London-United Kingdom	PA NO.118218-RBA , Ms. Irene Leboo Tutition Fees	293,330.85
Uniglobe Northline Travel Limited P.O.BOX 55889-00200 Nairobi	RBA -Daniel Mwatu & Clifford Ogonda Airfares	51,700.00
Attic Tours and Travel Limited P.O.BOX 7740-00100 Nairobi	RBA - Christine Onyango, Canada airfare	243,590.00
Maasai Mara Sopa Lodge Limited P.O.BOX 72630 Nairobi	RBA 3rd National Retirement Benefits Policy workshop	2,476,858.60
Maasai Mara Sopa Lodge Limited P.O.BOX 72630 Nairobi	RBA 3rd National Retirement Benefits Policy workshop	135,101.40
IPSOS Limited- Nairobi	VAT on RBA Peer Education Review Consultancy	103,647.45
IPSOS Limited- Nairobi	RBA Peer Education Review Consultancy	1,900,203.35
Crown Agents Limited , London- United Kingdom	RBA ,PA NO. 118246 -Maggy Mbithi Tutition.	307,777.80
Crown Agents Limited , London- United Kingdom	RBA , PA NO. 118245 -Misheck Njeru	615,105.60
Crown Agents Limited , London- United Kingdom	RBA PA NO. 118254 -Ben Kipanga	307,639.65
Humber Institute of Technology and Advanced Learning , Ontario, Canada	RBA PA NO. 118274 - Martin Obuba & Peter Muthuri	533,566.80
London Corporate Training , London - United Kingdom	RBA PA NO.118582 Clare Abuodha	360,141.90
Clare A. Abuodha C/O RBA	Training Expenses	351,580.00
Peter Ngunyi C/O RBA	Workshop expenscs	677,544.00
Globus Tours and Travel Limited , Nairobi	RBA - Boniface Mwangagi & Leboo Kakeya airfares	339,000.00
Yvonne Kalewa Muthwii C/O RBA	Training Expenses	242,805.00
Boniface Munyoki Mwangangi C/O RBA	Training Expenses	339,927.00
Irene Kakenya Leboo C/O RBA	Training Expenses	339,927.00
John Sifa Keah C/O RBA	Training Expenses	334,980.00

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Peter Muthuri Mugambi C/O RBA	Training Expenses	327,714.00
Martin Obuba Ondieki C/O RBA	Training Expenses	327,714.00
Seth Odhiambo Onyango C/O RBA	Training Expenses	388,819.00
Maggy M. Mwangangi C/O RBA	Training Expenses	388,819.00
Misheck Nyaga Njeru C/O RBA	Training Expenses	388,819.00
Ben Kikemboi Kipanga C/O RBA	Training Expenses	388,071.00
Alfred Ouma Shem C/O RBA	Workshop expenses	50,400.00
Peter Ngunyi C/O RBA	Workshop expenses	50,400.00
John Muli Mutisya C/O RBA	Workshop expenses	60,811.00
Seth Odhiambo Onyango C/O RBA	Workshop expenses	13,463.00
Attic Tours & Travel Ltd , Nairobi	RBA -Peter Ngunyi's airfare	182,925.00
Attic Tours & Travel Ltd P.O.BOX 7740-00100 NAIROBI	RBA - Martin Obuba and Peter Mugambi airfares	610,530.00
Globus Tours & Travel Limited , Nairobi	RBA - Misheck, Seth , Ben & Maggy airfares	611,400.00
Nation Media Group P.O.BOX 49010 - 00100 Nairobi	RBA -VAT on Risk Based Supervision & ERP Advertisement	14,460.00
Nation Media Group P.O.BOX 49010 - 00100 Nairobi	RBA -VAT on Risk Based Supervision & ERP Advertisement	265,100.00
Adranus Vugs P.O.BOX 86791 Windhoek Namibia	RBA- Consultancy Services	7,719,094.55
Commissioner for Domestic Taxes Department C/O KRA	WHT on Adrianus Vugs	1,313,928.00
Peter Muthuri Mugambi C/O RBA	Workshop expenses	15,946.00
Clare A. Abuodha C/O RBA	Workshop expenses	16,928.00
Martin Obuba Ondieki C/O RBA	Workshop expenses	17,342.00
Boniface Munyoki Mwangangi C/O RBA	Workshop expenses	60,481.00
IPSOS Limited P.O.BOX 68230-00200 NAIROBI	RBA Peer Review Consultancy	3,800,406.10
IPSOS Limited P.O.BOX 68230-00200 NAIROBI	RBA Peer Review Consultancy	2,850,304.85
Commissioner for VAT C/O KRA	RBA -VAT on IPSOs Limited Invoice	207,294.90
Commissioner for VAT C/O KRA	RBA -VAT on IPSOs Limited Invoice	155,471.15
Irene Kakenya Leboo C/O RBA	Workshop expenses	69,093.00
Ben Kipkemboi Kipanga C/O RBA	Workshop expenses	24,023.00

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Andrew Mark Slater RisCura Solutions (UK) Limited , Sevenoaks, Kent, United Kingdom.	PA 121562- RBA Broaden Pension Coverage	8,559,410.00
Commissioner for Domestic Taxes Department C/O KRA	RBA WHT on Andrew Slater Invoice	1,814,912.00
University of Southern California, Los Angeles, California -USA	PA NO.122457 RBA Praxidis & Rose Kwena	1,234,530.00
International Training Centre, Turin-ITALY	PA NO. 122494 RBA John Bosco Gicheo	186,346.95
Rose Kwena C/O RBA	Subsistence Expenses	799,151.00
International Training Centre, Torino-ITALY	PA NO. 122570-RBA Julie Akinyi Oloo Tuition	187,171.75
John Bosco Gicheo C/O RBA	Subsistence Expenses	388,572.00
Toronto Leadership Centre, Ontario-Canada	PA NO. 122582 -RBA Ben Kipanga and Alexander Mugambi	617,625.00
African Touch Safaris Limited P.O.BOX 931-00100 Nairobi	RBA -Rose Kwena airfare	201,945.00
African Touch Safaris Limited P.O.BOX 931-00100 Nairobi	RBA -Praxidis Saisi airfare	175,850.00
Retirement Benefits Authority P.O.BOX 57733-00200 Nairobi	RBA -July Akinyi Oloo Tuition reimbursement	389,296.00
Maggy Mwikali Mbithi Mwangangi C/O RBA	Workshop expenses	8,822.00
Praxidis Namoni Saisi C/O RBA	Subsistence Expenses	799,250.00
Julie Akinyi Oloo C/O RBA	RBA -Training Expenses	9,801.00
<b>Total</b>		<b>46,648,791.65</b>