

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

Paper Laid
By the leader
of majority party
Hon Alan
Duale
on Tuesday
9.5.2017
JS

REPORT



OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
LOCAL AUTHORITIES PROVIDENT
FUND**

**FOR THE YEAR ENDED
30 JUNE 2016**

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100 NAIROBI
- 9 MAR 2017
RECEIVED



ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2016



Local Authorities Provident Fund

2015-2016 Annual Report

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I. Key Entity Information and Management

(a) Background information

Local Authorities Provident Fund (LAPFUND) was established under the law of Kenya, The Local Authorities Provident Fund Act, CAP 272, on the 5th of July 1960. At cabinet level, LAPFUND is represented by the Cabinet Secretary for National Treasury who is responsible for the general policy and strategic direction of LAPFUND

(b) Principal Activities

The principal activities of LAPFUND is as stipulated in CAP 272 a; to establish a provident fund for certain employees of local authorities; to provide for contributions to the fund by such employees and authorities, and for the administration of the fund by a Local Authorities Provident Fund Board; and for matters incidental thereto and connected therewith.

The Act provides for the establishment of the fund to be credited with:

- a. assets transferred from other Funds
- b. Amounts contributed each month by contributors and Sponsors
- c. Dividends, interest and other incomes accruing from investments of the Fund
- d. Sums contributed by Local Authorities(Sponsors) towards the expenses of management and administration of the Fund
- e. Such other moneys as may from time to time be received by the Board

(c) Key Management

LAPFUND's day-to-day management is under the Local Authorities Provident Fund Board

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2016 and who had direct fiduciary responsibility were:

S/N	Name	Designation	Nationality
1	Mr. David Koross	Chief Executive Officer	Kenyan
2	Mr. Bernard Mbogoh	CM – Finance and Investments	Kenyan
3	Mr. Galm Guracha Jaldesa	CM- Business Development and Strategy	Kenyan
4	Ms. Veronica Leseya	Manager – Benefits and Administration	Kenyan
5	Mr. Urbanus Mbindyo	Manager – Marketing and Recruitment	Kenyan
6	Mr. Chadwick Namasake	Manager – Info. & Comm. Technology	Kenyan
7	Mr. Sylvester Mutie	Manager - Receivables	Kenyan
8	Mr. David Methu	Ag. Manager – Internal Audit	Kenyan
9	Ms. Jane Mmasi	Ag. Manager – Human Resources and Administration	Kenyan
10	Ms. Rhoda Chemasack	Ag. Manager – Supply Chain	Kenyan

(e) Fiduciary Oversight Arrangements

LAPFUND has put in place key fiduciary oversight arrangements covering:

- i) Board Committees i.e. Audit & Governance Committee; Finance, Strategy and Investments Committee and Human Resources & Governance Committee.
- ii) Audit, Risk & Compliance Committee.
- iii) Transparency and Accountability Governance Structures.

(f) Contacts

i. Headquarters

P.O. Box 79592 - 00200
8th Floor, ICEA Building, Kenyatta Avenue
Nairobi, KENYA
Telephone: +254 709 805000, +254 7098100
E-mail: info@lapfund.or.ke
Website: www.lapfund.or.ke

ii. Branch Offices

Coast

2nd Floor, Imara Building
Dedan Kimathi Road
Mombasa

Western

2nd Floor, Almran Plaza
Oginga Odinga Street
Kisumu

South Rift

1st Floor, Polo Centre
Kenyatta Avenue
Nakuru

Upper North Eastern

Desert Trail Building
Isiolo-Marsabit Main Road
Isiolo

Central

1st Floor, Fortress House
Kimathi Way
Nyeri

(g) Bankers

Co-operative Bank of Kenya Limited
Co-operative Bank House
P.O Box 5772 – 00200
Nairobi, Kenya

Kenya Commercial Bank
Gateway Park, Mombasa Road/Kipande House
P.O Box 27618 – 00506
Nairobi, Kenya

National Bank of Kenya
Harambee Avenue
P.O Box 41862 – 00506
Nairobi, Kenya

NIC Bank
Kenyatta Avenue
P.O Box 44599-00100
Nairobi, Kenya

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(h) Independent Auditors

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

Our Vision

To Be the Leading Retirement Benefits Scheme in Kenya, Providing Secured Retirement

Our Mission

To receive, prudently invest and manage members' contributions for prompt payment of benefits for secured retirement.

Our Core Values

In an endeavour to realize our vision and mission, LAPFUND is guided by the following core values

- i) Customer focus
- ii) Teamwork
- iii) Continuous improvement
- iv) Professionalism and integrity

II. The Board of Directors



Hon. Silas Muriuki Rutere
Board Chairman

Hon Muriuki is the former Member of Parliament for North Inmenti, Chairman Meru Parliamentary Group, Chairman Parliamentary Caucus and Member of PIC. In his early years before joining politics he was a long serving trade unionist as KNUT Meru Branch Executive Secretary and member of the National Executive Council of KNUT. Hon Muriuki has over 40years experience in Public Service

Hon Muriuki Holds a Diploma in Special Education from the Moray House College of Education Edinburgh.



Mr. David Koross
Chief Executive Officer and Secretary to
Board

Mr. David Koross has over 20 years' experience in Pension Scheme Administration, Management and Regulation. He holds a Bachelors of Arts degree in Economics from the University of Nairobi and currently pursuing a Master's degree in Public Policy Management at Strathmore University.

Mr. Koross has also previously worked as a Fund Manager with Stanlib Investment and as an investment Banker with Dyer and Blair.

He also served as a Director at the Constituency Development Fund for 3 years Until 2014



Hon Lewis Nguyai
Board Member

Hon. Lewis brings a wealth of experience from various executive roles both in Public & Private Sectors spanning over 25years. He is the immediate past Assistant Minister for Local Government and Member of Parliament of Kikuyu Constituency. Currently, he is the Executive Chairman of Finance Plan Limited and Executive Chairman of the First Choice Global based in Kenya & the USA.

Hon. Lewis holds a BA majoring in Economics and Mathematics alongside a Global Executive MBA in Strategic Management offered jointly by the USIU Nairobi and Columbia University of Business School (New York).



Mr. Elijah Kau Lopuke
Board Member

Mr Lopuke holds a Master of Arts Degree in Education Administration from the Michigan University of the USA and is currently a PHD Student at Kisii University. He has a wealth of experience of over 20 years having worked in various institutions holding different senior positions.



Mr. Yunis Haji Omar Mohamed
Board Member

Mr. Yunis who holds Post Graduate Diploma from the Kenya School of Law and BA LLB (Honours) from the University of Nairobi has working experience of over 25years in the Legal and Management.

He is currently a sole partner in his Law Firm which specialises in Joint Ventures, Mergers and Acquisitions, Property and Real Estate and Immigration



Mrs. Mary Namubuya Murongoro
Board Member

Mrs Murongoro is a Long serving Trade Unionist She is the National Chairperson KCGWU, National Executive Member KCGWU and Chairperson Kimilili Municipal Council Workers Union.

She holds a Diploma in Civil Engineering from the Kenya Polytechnic and a Diploma in Public Relations from the Foundation Institute of Professionals



Captain Obo Ruweida
Board Member

Captain Obo is a qualified Pilot with experience of over 8 years.

She is currently operating a private air Charter Services Company in Kenya and South Sudan



Mr. Simon Leboo Morintat
Board Member

Mr Monritat has hands on experience of over 24years in Management of Public Affairs and Administration. Currently, he is the County Chief Officer (PS) in Charge of Public Service Management at the Nairobi City County Government. He has also served as the Deputy Town Clerk Nairobi County and Town Clerk in Various Local Authorities.

He holds MBA in Strategic Management and BA in Government and Public Administration from the Moi University.



Dr. Beatrice Sabana
Board Member

Dr. Sabana holds a PHD in Business Administration from the University of Nairobi, Master of Business Administration from the University of Leeds U.K and Bachelor of Education Majoring in Business and Economics from the University of Nairobi.

Dr. Sabana has a wealth of experience in both Public and Private Sector. She is a career Educationist, Banker and Microfinance Specialist. She is the founder Director of the Kenya Private Sector Alliance, Vice Chairperson of the Kenya Institute of Management and a founding Director of the New Partnership for Africa's Development (NEPAD). She has worked with World Bank/CGAPP Funded Microfinance Capacity Building Project, carried out extensive Consultancy work in rural finance in Africa and served as the Chief Executive Officer of the Association of Microfinance Institutions

III. Management Team



Mr. David Koross
Chief Executive Officer
BA Economics



Mr. Bernard Mbogoh
Chief Manager, Finance & Investments
BA Economics, CFA(K)



**Chief Manager, Research, Strategy and Business
Development**
MBA, B Com Finance



Mrs. Veronicah Soila Leseya – Owende
Manager, Benefits Administration
Bachelor of Arts (Hons), AIK, CPAM



Mr Urbanus M. Mbindyo
Manager, Marketing and Member Recruitment
MBA (Strategy), ACIM, BBA (Accounting)



Mr. Chadwick. C. Namasake
**Manager, Information Communication and
Technology**
BSC Maths, Computer Science, MBA, Prince II



Ms Jane L. Mmasi
Ag. Human Resources and Administration.
MBA – on-going, IHRM, BBM (HRM)



Mr. David M. Thuku
Manager Internal Audit
CPA (K), BSC (Applied Statistics)



Manager, Receivables
PHD Finance – ongoing
MBA Finance, CPA (K), CPS (K), CIPS (M), B Com
(Finance)



Mrs. Chemashack Ndiwa
Ag. Manager, Supply Chain.
MSC (Finance), CPA(K), B Com(Accounting)

IV. Chairman's Statement



This is yet another good year for LAPFUND as we report a year of solid growth and performance of our Fund. On behalf of the Board, it is my pleasure to present the Annual Report and Financial Statements for the year ended 30 June 2016.

The Kenyan economy has grown by 5.9% in 2016, which was marked by the improved all-round performance in most sectors of the economy and the recovery in the tourism sector which ended a two year spell of poor performance marked by security concerns and economic downturn in some key tourists markets. The inflation has been declining during the period as attributed to declines in food prices amidst relatively stable fuel prices.

The growth level contributed positively on the operations of LAPFUND in terms of registration of new members, contributions received and income collected from the investments made

while single digit inflation contributed to members enjoying a positive return on their funds.

Economic growth is expected to improve to around 5.6% in 2016 supported by a more stable macroeconomic environment and increased infrastructure spends in the run up to the general elections. This strategically will translate to further growth opportunities for LAPFUND in terms of registration of new members, contributions received and incomes collected from the investments. Looking ahead, the key risk that could affect LAPFUND operations could be any negative sentiments arising from possibly early electioneering campaigns.

Financial Performance

From the onset of devolution, LAPFUND has continued with an upward growth trend. In the year under review, the fund value increased by 18% to Ksh.28bn from Ksh.23.6bn in the previous year. Our concerted efforts to ensure employees and members of County Governments have secured their retirement; the membership has increased to 30,870 in the current year from 25,700 in the previous year. This has consequently increased our contributions by 40% to Ksh 4.7bn from Ksh 3.3bn in the previous year.

The outstanding contributions from sponsors have continued to attract levies resulting to increase of levies charged by 60% to Ksh 3.2bn from Ksh 2.0bn in the previous year. This interest has been scrapped off from our books through board approval as it proves unrecoverable. In line with prudent accounting, we have made provisions for interests on debts from the County Governments, water companies and other sponsors to a tune of Ksh 817m in the year under review compared to Ksh 464m in the previous year.

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To the members, sponsors and all stakeholders, all I can say is *thank you* for your trust, faithfulness and confidence you have accorded LAPFUND. It is my expectation that you will continue to support LAPFUND as we look forward to serving you better and enhance your benefits, for a *Secured Retirement*.

Thank you.



Hon. Silas Muriuki Rutere
Board Chairman

V. Report of the Chief Executive Officer

It is my great honour and humble duty to report on LAPFUND activities for the financial year ended 30th June 2016.

• Performance

LAPFUND made the following key achievements during the Financial Year 2015/2016:

- i) Fund value grew by 18% from Kes 23.6 billion to Kes 28 billion.
- ii) The membership has increased by 20% as indicated in the chairman's report which consequently increased our contributions by 40%
- iii) Through hard work by management and staff of LAPFUND and continuous guidance by the Board of Directors, LAPFUND is still dedicated and committed to its strategic plan of 2014-2018 with the following objectives:

- a. Attain and sustain member satisfaction above 80%
- b. Grow fund value by 25% annually by 2018
- c. Enhance organisational brand equity
- d. Drive business processes through ICT
- e. Enhance corporate governance and management best practices
- f. Strengthen institutional capacity

• Sustainability

We believe in partnering with our stakeholders and remain committed to advocating the role of saving for retirement. We therefore work to promote saving culture among Kenyans and support Vision 2030's First pillar (Economic) which among other things aims to increase the saving culture among Kenyans by 10% by 2030. We have made commitments in this regard by ensuring that we have channels for our members to remit their contributions. We have over 4,500 members who have already joined as voluntary contributors towards saving for retirement.

Strategies are in place to increase LAPFUND's reach to our stakeholders through sensitization and seminars to members and opening of regional offices. As LAPFUND team, we will still maintain our stand in achieving our core values as envisaged in our strategic plan. Management interventions through increased drive around reducing costs and efficiency of our operations, expanding our innovation agenda and building a culture around customer focus will ensure that we are well placed to seize opportunities and deliver growth.

• Good progress on strategic priorities

Our strategic focus is the centre of our account in making our customer the central point of all we do to drive sustainable business growth, and we made great progress in the year on our strategic focus with innovations which saw our portfolio growing at 20%. Though the market performance was quite dismal for most of the sectors our diversified investments enabled us to declare good to our members' savings. The focus will continue to be on turning around the performance of our investments with the right asset selection alongside innovation to expand the fund value and returns to members.



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- **Board Members and Employees**

The strength of any organization is its people. We can only deliver such great results if we nurture and develop our people. At LAPFUND, we pride ourselves on recruiting, developing, retaining and rewarding great talent to promote leadership at all levels within our Organization.

I take this opportunity to thank all the board members for their contribution and effective oversight during the year. I thank them for their commitment to their role and for upholding the highest standards of corporate governance. I wish to express my profound gratitude to each and every one of my colleagues at LAPFUND for their absolute efforts to ensure the company's success. As a team, we pursue greater success

- **Future Outlook**

Despite tough market conditions, the strengths of our business and our people ensured we achieved another competitive set of performance in 2016. We expect the investment environment to become more difficult in 2017 due to the elections that will obviously affect the market. However, we will remain focused and committed on our strategy to continue delivering growth to our members. We will continue to invent new products to ensure that we encourage Kenyans to save for retirement.

Our investments in technology, people and new products will help us a long way in improving quality of customer service, growing membership coverage, improving investment income and timely payment of members' benefits. In the medium-term, our emphasis will be on improving members' services provision while maintaining cost-effectiveness.

We will seek to attract more members for the various products and services we have created. Technological inventions will also require improvements to ensure consistency and availability of services. In addition to this, the digital channels are fundamental to our strategy and more emphasis will be placed on improving access and usability. We will sustain efforts around our change programme with a focus on people engagement and development to improve our performance and pursue innovation in service delivery.

I sincerely thank all of you for your continued support to LAPFUND and promise to perform and exceed your expectations in the years ahead.



David K Koross
Chief Executive Officer

VI. Corporate Governance Statement

The Board is charged with ensuring LAFUND is managed in a sound manner that delivers members value within an environment of good corporate governance. It's in this spirit that the Board considers corporate governance as a key to good performance of LAFUND.

The Board continued to review various policies and procedures used and the stewardship of LAFUND's assets and resources with the objective of maintaining and enhancing stakeholder value in the context of LAFUND's Vision, Mission and Values.

The Board of Directors

The Board comprises 8 non-executive members and a secretary who is the Chief Executive Officer. The Board members and The Board Chairperson were appointed by the Cabinet Secretary, The National Treasury, through gazette notice no. 7385 and 1467, date 2nd October 2015 and 9th March 2016 respectively, for a period of three years from the date of appointment.

The Board ensures that proper standards of corporate governance are maintained and have an oversight role over the management of the Fund, not only through the Board meetings but also through the various Board Committees. The Board had three ordinary meeting and two special meetings.

The Board is required to meet at least four times in every financial year to discuss the overall performance of LAFUND. All full board meetings are convened by the Secretary to the Board upon instructions from the Chairman or upon the requisition of at least five members of the Board. All decisions are passed by a majority of present members voting with the Chairperson having the decisive vote in the event of a tie.

Board Members also enter into a Performance Contract every financial year with the government to evaluate its Performance against set targets.

The Committees of the Board

Section 9 of the State Corporations Act (CAP 446) allows the Board of Directors of LAFUND to establish the number of Board Committees consisting of Board members to deal with specific issues as the Board deems fit. The Board MUST give notice to the State Corporations Advisory Committee of such committee. The purpose of these working committees is to comprehensively handle technical issues before they are presented to the Full Board for approval. The following committees have been established:

Strategy, Finance and Investment Committee

The purpose of the Strategy, Finance and Investment Committee is to determine and advise on all matters relating to finance and investment. The Committee is constituted by the Board and their responsibilities include:

- i. Developing the Investment policy document, Reviewing the strategic asset allocation targets for the prudent investment of members contributions and investment incomes
- ii. Conduct quarterly review of LAFUND's investment structure and the asset allocations,
- iii. Reviewing and recommending an annual operating budget and annual capital budget consistent with the long-range financial plan and financial policies,
- iv. Reviewing the financial aspects of major proposed transactions, new programs and services, as well as proposals to discontinue programs or services, and making action recommendations to the board and

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- v. Reviewing Financial Regulations of LAPFUND periodically and align the same to the requirements of the Public Financial Management and the regulations thereon from time to time.

The Strategy, Finance and Investment Committee are composed of the following members.

S/N	Name	Position	Nationality
1	Hon. Lewis Nguyai	Chairperson	Kenyan
2	Mr. Yunis Haji Mohamed	Member	Kenyan
3	Mr. Simon L. Morintat	Member	Kenyan
4	Mr. David Koross	Member	Kenyan

Human Resources and Governance Committee

Objectives

The objectives of the Human Resources Committee are;

- i. To oversee management assessment, succession and compensation matters in accordance with these Terms of Reference. The primary function of the Committee is to oversee, review, and recommend appropriate and effective human resource policies, strategies, processes and plans of the organization.
- ii. The Committee further ensures that the company has an effective organizational structure, competitive human resources, compensation policies and practices
- iii. Reviews and recommends for approval overall employee compensation philosophy and policies, including all bonus plans and other short and long term compensation arrangements.

The committee comprise of the following members;

S/N	Name	Position	Nationality
1	Mr. Yunis Haji Mohamed	Chairperson	Kenyan
2	Dr. Beatrice Sabana	Member	Kenyan
3	Mr. Elijah Lopuke	Member	Kenyan
4	Ms. Mary Murongoro	Member	Kenyan
5	Mr. Simon Leboo	Member	Kenyan
6	Capt. Ruweida Mohamed	Member	Kenyan
7	Mr. David Koross	Member	Kenyan

Risk, Audit & Compliance Committee

This Committee is chaired by a non-executive member and meets on a quarterly basis. The Committee has the responsibility of assisting the Board of Directors perform its role in:

- i. Providing oversight over financial and compliance, reporting and disclosure process, results of the process and also providing additional assurance regarding the quality and reliability of both the financial and operating information;

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- ii. The Committee further evaluates the adequacy and effectiveness of the management reporting and control systems used to monitor adherence to policies and guidelines and limits approved by the Board for management of risks;
- iii. Reviewing with Management and External Auditors the annual financial statements to determine whether they are complete, consistent with the information known to Committee members and reflect appropriate accounting principles.

The committee is composed of the following members

S/N	Name	Position	Nationality
1	Capt. Ruweida Mohamed	Chairperson	Kenyan
2	Mr. Elijah Lopuke	Member	Kenyan
3	Ms. Mary Murongoro	Member	Kenyan
4	Dr. Beatrice Sabana	Member	Kenyan
7	Mr. David Methu	Member	Kenyan

Board Induction and Training

The training programme was executed, which allowed the Board Members to be trained on their roles in assessing and managing risks that the Fund might be exposed to. The course also equipped them with risk assessment and management skills which consequently have helped oversee the good operation and performance of LAPFUND.

Attendance in the Board and Committee meetings

During the financial year, the attendance of individual Board members in the scheduled meeting, from the time of their appointment, is as shown below.

	Board Induction	Board	Finance, Strategy and Investments	Human Resource and Governance	Audit, Risk and Compliance
Number of Scheduled Meetings	5	6	3	2	2
1 Hon. Silas Muriuki Rutere **	5	6	N/A	1	1
2 Hon. Lewis Nguyai	5	6	3	N/A	N/A
3 Capt. Ruweida Mohamed Obo	5	6	3	N/A	N/A
4 Mary Nambuya Murongoro	5	5	N/A	2	2
5 Elijah Lopuke	5	5	N/A	2	2
6 Dr. Beatrice Sabana	5	3	N/A	N/A	N/A
7 Yunis Omar Mohammed	5	5	3	2	N/A
8 Simon Morindat Leboo	4	6	3	2	N/A

**** Stopped attending committee meeting upon appointment as the Chairman of the Board w.e.f 9th March 2016**

VII. Corporate Social Responsibility Statement

Corporate social responsibility forms part of important activities of LAPFUND. The Fund ensures that all its operations are undertaken in a socially and environmentally responsible manner. The Fund has extended its hand to different needy groups and impacted positively on society and its environment. The involvement in social responsibilities enhances its values and improves its image to the public. During the year under review, The Fund supported different community based activities by way of donations.

As per the LAPFUND CSR Policy guidelines, the following are the areas of focus when carrying out any CSR activity:

- a. **Hunger, Poverty, Malnutrition and Health:** Support Member's children below 12 years to access medical, Support programme that will eradicate extreme hunger, poverty and malnutrition; support HIV/Aid and Cancers, drug/Alcohol abuse, promoting preventive healthcare and sanitation and making available safe drinking water.
- b. **Education:** Promoting education, support low income contributor access education for their children through bursary and scholarships for orphaned children, support education of children of members who died because illness or natural calamities, support special education and employment-enhancing vocational skills especially among children, women, elderly and the differently disabled, and livelihood enhancement projects; monetary contributions to academic institutions for establishing endowment funds, electrifications, electronic equipment, chairs, laboratories, etc., with the objective of assisting students in their studies.
- c. **Rural Development Projects:** Strengthening rural areas in counties we operate by improving accessibility, low cost housing to members, support entrepreneurship endeavours, farming as a business, safe drinking water, sanitation, power and livelihoods, thereby creating sustainable county homes.
- d. **Equality and Empowerment of the Minority:** Promoting gender equality and empowering women; people with disability programmes, procurement opportunities to minorities, care of orphans; caring the elderly, setting up old age homes and such other facilities for senior citizens; and adopting measures for reducing inequalities faced by socially and economically backward groups.
- e. **Environmental Sustainability:** Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agro-forestry, maintaining dams, waste management, carbon trading, conservation of natural resources and maintaining the quality of soil, air and water.
- f. **National Heritage, Art and Culture:** Protecting national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promoting and developing traditional arts and handicrafts.

These areas which were considered for assistance include educational through donation of Sanitary Towels to candidates Girls in Lamu County. LAPFUND managed to distribute over 4000 sanitary towels in Lamu County to all the girls who were candidates in both primary and secondary schools. This initiative was in partnership with the office of the First Lady for Lamu.

In Supporting sports by providing sports uniforms to over 30 teams from various County Governments and water companies during annual inter counties games.



Kakamega County Assembly Football Team

Environmental sustainability where LAPFUND committed to conserve Lake Kenyatta water catchment area with over 5000 Indigenous trees



Figure Tree Planting at Lake Kenyatta in Mpeketoni- Lamu County

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Throughout the year LAPFUND also partnered with 15 County governments by co-sponsoring investment conferences during which various activities geared towards ensuring environmental resources are used in better and sustainable manner. This mainly focused on renewable energy e.g. hydro, use of solar power and wind energy harnessing projects.

We have demonstrated our commitment to Corporate Social Responsibility, and have aligned our business values, purpose and strategy with the needs of our clients and stakeholders whilst embedding these responsible and ethical principles into everything we do.

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VIII. Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended June 30, 2016 which show the state of LAFUND's affairs.

Principal activities

The principal activities of LAFUND continues to provide a fund for the employees of Local Authorities, now County Government employees, where contributions made each month by the employee and the sponsor and incomes earned from investment activities are credited

Results

The results for the year ended June 30, 2016 are set out on page 1

Directors

The members of the Board of Directors who were appointed by the Cabinet Secretary for The National Treasury for a period of three years are shown on page v. The tenure of the entire members of the Board started on 02nd October 2015.

Auditors

The Auditor General is responsible for the statutory audit of LAFUND and continues in office by Order of the Board.



David Koross
Chief Executive Officer
Nairobi

Date: 27/02/2017

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IX. Statement of Directors' Responsibilities

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

The Directors are responsible for the preparation and presentation of the financial statements, which give a true and fair view of the state of affairs for and as at the end of the financial year ended on June 30, 2016. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the 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 and the State Corporations Act. The Directors are of the opinion that the financial statements give a true and fair view of the transactions during the financial year ended June 30, 2016, and of the financial position as at that date. The Directors further confirm the completeness of the accounting records maintained, which have been relied upon in the preparation of the financial statements as well as the adequacy of the systems of internal financial control.

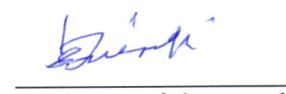
Nothing has come to the attention of the Directors to indicate that LAPFUND will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements were signed on behalf of the Board by:



Chief Executive Officer



Chairman of the Board



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON LOCAL AUTHORITIES PROVIDENT FUND FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Local Authorities Provident Fund, set out on pages 1 to 20, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in net assets, statement of comparison of budget and actual amounts and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

1.1. Property Investment

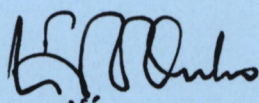
As reported in the previous years, the Fund did not collect rent income from its property situated in Makasembo Estate Kisumu during 2015/2016 financial year because the National Housing Corporation (NHC) continued to collect rent income without remitting the proceeds to LAPFUND. This was as a result of failure by the defunct Kisumu Municipal Council to service undetermined debt arising from construction of the estate houses by the National Housing Corporation. Whereas it is not clear how much and for how many years NHC will continue collecting rent, rental income totalling Kshs.1,452,000 was due from the property and not received by LAPFUND during the 2015/2016 financial year. The total accrued rent income from the property which had been earned but not received since the transfer of the property by the defunct Kisumu Municipal Council to LAPFUND stood at Kshs.7,623,000 as at 30 June 2016.

1.2. Mariakani Estate – Nairobi

Similarly, as reported in the previous year, the Nairobi City County continued to collect rent income in respect of thirty blocks of eight flats in Mariakani Estate Nairobi during the 2015/2016 financial year which had been transferred to LAPFUND in April 2013 by the defunct Nairobi City Council under a debt swap agreement. Rental income for 2015/2016 totalling Kshs.28,800,000 was therefore not received by LAPFUND, thus resulting to total accrued rental income from the property of Kshs.93,600,000 as at 30 June 2016.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Local Authority Provident Fund as at 30 June 2016, 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 Local Authorities Provident Fund Act, (Cap 272) and the Retirement Benefits Authority Act 1997 of the Laws of Kenya.



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

Nairobi

05 April 2017

XI. Statement of Financial Performance for the Year ended 30th June 2016

		2015/2016 <u>000'</u>	2014/2015 <u>000'</u>
Revenue from non-exchange transactions			
Revenue attributable to members	3	4,422,064	4,906,590
Revenue from exchange transactions			
Finance income - external investments	4	1,297,149	1,128,209
Other income	5	1,168	315
Total Revenue		5,720,381	6,035,113
Expenses			
Employee costs	6	135,182	117,008
Remuneration of Board members	7	32,047	-
Depreciation and amortization costs	8	1,229,315	2,871,817
Repairs and maintenance	9	5,755	3,895
Contracted services	10	149,794	125,836
General expenses	11	254,611	224,679
Total expenses		1,806,704	3,343,235
Other gains/(losses)			
Unrealized gain on fair value of investments	12	(104,601)	(91,131)
Total other gains/(loses)		(104,601)	(91,131)
Administrative recharges	15	577,389	471,418
Surplus		4,386,465	3,072,165

The notes set out on pages 6 to 21 form an integral part of the Financial Statements.

Local Authorities Provident Fund

2015-2016 Annual Report

XII. Statement of Financial Position as at 30th June 2016

	2015/2016 <u>000'</u>	2014/2015 <u>000'</u>
Assets		
Current assets		
Cash and cash equivalents	13 143,468	80,269
Receivables from exchange transactions	14 466,507	347,495
Receivables from non-exchange transactions	15 512,159	388,482
Current Investments	18 3,637,884	2,572,576
	<u>4,760,017</u>	<u>3,388,822</u>
Non-current assets		
Motor Vehicles, Plant & Equipment	16 26,770	19,964
Intangible assets	17 1,929	4,531
Non-current investments	18 17,357,284	15,481,418
Long term receivables from non-exchange transactions	15 488,131	380,151
Long term receivables from exchange transactions	14 5,364,826	4,366,378
	<u>23,238,940</u>	<u>20,252,442</u>
Total assets	<u>27,998,957</u>	<u>23,641,264</u>
Liabilities		
Current Liabilities		
Trade and other payables from exchange transactions	19 72,846	101,618
Total Liabilities	<u>72,846</u>	<u>101,618</u>
Net Assets	<u>27,926,110</u>	<u>23,539,646</u>
Reserves	57,550	1,203,018
Accumulated surplus	27,868,560	22,336,628
	<u>27,926,110</u>	<u>23,539,646</u>
Total Net Assets and Liabilities	<u>27,998,957</u>	<u>23,641,264</u>

The Financial Statements set out on pages 1 to 21 were signed on behalf of the Board of Directors by:



Chief Executive Officer

Date... 27/02/2017



Chairman of the Board

Date... 27/02/2017

Local Authorities Provident Fund

2015-2016 Annual Report

XIII. Statement of Changes in Net Assets for the Year Ended 30 June 2016

Attributable to members of LAPFUND	Reserve fund	Capital revaluation reserve	Accumulated surplus	Total
	000'	000'	000'	000'
Balance as at 30 June 2014	57,550	1,145,468	19,264,462	20,467,481
Surplus/(deficit) for the period		-	3,072,165	3,072,165
Transfers to accumulated surplus		-		-
Balance as at 30 June 2015	57,550	1,145,468	22,336,628	23,539,646
Surplus for the period			4,386,465	4,386,465
Transfers to accumulated surplus		(1,145,468)	1,145,468	-
Balance as at 30 June 2016	57,550	-	27,868,560	27,926,110

XIII. Statement of Cash Flows for the Year Ended 30th June 2016

	2015/2016 <u>000'</u>	2014/2015 <u>000'</u>
Cash flows from operating activities		
Receipts		
Contributions received	3,893,487	2,755,700
Investment income	1,235,004	971,880
Other income	1,168	315
	<u>5,129,659</u>	<u>3,727,895</u>
Payments		
Benefits paid	1,049,056	899,087
Employee costs	135,182	105,915
Remuneration of board members	32,047	-
Purchase of goods and services	398,250	293,680
Total payments	<u>1,614,536</u>	<u>1,298,682</u>
Net cash flows from operating activities	<u>3,515,123</u>	<u>2,429,213</u>
Cash flows from investing activities		
Purchase of plant and equipment	31,667	19,669
Purchase of property	1,184,739	311,439
Net investments	2,235,518	2,140,157
Net cash flows used in investing activities	<u>3,451,924</u>	<u>2,471,264</u>
Net increase in cash and cash equivalents	<u>63,199</u>	<u>(42,051)</u>
Cash and cash equivalents at 1 July	13 80,269	122,320
Cash and cash equivalents at 30 June	13 <u>143,468</u>	<u>80,269</u>

Local Authorities Provident Fund

2015-2016 Annual Report

Statement of Comparison of Budget and Actual Amounts

	Original budget 000'	Final budget 000'	Adjustments 000'	Actual on comparable basis 000'	Performance difference 000'	Variance Explanation
Income						
Revenue attributable to members	3,787,965	6,114,837	2,326,872	4,422,064	(1,692,773)	1
Investment Income	1,041,176	1,170,310	129,134	1,297,149	126,839	
Change in fair value of assets	408,593	(753,080)	(1,161,674)	(104,601)	648,479	2
Other incomes	394	735	734,936	1,168	433	3
Total Income	5,238,128	6,532,801	2,029,268	5,615,780	(917,021)	
Expenses						
Employee costs	169,125	151,752	(17,373)	135,182	(16,570)	4
Remuneration of board members	31,326	31,350	24	32,047	697	
Repairs and Maintenance	7,659	4,710	(2,949)	5,755	1,045	
Contracted Services	231,793	195,202	(36,591)	149,794	(45,408)	5
General Expenses	308,523	284,319	(24,204)	254,611	(29,708)	6
Total expenses	748,427	667,333	(81,093)	577,389	(89,944)	
Surplus for the period	4,489,701	5,865,468	2,110,362	5,038,391	(827,077)	

1 Variance is mainly due to the increase in membership which has consequently increased contribution. It is also due to the signing and remittance of gratuities by various counties which was not factored in the budget. The interest on outstanding debts has also increased.

2 Change in fair value of assets has improved by 86% due to the increase in the market value of Property Investments and Government Bonds.

3 Other income has increased by 59% due to increase in interest income from the loan advanced to staff.

4 The variance is due to the anticipated increment of staff salaries which has not been effected since the terms of service have been approved by SRC

5 Positive variance is due to the reduction in new contractual rate of 2% as compared to the 2.5% which Lapfund entered into with the service providers

6 General expenses reduced by 11% due to the anticipated expenditure that was to be incurred in aligning the organization to the County government system through sensitization of members on the repeal of the Act, CAP 272 which state due to the new dispensation. The sensitization is still on progress.

XIV. Notes to the Financial Statements for the Year Ended 30th June 2016.

1. Statement of compliance and basis of preparation – IPSAS 1

LAPFUND'S financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of LAPFUND and all values are rounded to the nearest thousand (Ksh 000). The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

2. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions – IPSAS 23

Member Contributions and fines

LAPFUND recognizes revenues from member contributions and fines 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 entity 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 entity and can be measured reliably.

ii) Revenue from exchange transactions – IPSAS 9

Interest income

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

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

b) Benefit Payable.

Benefits payable are accounted for in the period in which they fall due.

c) Budget information – IPSAS 24

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

d) Taxes – IAS 12

LAPFUND is a registered Retirement Benefit Scheme and is exempt from income tax

e) Investment property – IPSAS 16

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

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

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

f) 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 entity 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 repairs and maintenance are charged to the statement of changes in net assets during the financial period in which they are 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.

Land is not depreciated. Depreciation on other property, plant and equipment is recognized so as to write off the cost of assets less their residual values over their useful life using the straight line method.

g) 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.

h) Financial instruments – IPSAS 29

Financial assets

Initial recognition and measurement

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

Loans and receivables

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

Held-to-maturity

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

Impairment of financial assets

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

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

Amortized Costs

LAPFUND has been amortizing the interest of the outstanding debt of the sponsors. Considering the current situation, this is not prudent since most counties have not been paying the debt especially the ones for the defunct Local Authorities. The Entity is retrospectively changing this policy by writing off all the interests through impairment.

i) Provisions – IPSAS 19

Provisions are recognized when LAPFUND 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 Entity 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

LAPFUND 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

LAPFUND 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 Entity 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.

j) Nature and purpose of reserves

The reserve fund is established to take into account any potential future diminution in value of assets. It is also used for the transfer of interest to members, where the amount credited to members' balances exceeds the surplus for the year.

Reserves

LAPFUND has reserve fund which was established to take into account any potential future diminution in value of assets and also used for transfer of interests to members in case member's balances exceeds the surplus for the year. The entity has found it prudent to transfer these reserves to accumulated surplus which the Entity has recognized as retrospective change of accounting policies

k) Changes in accounting policies and estimates – IPSAS 3

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

l) Employee benefits – IPSAS 25

Retirement benefit plans

LAPFUND provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no

legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The 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.

m) 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.

n) Related parties Transactions – IPSAS 20

LAPFUND regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence, or vice versa. During the year, the Fund had several transactions with other related parties.

i. Loans due from related parties

	Kes '000'
Loans advanced to senior management	<u>31,769</u>
Loans to senior management carry 3% interest. Difference between interest charged by Fund and the statutory rate as per Sec 27(1) b of Income Act of 2004 is compensated by taxed loan benefit received. The loans advanced to senior management are recovered through their salaries.	

ii. Contributions due from County Government, Water Companies and other Companies

	Kes '000'
County Government	10,701,885
Water Companies	609,968
Other Companies	<u>105,866</u>
	<u>11,417,719</u>

iii. Remuneration of Board Members

	Kes '000'
	<u>32,047</u>

iv. Receipts from related parties.

	Kes '000'
County Governments, water companies and other companies	3,893,487
Staff Repayment Loans	<u>2,822</u>
	<u>3,896,309</u>

Key management personnel are described as those persons having authority and responsibility for planning, directing and controlling the Fund, comprising Board of Directors.

o) Service concession arrangements – IPSAS 32

LAPFUND 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, LAPFUND recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, LAPFUND also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

p) Cash and cash equivalents

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

q) Comparative figures

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

r) Significant judgments and sources of estimation uncertainty – IPSAS 1

The preparation of LAPFUND'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. LAPFUND 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 LAPFUND. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

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

- i. The condition of the asset based on the assessment of experts employed by LAPFUND
- ii. The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- iii. The nature of the processes in which the asset is deployed
- iv. Availability of funding to replace the asset
- v. Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available.

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.

Assumptions were used in determining the provision for rehabilitation of landfill sites. Landfill areas are rehabilitated over years and the assumption was made that the areas stay the same in size for a number of years.

Provision is made for the estimated cost to be incurred on the long-term environmental obligations, comprising expenditure on pollution control and closure over the estimated life of the landfill. The provision is based on the advice and judgment of qualified engineers.

The estimates are discounted at a pre-tax discount rate that reflects current market assessments of the time value of money.

The increase in the rehabilitation provision due to passage of time is recognized as finance cost in the statement of financial performance.

The cost of on-going programs to prevent and control pollution and rehabilitate the environment is recognized as an expense when incurred.

s) Financial Instruments: Disclosures- IPSAS 30

Risk is the unpredictability of future asset value, and specifically, the chance that the value of assets may decrease or increase in value. Investment principles and practical experience both support the notion that expected returns are proportional to market risk taken.

The Board recognizes that the assumption of risk is necessary to meet LAPFUND's objectives, i.e. there are no risk free assets which are sufficient to generate LAPFUND's required rate of return. The Board also recognizes that LAPFUND's risk management does not require the elimination of risk, but the balancing of risk and expected return. Risk in itself is intrinsically neither good nor bad as it is a resource used to generate investment returns.

Recognized Risks

The Board recognizes a number of risks involved in the investment process of LAPFUND assets:

i) Under-performance risk

There is the risk that the Fund Manager will fail to meet the return benchmarks set by the Board. This will be addressed by the Trustees undertaking regular performance reviews of the Fund Manager and taking necessary action where performance is not satisfactory.

ii) Risk of volatile returns

This will be addressed by diversification of LAPFUND investments across various asset classes and among different shares/stocks in each asset class. However, the Board also recognizes the need for focused diversification necessary to achieve superior returns to the average market return.

iii) Liquidity risk

There is the risk that LAPFUND will be unable to realize its assets to meet liability payments as they fall due. This will be addressed by ensuring that LAPFUND maintains an adequate proportion of its assets in marketable securities and that LAPFUND invests to ensure adequate matching of its liabilities.

iv) Currency risk

Given that LAPFUND liabilities are denominated in Kenya Shillings, there is the risk that exchange rate fluctuations will impact directly on the value of Fund assets as denominated in Kenya Shillings. In the absence of appropriate hedging strategies, LAPFUND will need to limit its exposure to offshore investments.

Asset/liability miss-match risks**i) Basis risk**

This risk arises where LAPFUND's liabilities cannot be perfectly matched. The Board manages this risk by defining a strategic portfolio which is the portfolio of assets which mostly replicates the expected liability cash flows.

ii) Strategic investment risk

This is the risk arising from the failure of the selected long term investment strategy to deliver the level of expected return or risk characteristics necessary to meet the Board's objectives. The Board manages this risk by setting appropriate long and short term risk measures and limits. These are monitored regularly if the level observed or experienced risk is inconsistent with these limits the investment strategy will be reviewed.

f) Subsequent events – IPSAS 14

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, 2016.

	2015/2016 <u>000'</u>	2014/2015 <u>000'</u>
3 Revenue attributable to members		
Contributions	4,654,005	3,335,648
Less: Benefits to members		
Terminal benefits	1,015,876	914,623
Group life benefits	33,180	-
Net Contributions due	<u>3,604,949</u>	<u>2,421,025</u>
Levies on outstanding contributions	817,115	2,485,564
Revenue attributable to members	<u>4,422,064</u>	<u>4,906,590</u>
4 Finance income - external investments		
Fixed income		
Government Bonds	748,413	612,446
Treasury Bills	81,026	93,438
Fixed deposits	161,998	139,571
Corporate bonds	109,532	103,740
Commercial paper	-	18,823
	<u>1,100,969</u>	<u>968,018</u>
Dividend income		
Investments in quoted equities	134,958	82,817
	<u>134,958</u>	<u>82,817</u>
Gain on sale of investments		
Gain on sale of treasury bonds	-	5,374
(Loss)/Gain on sale of quoted shares	(94)	24,964
	<u>(94)</u>	<u>30,338</u>
Property Income		
Rental incomes	61,316	47,037
	<u>61,316</u>	<u>47,037</u>
Total finance income – external investments	<u>1,297,149</u>	<u>1,128,209</u>
5 Other income		
Sale of tenders	1	74
Interest on loans to staff	1,011	216
Deposit Refunds & Adverts in the Fund Magazine	155	25
Total other income	<u>1,168</u>	<u>315</u>
6 Employee costs		
Salaries and wages	71,527	60,573
Contributions to Pension	13,470	11,225
Contributions to medical aids	12,987	13,012
Commuter and other allowances	17,552	15,697
Housing benefits and allowances	19,646	16,500
Total employee costs	<u>135,182</u>	<u>117,008</u>

	2015/2016 <u>000'</u>	2014/2015 <u>000'</u>
7 Remuneration of board members		
Chairman allowances	340	-
Meeting costs	5,994	-
Medical aid contributions	569	-
Travel, conferences and other costs	25,144	-
Total board members' remuneration	<u>32,047</u>	<u>-</u>
8 Depreciation, amortization and provision costs		
Plant and equipment	24,861	34,789
Intangible assets	2,602	1,711
Total depreciation	<u>27,463</u>	<u>36,500</u>
Administrative recharges amortized	384,737	308,495
Provision for doubtful debts	817,115	2,526,822
Total amortization costs and provisions	<u>1,201,852</u>	<u>2,835,317</u>
Total depreciation, amortization and provisions	<u>1,229,315</u>	<u>2,871,817</u>
9 Repairs and maintenance		
Equipment	1,318	2,457
Vehicles	2,254	1,171
General Office Repairs	2,184	268
Total repairs and maintenance	<u>5,755</u>	<u>3,895</u>
10 Contracted services		
Investment management fees	31,162	34,317
Custodial fees	18,936	15,078
Property valuations	20,315	686
Debt collection fees	29,553	37,143
Performance contracting costs	49,829	38,613
Total contracted services	<u>149,794</u>	<u>125,836</u>

	2015/2016 <u>000'</u>	2014/2015 <u>000'</u>
11 General expenses		
Audit fees	1,154	766
Corporate and public relations	48,330	36,732
Fees and levies	5,000	5,000
Investment procurement costs	5,835	7,466
Legal Expenses	4,304	5,216
Member Education & Recruitment Costs	80,496	78,686
Office running costs	50,729	44,192
Telecommunication	7,829	7,994
Employee development	44,272	35,686
Software Acquisition	5,990	2,294
Bank Charges	671	648
Total general expenses	<u>254,611</u>	<u>224,679</u>
12 Unrealized gain/(loss) on fair value of investments		
Property investments	672,577	-
Government bonds investments	(15,868)	25,398
Quoted shares investments	(761,310)	(116,529)
Net unrealized loss	<u>(104,601)</u>	<u>(91,131)</u>
13 Cash and cash equivalents		
Cash in Bank	143,366	80,120
Cash-on-hand and in transit	101	149
Total cash and cash equivalents	<u>143,468</u>	<u>80,269</u>
14 Receivables from exchange transactions		
Current receivables		
Contributions	466,507	347,495
Total current receivables	<u>466,507</u>	<u>347,495</u>
Non-current receivables		
Contributions due	11,419,075	9,484,501
Less: impairment allowance	(5,587,743)	(4,770,628)
Current portion transferred to current receivables	(466,507)	(347,495)
Total non-current receivables	<u>5,364,826</u>	<u>4,366,378</u>
Total receivables	<u>5,831,332</u>	<u>4,713,873</u>

	2015/2016 000'	2014/2015 000'
15 Receivables from non-exchange contracts		
Current receivables		
Administrative re-charges due	577,389	471,418
Less: impairment allowance	(115,478)	(94,178)
Total current receivables	461,911	377,240
Staff loans	48,873	
Other debtors	1,374	11,242
Total current receivables	512,159	388,482
Non-current receivables		
Administrative re-charges due	2,751,272	2,173,883
Less: impairment allowance	(1,801,229)	(1,416,492)
	950,043	757,391
Current portion transferred to current receivables	(461,911)	(377,240)
Total non-current receivables	488,131	380,151
Total non-current receivables	488,131	380,151
Total receivables	1,000,290	768,633

16 Motor Vehicles, Plant and Equipment

	Motor Vehicle 000'	Computer and Equipment 000	Furniture and Fittings 000'	Total 000'
Cost				
At 1 July 2014	26,172	99,796	109,574	235,543
Additions	-	8,028	6,438	14,466
Disposals	-	-	-	-
At 30 June 2015	26,172	107,824	116,012	250,009
Additions	-	13,647	18,020	31,667
Disposals	-	-	-	-
At 30 June 2016	26,172	121,471	134,033	281,676
Depreciation and impairment				
At 1 July 2014	18,577	87,651	89,028	195,256
Depreciation	6,076	10,640	18,073	34,789
Disposals	-	-	-	-
At 30 June 2015	24,653	98,291	107,100	230,045
Depreciation	1,519	10,007	13,335	24,861
Disposals	-	-	-	-
At 30 June 2016	26,172	108,298	120,435	254,906
Net book values				
At 30 June 2016	-	13,173	13,597	26,770
At 30 June 2015	1,519	9,533	8,912	19,964

17 Intangible assets - software

Cost

At 1 July 2014 20,360

Additions 5,203

At 30 June 2015 25,563

Additions -

At 30 June 2016 25,563

Amortization and impairment

At 1 July 2014 19,321

Amortization 1,711

At 30 June 2015 21,032

Amortization 2,602

At 30 June 2016 23,634

Net book values

At 30 June 2016 1,929

At 30 June 2015 4,531



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18 Investments

	Property	Government Bonds	Treasury Bills	Fixed deposits	Corporate and commercial paper	Quoted shares	Unquoted shares	Total
Fair value	000	000'	000'	000'	000'	000'	000'	000'
At 1 July 2014	5,260,217	4,580,295	1,338,707	1,472,474	710,517	2,843,959	11,720	16,217,889
Additions	334,640	2,567,030	964,431	8,715,719	482,952	969,234	-	14,034,007
Maturity/Disposals	-	(767,905)	(1,519,400)	(9,344,689)	(311,234)	(163,542)	-	(12,106,770)
Change in fair value	-	(116,529)	-	-	-	25,398	-	(91,131)
At 30 June 2015								
Total investments	5,594,857	6,262,892	783,738	843,503	882,236	3,675,048	11,720	18,053,995
Total current investments	-	878,109	783,738	843,503	67,226	-	-	2,572,576
Total non-current investments	5,594,857	5,384,784	(0)	(0)	815,009	3,675,048	11,720	15,481,418
Additions	512,163	1,464,834	1,507,501	9,080,192	9,752	688,240	-	13,262,682
Maturity/Disposals	-	(978,785)	(866,321)	(8,191,809)	(95,427)	(84,530)	-	(10,216,872)
Change in fair value	672,577	(15,868)	-	-	-	(761,346)	-	(104,637)
At 30 June 2016								
Total investments	6,779,597	6,733,074	1,424,918	1,731,886	796,561	3,517,412	11,720	20,995,167
Total current investments	-	443,814	1,424,918	1,731,886	37,266	-	-	3,637,884
Total non-current investments	6,779,597	6,289,261	-	(0)	759,294	3,517,412	11,720	17,357,284

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Property investments includes an amount of Kshs 1,165,772,000 spend on development of Shopping Centre, Nursery School and 131 units Maisonetts (LAPFUND Gardens) in Mavoko Municipality Machakos County which are on sale. The amount is net of costs and Deposits for the partially paid for Houses

	2015/2016 000'	2014/2015 000'
19 Trade and other payables from exchange transactions		
Trade payables	61,927	22,440
Benefits payable	7,345	24,400
Other payables	3,574	54,778
Total trade and other payables	72,846	101,618


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XV. Progress on Follow up of Auditor Recommendations

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Time frame
1.1. Makasembobo Estate Kisumu	As reported in the previous years, the Fund did not collect rent during the 2014/2015 financial year from its property situated in Makasembobo Estate Kisumu because the National Housing Corporation (NHC) continued to collect rent without remitting the proceeds to LAPFUND. This was as a result of failure by the defunct Kisumu Municipal Council to service undetermined debt arising from construction of the houses in the estate by the National Housing Corporation. As in the previous year, rental income totalling Kshs 1,452,000.00 was due from the property during the 2014/2015 financial year but was not received by LAPFUND. The total accrued rent form the property which had been earned but not received since the transfer of the property by the defunct council to LAPFUND stood at Kshs 6,171,000 as at 30 th June 2015	LAPFUND has taken a two approach to resolve the matter: i. Instituted a recovery measure of the rental income loss and control of the estate through the legal system. The matter is currently in Court waiting determination. ii. Initiated a tripartite negotiation between National Housing Corporation, County Council of Kisumu and ourselves to resolve the dispute. The results of the negotiations are yet to be concretized.	Bernard Mbogoh Chief Manager - Finance and Investments	Not resolved	30 June 2016
1.2. Mariakani Estate Nairobi	Similarly, as reported in the Previous year, the Nairobi City County continued to collect rent during 2014/2015 financial year in respect of thirty blocks of eight flats in Mariakani Estate Nairobi which had been transferred to LAPFUND in April 2013 by the defunct Nairobi City Council under a debt swap agreement. Rental income for 2014/2015 totalling Kshs 28,800,000.00 was therefore not received by LAPFUND, thus resulting to total accrued rental income from the property of Kshs 64,800,000.00 as at 30 June 2015	The case that was pending in court, case No. 76 of 2015 Republic vs. County Government of Nairobi, Registrar of Titles, Local Authorities Provident Fund, Roba Duba & Others ex-parte Mariakani Welfare Association was settled in court and immediately thereafter, we made arrangement to start remitting the rental income to our bank account. From the month of October 2016, we have received Kshs 200,000 from the few who are remitting the monthly rentals to us. We are now in partnership with Nairobi City County Government pursuing measures to ensure all tenants are paying rents as it falls due.	Bernard Mbogoh Chief Manager - Finance and Investments	Resolved	30 June 2016


Chief Executive Officer
Date.....27/02/2017.....


Chairman of the Board
Date.....27/02/2017.....