


REPUBLIC OF KENYA



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THE AUDITOR-GENERAL

ON

POLICYHOLDERS COMPENSATION FUND

**FOR THE YEAR ENDED
30 JUNE, 2020**

THE NATIONAL TREASURY



1947-1948



POLICYHOLDERS COMPENSATION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
30TH JUNE 2020

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

POLICYHOLDERS COMPENSATION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2020

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1. KEY INFORMATION

(a) Background Information

Section 179 of the Insurance Act provides for the establishment of a Policyholders Compensation Fund to provide compensation to the claimants of insolvent insurers. Through Legal No. 105 of 2004, the Insurance (Policyholders Compensation Fund) Regulations, 2004 were gazetted on 24th September, 2004 establishing the Policyholders Compensation Fund. The Fund commenced its operations on 1st January, 2005.

(b) Principal Activities

The principal activities of the Fund as provided in Section 179 (2A) of the Insurance Act are to:

- i) provide compensation to the policyholders of an insurer placed under a manager appointed under section 67C (2) or whose license has been cancelled under the Act.;
- ii) monitor, in consultation with the Commissioner where necessary, the risk profile of any insurer;
- iii) advise the Minister on the national policy to be followed with regard to matters relating to compensation of policyholders and to implement all government policies relating thereto;
- iv) participate in the statutory management of an insurer placed under statutory management by the regulator;
- v) liquidate an insurer as may be ordered by a court;
- vi) Perform such other functions as may be conferred on it by this Act or by any other written law.

(c) Key Management

The Fund's key management vests with the Board of Trustees whose powers are given through Section 179 (2B) of the Insurance Act and its composition prescribed in Section 179 (4) of the Insurance Act.

The Board of Trustees delegate its functions to a Managing Trustee who carries out the daily operations of the Fund.

(d) Fiduciary Management

Fiduciary responsibility vests with the Managing Trustee who is prescribed in Section 179 (5A) of the Insurance Act.

The Retirement Benefits Authority (RBA) was appointed the Managing Trustee of the Fund with effect from 9th December, 2004 by the Minister for Finance, vide Kenya Gazette Notice No. 3357 dated 6th May, 2005.

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1. KEY INFORMATION (CONT'D)

The RBA has deployed staff to run PCF operations from a Secretariat that is led by the Representative of the Managing Trustee.

The key management personnel who held office during the financial year ended 30th June, 2020 and who had direct fiduciary responsibility were:

| # | Designation | Name |
|---|--|-------------------------|
| 1 | Representative of the Managing Trustee | Mr. Charles Machira |
| 2 | Head of Secretariat | Mr. John Keah |
| 3 | Internal Audit and Risk Management | Mrs. Elizabeth Waruingi |

(e) Fiduciary Oversight Arrangements

The Audit and Risk Management Committee, in their oversight role, provide the Board of Trustees assurance for the integrity of the financial operations of the Fund, the performance of the Funds internal and external audit functions and compliance of the Fund with legal and statutory requirements.

(f) Office

Policyholders Compensation Fund
Zep Re Place, 2nd Floor
02 Longonot Road, Upper-Hill
P.O. Box 24203 -00100 Nairobi

(g) Contacts

Telephone: (+254)020 4996236/7/8
Email: info@pcf.go.ke
Website: www.pcf.go.ke

(h) Bankers

Commercial Bank of Africa
Limited Standard/Wabera Streets
P.O. Box 30457-
00100 Nairobi

Co-operative Bank of Kenya
Limited Upper Hill
P.O. Box 48231-
00100 Nairobi

1. KEY INFORMATION (CONT'D)

KCB Bank Limited
Moi Avenue
P.O. Box 30081-00100
Nairobi

(i) Independent Auditors

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




(j) Principal Legal Advisor

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

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II. THE BOARD OF TRUSTEES

| | |
|--|--|
|  <p>Mr. Faisal Abbas Chairman</p> | <p>Mr. Abbas is an entrepreneur with over 30 years' experience in the logistics and energy sectors. He has also served as Chairperson of the Board at the Geothermal Development Corporation and Rural Electrification Authority and as a Director in the Boards of the Kenya Electricity Generating Company and Agricultural Development Corporation.</p> <p>He was first appointed Chairperson of Board of Trustees on 17th April, 2015 and subsequently reappointed on 19th July, 2018 for his second term.</p> |
|  <p>Ms. Alice Nzioka Trustee</p> | <p>Ms. Nzioka is the Manager, Technical Support Services at the Insurance Regulatory Authority and has over 22 years' experience in insurance industry.</p> <p>She was appointed as the trustee alternate to the Commissioner of Insurance and Chief Executive Officer of the Insurance Regulatory Authority on 22nd July, 2016.</p> |
|  <p>Mr. Duncan Ndirangu Trustee</p> | <p>Mr. Ndirangu is a Deputy Director in the Directorate of Budget, Fiscal and Economic Affairs. He has served in the civil service for the last 30 years in different positions and sectors especially in policy analysis, planning, budgeting and Monitoring and Evaluation.</p> <p>He was appointed as a Trustee Alternate to the Cabinet Secretary of the National Treasury and Planning on 26th November, 2018.</p> |

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ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2020**

| | |
|--|---|
|  <p>Mr. Reuben Ndegwa Trustee</p> | <p>Mr. Ndegwa is an entrepreneur and businessman with over 21 years' experience in the freight and logistics sector. He is the Managing Director of Tabaki Freight Services Limited.</p> <p>He was appointed as an independent trustee representing Special Interests on 20th September, 2018.</p> |
|  <p>Mr. Charles Machira Representative of the Managing Trustee & Secretary to the Board</p> | <p>Mr. Machira has over 21 years' experience in the Insurance and Pension sectors.</p> <p>He was appointed as the Representative of the Managing Trustee and Secretary to the Board on 15th November, 2010.</p> |
|  <p>Mr. Stephen Mbatia Representative of the Inspector - General (Corporations)</p> | <p>Mr. Mbatia is a Principal Inspector in the Inspectorate of State Corporations.</p> <p>He was assigned to be the representative of the Inspector - General (Corporations) in the Board of the Policyholders Compensation Fund on 28th, January, 2019.</p> |

III. MANAGEMENT TEAM

| | |
|---|--|
|  <p>Mr. Charles M. Machira MSc, BSc</p> | <p>Representative of the Managing Trustee and Secretary to the Board</p> |
|  <p>Mr. John S. Keah MBA, BSc</p> | <p>Head of Secretariat</p> |
|  <p>Mrs. Elizabeth Waruingi MBA, BA, CPA, CIA, CISA, CRMA</p> | <p>Head, Internal Audit and Risk Management</p> |

POLICYHOLDERS COMPENSATION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2020

IV. CHAIRMAN'S STATEMENT

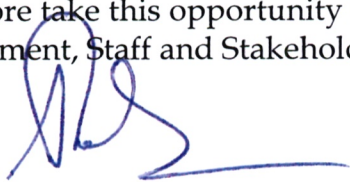
It is my pleasure to present the Annual Report and Financial Statements of the Policyholders Compensation Fund for the year ended 30th June 2020.

During the financial year under review, the Fund witnessed a growth of its asset base by 17% to Kshs. 12.4 billion. This growth placed the Fund in a good position to fulfil its mandates particularly that of payment of compensation to insurance claimants of an insurer placed under a manager appointed under section 67C (2) or whose licence has been cancelled under the Insurance Act. This is in line with Article 46 of the Constitution of Kenya, 2010 which gives consumers the right to protection of their economic interests and to compensation for loss. To ensure the Fund remains focused on upholding these rights for every insurance consumer in Kenya, the key result areas of the Fund's Strategic Plan remain modelled towards the development of a comprehensive and inclusive compensation framework, prudent financial management for sustainability and development of institutional capacity to improve service delivery. Through the execution of its mandates, the Fund continues to contribute to the development of the Kenyan insurance and financial sectors, and the economy as a whole.

During the year under review, the Fund embarked on several initiatives aimed at improving its service delivery. Firstly, through the Insurance Amendment Act, 2019, the Fund reviewed forward the trigger of compensation to when an insurer placed under a manager appointed under section 67C (2) or whose license has been cancelled under the Insurance Act. This will ensure that compensation is timelier. To this end, a Taskforce was established to review the compensation framework and propose changes that will facilitate the efficient management of the compensation process. Secondly, the Insurance Amendment Act, 2019 also revised the composition of the Board of Trustees to enhance its independence and improve on its governance structure. Further to this, the Fund undertook the recruitment of a substantive Managing Trustee. Lastly, the Fund commenced Performance Contracting through which it will deliver its services in a measured and aligned manner.

The implementation of the above initiatives is testimony to our continued commitment to serving the Kenyan public.

I therefore take this opportunity to appreciate the continued support of my fellow Trustees, Management, Staff and Stakeholders for their commitment towards the Fund's mandate.



FAISAL ABASS
CHAIRMAN, BOARD OF TRUSTEES

POLICYHOLDERS COMPENSATION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2020

V. STATEMENT OF THE MANAGING TRUSTEE

Background

The Managing Trustee of the Policyholders Compensation Fund is the Retirement Benefits Authority (RBA) which was appointed with effect from 9th December, 2004 vide Kenya Gazette Notice No. 3357 dated 6th May, 2005. A Representative of the Managing Trustee was duly appointed to oversee the Fund's operations.

Introduction

Since the commencement of its operations, the Fund has witnessed a steady growth. This trend was maintained during the year under review and this report highlights some of the notable aspects of growth as follows:

a) Mandate

The scope of the Fund's mandate remains the protection of insurance consumers through the payment of compensation to the claimants of an insurer placed under a manager appointed under section 67C (2) or whose license has been cancelled under the Act, participation in statutory management, undertaking the liquidation of a wound up insurer and facilitating the formulation of related policy.

During the year under review, the Funds efforts in reviewing the compensation settlement framework yielded fruit with the enactment of the Insurance Amendment Act, 2019 which contained amendments aimed at fast-tracking compensation. Consequently, a Compensation Taskforce was constituted to undertake a comprehensive review of the compensation framework, policies and process. The outcome of the taskforce will facilitate the commencement of compensation payouts.

The Fund maintained its status as the Statutory Manager of Blue Shield Insurance and United Insurance. The resolution processes of each of the insurers is at an advanced stage with Winding up Applications for the two insurers still undergoing Court consideration. Concord Insurance Limited was handed over to the Official Receiver after its Winding Up application was heard and determined.

b) Board & Management

The Fund is administered by the Board of Trustees which has delegated the daily operations to the Managing Trustee which in turn deployed five staff to the Secretariat of the Fund.

STATEMENT OF THE MANAGING TRUSTEE (CONT'D)

During the year under review, the composition of the Board of Trustees was amended vide the Insurance Amendment Act, 2019 with the introduction of the Attorney-General or an appointed representative, and the Managing Trustee as an *ex officio* members. Further, the representation of insurers was reduced to one person nominated by the body representing the interests of insurers.

With respect to management, the RBA retained its role as the Managing Trustee in the period under review. However, the Board of Trustees undertook the recruitment of a substantive Managing Trustee following its receipt of an approval for the same from the National Treasury and Planning. As at 30th June, 2020, the process had been concluded and a report forwarded to the appointing authority for consideration.

c) Levy collection & Penalties

The Fund's primary mandate is the payment of compensation. The funds for this purpose are collected from a statutory levy that is calculated at 0.5% of the insurance premiums paid to an insurer. In addition, the Fund also collects penalties charged either by itself or the Insurance Regulatory Authority (IRA) on insurers defaulting on specific sections of the Insurance Act.

During the year under review, the levy collections grew by 5% to KShs 827 million.

d) Investments

The Fund invests its surplus assets solely in Government securities in accordance with guidelines issued by the National Treasury and Planning. During the year under review, the Fund generated an investment return of KShs. 1,028,834,955 by investing its reserves in Treasury Bills. This represents a 6.7% growth from the previous year amount of KShs. 964,454,932 primarily due to the growth of the reserves available for investment.

e) Administration Expenses

During the year, the Fund's administrative expenses increased by 45% to KShs. 42,714,323 compared to KShs. 29,434,914 during the previous year due to increased activities with respect to operations, consultancies and capacity building.

POLICYHOLDERS COMPENSATION FUND

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STATEMENT OF THE MANAGING TRUSTEE (CONT'D)

f) Net Asset Value

The upshot of the increased revenues and maintained expenditure is a notable 5% growth in the net asset value of the Fund translating to KShs. 1,825,743,420. This in turn grew the Fund reserves to KShs. 12,491,502,159 in the year under review from KShs. 10,665,758,740 in the previous year. The Fund is keen on maintaining this growth performance in order ensure financial sustainability that is key to enabling it fulfil its mandate of paying claimants effectively.

g) Strategic Partnerships

Fostering strategic partnerships is key in ensuring the Fund has the necessary support to enable it undertake its mandate. In this regard, the Fund maintained partnerships with the Insurance Regulatory Authority (IRA) and the International Forum for Insurance Guarantee Schemes (IFIGS).

Conclusion

The Fund will continue to undertake its mandate diligently to ensure that insurance claimants will be adequately protected thereby contributing to the industry development through promotion of confidence.



CHARLES MACHIRA

REPRESENTATIVE OF MANAGING TRUSTEE

VI. CORPORATE GOVERNANCE STATEMENT

The Policyholders Compensation Fund is a State Corporation established in 2004 under section 179 of the Insurance Act.

Board Composition

The management of the Fund vests in the Board of Trustees, which, following the enactment of the Insurance Amendment Act, 2019 is constituted as follows:

1. a Chairman, appointed by the Cabinet Secretary;
2. the Commissioner of Insurance or a representative appointed in writing;
3. the Cabinet Secretary responsible for matters relating to finance or a representative appointed in writing;
4. the Attorney-General or a representative appointed in writing;
5. one person nominated by the body representing the interests of insurers;
6. one person nominated by insurance brokers;
7. one person representing the general public appointed by the Cabinet Secretary; and
8. the Managing Trustee as an ex officio member without a right to vote.

During the period under review, the composition of the Board was as follows:

| Name | Membership | Representation |
|---------------------|-------------------|---|
| Mr. Faisal Abass | Chairman | Independent (appointed on 19 th July, 2018) |
| Ms. Alice Nzioka | Trustee | Alternate to Commissioner of Insurance |
| Mr. Reuben Ndegwa | Trustee | Representative of special interests (appointed 28 th September, 2018) |
| Mr. Duncan Ndirangu | Trustee | Alternate to the Cabinet Secretary - The National Treasury & Planning (appointed on 28 th January, 2019) |

As at 30th June, 2020, the following seats remained vacant:

- a) The Attorney-General or a representative appointed in writing;
- b) Representative the interests of insurers;
- c) Representative of Insurance brokers;

Members of the board other than statutory members hold office for a period of three years and are eligible for re-appointment for a further one term.

Trustees are required to disclose any conflict of interest in relation to matters that are brought before them for deliberation as stipulated in the Board Charter.

CORPORATE GOVERNANCE STATEMENT (CON'D)

Board Committees

The Board has delegated its authority to standing committees to enable it effectively carry out its mandate. These Committees are described below and each has its own Terms of reference setting forth the purposes, goals and responsibilities as well as qualifications for membership and operational procedures.

The committees meet at least four times in a year or at such times the Chairman of the committee shall require. Due to the Board Composition, the Committees had only twenty five (25) meetings in the financial year 2019/2020 as follows:

i) Finance and Management Committee

The terms of reference of the committee are to review and make recommendations to the Board on financials, operations, budget and the annual accounts.

In the year under review the members of the committee were;

1. Duncan Ndirangu - Chairman
2. Alice Nzioka
3. Reuben Ndegwa

The committee held eight (8) meetings.

ii) Technical and Public Policy Committee

The Technical and Public Policy committee responsibility is to review the technical and policy related aspects of the Fund to ensure it operates within statutory and best practice requirements.

The membership to this committee was as follows:

1. Alice Nzioka - Chairman
2. Duncan Ndirangu
3. Reuben Ndegwa

The committee held four (4) meetings.

CORPORATE GOVERNANCE STATEMENT (CON'D)

iii) Audit and Risk Management Committee

The role of the committee is oversight of integrity of the financial statements of the Fund, performance of internal and external auditors and compliance with legal and regulatory requirements.

Members of the committee were:

1. Reuben Ndegwa - Chairman
2. Alice Nzioka
3. Duncan Ndirangu

The committee held one (1) meeting.

iv) Ad Hoc Committee

Following receipt of an approval from the National Treasury and Planning for the recruitment of a Managing Trustee, the Board of Trustees constituted an Ad Hoc Committee to undertake the recruitment exercise.

Members of the committee were:

1. Alice Nzioka - Chairman
2. Reuben Ndegwa
3. Charles Machira
4. Gordon Bulinda (Human Resource expert) - Co-opted
5. Robert Kuloba (Insurance expert) - Co-opted

The Committee held seven (7) meetings

Board Attendance

During the financial year 2019/2020, the Board of Trustees held 11 (eleven) meetings while the Committees of the Board held a total of 20 (twenty) meetings. Attendance by individual members for the period is tabulated below:

| Trustee | Board meetings | | Committee Meetings | |
|-----------------|----------------|----------|--------------------|----------|
| | Held | Attended | Eligible | Attended |
| Faisal Abass | 11 | 11 | N/A | N/A |
| Reuben Ndegwa | 11 | 11 | 20 | 20 |
| Alice Nzioka | 11 | 11 | 20 | 20 |
| Duncan Ndirangu | 11 | 11 | 13 | 13 |
| Charles Machira | - | - | 7 | 7 |
| Gordon Bulinda | - | - | 7 | 7 |
| Robert Kuloba | - | - | 7 | 7 |

POLICYHOLDERS COMPENSATION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2020

CORPORATE GOVERNANCE STATEMENT (CON'D)

Statement of Compliance

The Fund's operations are legally guided by The Constitution of Kenya, 2010, the provisions of the Insurance Act Chapter 487 of the Laws of Kenya, the State Corporation Act, Chapter 446 of the Laws of Kenya and by the principles of good corporate governance.

The Fund continues to comply with all statutory requirements relevant to its operations as a body corporate and complies with relevant Government circulars issued from time to time.

Board Oversight

The Board is responsible for the formulation, implementation and monitoring of the Fund's Strategic Plan therefore providing appropriate strategic direction for the Fund. In addition, the Board defines the Vision, Mission and Core Values that enable the realization of the set Strategic Plan.

The day to day operations of the Fund have been delegated to the Management which is headed by the Managing Trustee through its representative. Periodically, the Board monitors and evaluates the implementation of its plans and strategies through reports received from Management through its Committees.

Board Remuneration

The Board is remunerated in accordance to the approved terms and conditions of service prescribed under Government Circular Number OP/CAB.2/12A (9) of 29th August 2003.

Secretary to the Board

The Secretary to the Board co-ordinates the Boards activities and ensures, in conjunction with the Chairman, that the Board meetings are held procedurally. In addition, the Secretary links the flow of information between the Board and management as well as ensuring the Board receives adequate and timely information.

All Trustees have direct access to the Secretary who is also responsible for implementing and monitoring good corporate governance practices, ensuring that Board business meets all statutory requirements, keeps all legal and regulatory requirements under review and briefs the Board accordingly about these developments.

POLICYHOLDERS COMPENSATION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2020

VII. MANAGEMENT DISCUSSION AND ANALYSIS

Fund Overview

The Policyholders Compensation Fund is a State corporation established under Section 179 of the Insurance Act and commenced its operations on 1st January, 2005.

The Fund's overall mandate is to protect insurance consumers through the provision of compensation to claimants of insurer placed under a manager appointed under section 67C (2) or whose license has been cancelled under the Act, participate in statutory management of insurers placed under statutory management by the regulator and undertake liquidation as appointed by the Court.

Governance

The provisions of the Insurance Amendment Act, 2019 which amended the composition of the Board of Trustees by reducing the stakeholder representatives and incorporating the Attorney-General as the legal advisor and the Managing Trustee has improved its independence and professionalism. In addition, the completion of the Managing Trustee recruitment exercise and the resulting appointment will herald a new management approach at the Fund aimed at ensuring the Fund achieves its mandates.

Operational and Financial Reviews

The Fund's operations during the year under review were restricted to essential services due to limited institutional capacity at both the board and staff levels and operational disruptions due to the pandemic. Consequently, the Fund was unable to roll out all of its intended programs including the payment of compensation.

The financial performance of the fund however improved with respect to revenues which grew by 10% to Kshs 1.8 billion. Notably, investments contributed to 55% of the revenues highlighting the growing reserves of the fund.

With respect to the above, the Fund assets grew by 17% to KShs 12.4 billion. This accounts for 21% of all the KShs 56.9 billion claims incurred in 2018 as reported in the Industry Statistics Report compiled by the IRA. It is therefore important that the Fund ensures it maintains an adequate asset to claims ratio to assure adequate compensation cover.

Compensation

The Fund planned to commence the payment of compensation during the year subject to the passing of the Insurance Amendment Bill, 2019 which contained a proposal to bring forward the trigger of compensation to when an insurer is placed under a manager appointed under section 67C (2) or whose license has been cancelled under the Act. To this end, the Fund had an approved budgetary provision of KShs 1 billion. Following the enactment of the Insurance Amendment Act in January, 2020, the Fund constituted a Compensation Taskforce to review and

VII. MANAGEMENT DISCUSSION AND ANALYSIS

align its compensation framework to the new law.

Statutory Management

The Fund is currently the appointed Statutory Manager of two insurance companies namely Blue Shield Insurance and United Insurance. It is important that the process of statutory management is efficient and effective and results in an objective resolution. Informed by the Fund's recommendations, Winding Up applications for the two insurers were filed and are currently being heard at the High Court.

Liquidation

Following the filing of a Winding up Application for Concord Insurance Company, the case was determined and the Official Receiver appointed the Provisional Liquidator of the Insurer. Consequently, the qualifying claimants of the insurer will be paid compensation.

POLICYHOLDERS COMPENSATION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2020

VIII. CORPORATE SOCIAL RESPONSIBLY STATEMENT

The Fund, owing to its mandate and nature of operations, collaborates with other State Corporations in undertaking Corporate Social Responsibility (CSR) activities.

However, during the year under review, the fund did not participate in any CSR activities.

POLICYHOLDERS COMPENSATION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2020

VIII. REPORT OF THE BOARD OF TRUSTEES

The Trustees submit their report together with Financial Statements of the Policyholders Compensation Fund for the period ending 30th June 2020.

ESTABLISHMENT

The Policyholders Compensation Fund is a State corporation established under Section 179 of the Insurance Act and commenced its operations on 1st January, 2005.

PRINCIPAL ACTIVITIES

The principal activities of the Fund are to protect the policyholders of an insurer placed under a manager appointed under section 67C (2) or whose license has been cancelled under the Act through provision of compensation for unpaid claims, participation in statutory management and liquidation of a wound up insurer.

RESULTS

The results for the year ended 30th June, 2020 are set out on page 22 of this report

BOARD OF TRUSTEES

The Trustees who served during the current year are as follows:

| | | |
|---------------------|------------|--|
| Mr. Faisal Abass | Chairman - | (appointed 19/07/2018) |
| Ms. Alice Nzioka | Trustee - | Alternate to Commissioner of Insurance |
| Mr. Reuben Ndegwa | Trustee - | Representative of special interests (appointed 28/09/2018) |
| Mr. Duncan Ndirangu | Trustee - | Alternate to the Cabinet Secretary - National Treasury (appointed 28/01/ 2019) |

AUDITORS

The Auditor General is responsible for the statutory audit of the Policyholders Compensation Fund in accordance with Section 35 of the Public Audit Act 2015 (Cap.134)

By Order of the Board



Charles Machira

Representative of the Managing Trustee and Secretary to the Board

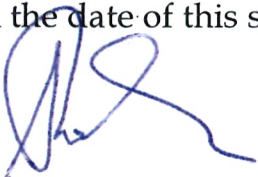
POLICYHOLDERS COMPENSATION FUND

IX. STATEMENT OF THE BOARD OF TRUSTEES RESPONSIBILITIES

The Public Financial Management Act section 68 requires the Fund to prepare financial statements for each financial year. Financial statements include a statement of financial position showing in detail the assets and liabilities of the Fund, a statement of financial performance, a statement of cash flows and any other statements and accounts that may be necessary to fully disclose the financial position of the Fund. The State Corporations Act (Cap 446) requires the Fund to keep or cause to be kept proper books recording all the property, undertakings, funds, activities, contracts, transactions and other business of the Fund. Under the State Corporations Act, the Board of Trustees is responsible for the proper management of the affairs of a state corporation.

The Board of Trustees accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with generally accepted accounting principles and in the manner required by the State Corporations Act. The Trustees are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Fund and of its operating results. The Board of Trustees further accepts responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal control.

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



Chairman



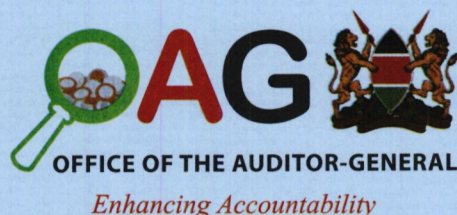
Trustee

Trustee

Date 29/09/2020

REPUBLIC OF KENYA

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



HEADQUARTERS
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P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON POLICYHOLDERS COMPENSATION FUND FOR THE YEAR ENDED 30 JUNE, 2020 – THE NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Policyholders Compensation Fund set out on pages 22 to 39, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Policyholders Compensation Fund as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Insurance Act of the Laws of Kenya and the Public Finance Management Act, 2012.

Basis for Opinion

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

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Insurance Act, of the Laws of Kenya, I report based on my audit, that:

- i) 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;
- ii) In my opinion, adequate accounting records have been kept by the Policyholders Compensation Fund, so far as appears from the examination of those records; and,
- iii) The Policyholders Compensation Fund financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and the Board of Trustees

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standard (Accrual Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain service, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in

an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable 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 Fund'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 Fund 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 Fund 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

09 November, 2021

POLICYHOLDERS COMPENSATION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH
JUNE 2020

XI. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020

| | | 2020 | 2019 |
|---|-------|----------------------|----------------------|
| | Notes | KSHS | KSHS. |
| Revenue from non-exchange transactions | | | |
| Contribution levy | 3 | 827,892,113 | 788,267,691 |
| Penalties | 4 | <u>2,230,674</u> | <u>1,398,285</u> |
| | | <u>830,122,787</u> | <u>789,665,976</u> |
| Revenue from exchange transactions | | | |
| Investment income | 5 | 1,028,834,955 | 964,454,932 |
| Other Income | 6 | <u>9,500,000</u> | <u>11,500,000</u> |
| | | <u>1,038,334,955</u> | <u>975,954,932</u> |
| Total Revenue | | <u>1,868,457,743</u> | <u>1,765,620,908</u> |
| EXPENDITURE | | | |
| Board expenses | 7 | 16,173,264 | 9,777,148 |
| Employee cost | 8 | 16,714,993 | 14,508,177 |
| General expenses | 9 | 6,459,029 | 4,542,840 |
| Repairs & Maintenance | 10 | 124,391 | 88,032 |
| Contracted services | 11 | 2,780,500 | 400,000, |
| Finance cost | 12 | 71,994 | 69,644 |
| Depreciation | 13 | 390,152 | 49,073 |
| Total expenses | | <u>42,714,323</u> | <u>29,434,914</u> |
| SURPLUS FOR THE PERIOD | | <u>1,825,743,420</u> | <u>1,736,185,994</u> |

The notes on page 27 to 39 form an integral part of these financial statements.

POLICYHOLDERS COMPENSATION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2020

XII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

| | | 2020 | 2019 |
|--|-------|------------------------------|------------------------------|
| | Notes | KSHS | KSHS |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Receivable from non-exchange transaction | 14 | 58,350,551 | 48,821,891 |
| Receivable from exchange transactions | | - | - |
| Investments | 15 | 12,319,552,531 | 10,594,204,111 |
| Cash and cash equivalents | 16 | <u>114,817,585</u> | <u>22,406,795</u> |
| | | <u>12,492,720,667</u> | <u>10,665,432,797</u> |
| NON CURRENT ASSETS | | | |
| Property, plant and equipment | 17 | 5,948,011 | 1,092,313 |
| TOTAL ASSETS | | <u>12,498,668,678</u> | <u>10,666,525,110</u> |
| CURRENT LIABILITIES | | | |
| Payables from exchange transactions | 18 | 6,766,519 | 366,370 |
| Provisions | 19 | <u>400,000</u> | <u>400,000</u> |
| | | <u>7,166,519</u> | <u>766,370</u> |
| NET ASSETS | | <u>12,491,502,159</u> | <u>10,665,758,740</u> |
| RESERVES | | | |
| Government Grant | 21 | 35,000,000 | 35,000,000 |
| Accumulated surplus | 22 | <u>12,456,502,159</u> | <u>10,630,758,740</u> |
| | | <u>12,491,502,159</u> | <u>10,665,758,740</u> |

The Financial statements on pages 22 to 39 were signed on behalf of the Board of Trustee by:

Chairman

Representative of Managing Trustee

Trustee

POLICYHOLDERS COMPENSATION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE
2020

XIII. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2020

| FUND RESERVE | KSHS |
|-------------------------------------|------------------------------|
| 1 July, 2018 | 8,929,381,810 |
| Changes in reserves for 2019 | |
| Surplus for the year | <u>1,736,376,930</u> |
| Balance at 30 June, 2019 | <u><u>10,665,758,740</u></u> |
| 1 July, 2019 | 10,665,758,740 |
| Changes in reserves for 2020 | |
| Surplus for the year | <u>1,825,743,420</u> |
| Balance at 30 June, 2020 | <u><u>12,491,502,159</u></u> |

Notes:

- The purpose of the reserves is for the payment of compensation to the claimants of insolvent and liquidated insurance companies.

POLICYHOLDERS COMPENSATION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2020

**XIV. STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30 JUNE 2020**

| | Notes | 2020 KSHS | 2019 KSHS |
|---|-------|---------------------------|--------------------------|
| Cash flow from operating activities | | | |
| Surplus for the year | | 1,825,743,420 | 1,736,485,994 |
| Adjustments for: | | | |
| Depreciation on property, plant & equipment | 17 | 390,152 | 49,073 |
| Interest income | | <u>(1,028,834,955)</u> | <u>(964,454,932)</u> |
| Surplus before working capital changes | | 797,298,616 | 772,080,135 |
| | | | |
| Increase in Levy receivable | 14 | (9,528,660) | (1,058,443) |
| (Decrease)/ Increase in payables | 18,19 | <u>6,400,149</u> | <u>253,714</u> |
| Net Cash from Operating Activities | | (3,128,511) | 717,275,406 |
| | | | |
| Cash flow from investing activities | | | |
| Purchase of property, plant and equipment | 17 | (5,247,269) | (1,080,153) |
| Increase in investments | | (1,725,347,002) | (2,992,945,135) |
| Investment income | | <u>1,028,834,955</u> | <u>964,454,953</u> |
| Net cash used in investing Activities | | <u>(701,759,316)</u> | <u>(2,029,570,356)</u> |
| Net increase in cash & cash equivalents | | 92,410,790 | (1,258,294,950) |
| Cash & cash equivalent at the beginning | | 22,406,795 | 1,280,701,745 |
| Cash & cash equivalent at the end | | <u>114,817,585</u> | <u>22,406,795</u> |

POLICYHOLDERS COMPENSATION FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE
2020

XV. STATEMENT OF COMPARISON OF ACTUAL AND BUDGET AMOUNTS

| | 2020 | 2020 | |
|------------------------------|----------------------|----------------------|----------------------|
| | KSHS | KSHS | KSHS |
| | BUDGET | ACTUAL | VARIANCE |
| INCOME | | | |
| Contribution levy | 891,837,000 | 827,892,113 | 63,944,887 |
| Interest Income | 880,000,000 | 1,028,834,955 | (148,834,955) |
| Penalties | - | 2,230,674 | (2,230,674) |
| Other Income | - | 9,500,000 | (9,500,000) |
| | 1,771,837,000 | 1,868,457,743 | (96,620,743) |
| OPERATING EXPENDITURE | | | |
| Board expenses | 20,946,000 | 16,173,264 | 4,772,736 |
| Managing Trustee | 19,067,000 | 16,083,200 | 2,983,800 |
| Compensation | 1,000,000,000 | - | 1,000,000,000 |
| Statutory management | 13,200,000 | - | 13,200,000 |
| Insurance expenses | 1,000,000 | 8,164 | 991,836 |
| Repairs & maintenance | 500,000 | 124,391 | 375,609 |
| Hospitality | 1,336,000 | 1,017,151 | 318,849 |
| Travel and accommodation | 9,920,000 | 4,342,671 | 5,577,329 |
| Printing & stationery | 1,191,000 | 118,282 | 1,072,718 |
| Public Education & Publicity | 1,900,000 | 491,569 | 1,408,431 |
| Training & Development | 4,200,000 | 631,793 | 3,568,207 |
| Library expenses | 195,000 | 61,480 | 133,520 |
| Post & telephone | 2,247,000 | 200,650 | 2,046,350 |
| Professional charges | 6,400,000 | 2,780,500 | 3,619,500 |
| Information technology | 775,000 | 219,062 | 555,938 |
| Bank Charges | 180,000 | 71,994, | 108,006 |
| Depreciation | - | 390,152 | (390,152) |
| TOTAL EXPENDITURE | 1,083,057,000 | 42,714,323 | 1,040,342,677 |
| SURPLUS FOR THE YEAR | | 1,825,743,420 | |

The material variances are explained in Note 20.

XVI. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2020

1. Statement of compliance and basis of preparation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Income recognition

i) Revenue from non-exchange transactions

Contribution Levy and Penalties

The Fund recognizes revenues from levies and penalties when the event occurs and the asset recognition criteria are met. 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 Fund and the fair value of the asset can be measured reliably.

ii) Revenue from exchange transactions

Interest income

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE, 2020 (CONT'D)

(b) Budget information

The annual budget is prepared on accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Fund.

As a result of the adoption of the accrual basis for budgeting purposes, there is no basis that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

(c) Property, plant, equipment and depreciation

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

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

The Depreciation rates used are as follows:

| | |
|------------------------------|-------|
| Computers | 33.3% |
| Office Furniture & Equipment | 12.5% |
| Motor Vehicle | 25% |

(d) Related parties

The Fund regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Fund, or vice versa. Those regarded as related parties include:

- The Board of Trustees, in exercise of the powers given to them through Section 179 (2B) of the Insurance Act;
- Management and staff in exercise of their fiduciary duties;

NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE, 2020 (CONT'D)

- The Retirement Benefits Authority as the appointed Managing Trustee;
- The Commissioner of Insurance as the Appointing Authority of Statutory Managers;
- The Insurance Regulatory Authority as the Industry Regulator and host to the Fund's Secretariat;

(e) Financial instruments

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

Financial Assets

Receivables

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

Government securities

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

Short term deposits

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

Financial liabilities

Trade payables

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE, 2020 (CONT'D)

(f) Inventories

The Fund procures stationery and other inventories as and when need arises and are expensed in the period it relates.

(g) Provisions

Provisions are recognized when the Fund 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.

(h) Nature and Fund reserve

A Fund reserve is maintained to be used to compensate policyholders of insurance companies that may be liquidated.

(i) Cash and cash equivalents.

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

(j) Comparatives

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

(k) Sundry Creditors

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

(l) Currency

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

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE, 2020 (CONT'D)**

(m) 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, 2020.

3. CONTRIBUTION LEVY

Section 179 (6) of the Insurance Act requires Insurers to pay a monthly contribution to the Fund in such amount and time as may be prescribed by the Cabinet Secretary in consultation with the Board. The rate is currently set at 0.5%.

| | 2020 | 2019 |
|--------------------------|--------------------|--------------------|
| | Kshs | Kshs |
| Contribution Levy | <u>827,892,113</u> | <u>788,267,691</u> |

The increase in levy collected is attributed to insurance business increase in premium volumes.

4. PENALTIES

The Insurance Act empowers the Insurance Regulatory Authority (IRA) and the Policyholders Compensation Fund (PCF) to charge penalties for non-compliance of various sections of the Act. These penalties are to be paid into the Policyholders Compensation Fund. During the year under review, penalties were charged and collected as follows:

| | 2020 | 2019 |
|------------------|------------------|------------------|
| | KShs | KShs |
| Penalties | <u>2,230,674</u> | <u>1,398,285</u> |

The increase in the penalty amount is attributed to increased enforcement actions by both the IRA and the PCF.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE, 2020 (CONT'D)**

5. INVESTMENT INCOME

The investment income was generated by interest earned on Treasury Bills and on current accounts held in the Fund's commercial bank.

| | 2020 | 2019 |
|------------------------------|-----------------------------|---------------------------|
| | KShs | KShs |
| Interest from Treasury Bills | 1,024,768,953 | 960,763,305 |
| Current accounts interest | <u>4,066,002</u> | <u>3,691,627</u> |
| | <u>1,028,834,955</u> | <u>964,454,932</u> |

The increase is attributed to the volumes transacted during the period.

6. OTHER INCOME

This is income the Fund earned as management fees for Statutory Management services for the three insurers placed under statutory management by the Commissioner of Insurance. The three companies are Blue Shield Insurance Company, Concord Insurance Company and United Insurance Company.

| | 2020 | 2019 |
|--------------|------------------|-------------------|
| | KShs | KShs. |
| Other Income | <u>9,500,000</u> | <u>11,500,000</u> |

The reduction of the amount is because no arrears accrued in the year under review.

7. BOARD EXPENSES

These are expenses incurred in the execution of Board of Trustees related activities.

| | 2020 | 2019 |
|--------------------------------------|--------------------------|-------------------------|
| | Kshs | Kshs |
| Honoraria | 960,000 | 960,000 |
| Sitting allowances | 3,160,000 | 1,020,000 |
| Lunch allowances and snacks | 330,500 | 103,560 |
| Capacity Building, Insurance, Travel | <u>11,722,764</u> | <u>7,693,588</u> |
| | <u>16,173,264</u> | <u>9,777,148</u> |

The differences are due to the following:

NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE, 2020 (CONT'D)

- **Sitting allowances** - The increase is due to increased Board meetings
- **Capacity Building, Insurance & Travel** - The increase was because of higher capacity building and travel related costs arising from increased Board activities.

8. EMPLOYEE COSTS

These are incurred with respect to staff costs.

| | 2020 | 2019 |
|------------------------------------|--------------------------|--------------------------|
| | KShs | KShs |
| Representative of Managing Trustee | 600,000 | 600,000 |
| Secretariat | 15,483,200 | 12,800,400 |
| Training | <u>631,793</u> | <u>1,107,777</u> |
| | <u>16,714,993</u> | <u>14,508,177</u> |

The differences are to the following:

- **Secretariat** - Gratuity was paid to contractual staff in the period.
- **Training** - The training calendar was not fully implemented due to operational disruptions arising from the Covid - 19 pandemic.

9. GENERAL EXPENSES

| | 2020 | 2019 |
|--------------------------------|-------------------------|-------------------------|
| | KShs | KShs |
| Travel and accommodation | 4,342,671 | 3,377,409 |
| Information technology | 219,062 | 169,838 |
| Hospitality | 1,017,151 | 304,719 |
| Printing and stationery | 118,282 | 333,880 |
| Library | 61,480 | 59,320 |
| Postage and telephone | 200,650 | 293,076 |
| Public education and publicity | 491,569 | 4,600 |
| Insurance | <u>8,164</u> | |
| | <u>6,459,029</u> | <u>4,642,842</u> |

The differences were due to:

- **Travel & Accommodation** - Increased in 2019 due to additional activities related to Capacity Building, Performance Contracting.
- **Hospitality** - Increased in 2020 due to more additional activities related to the Board of Trustees and recruitment of the Managing Trustee
- **Public Education & Publicity** - Increase in 2020 due to the need to advertise for the position of the Managing Trustee role and Performance Contracting obligations.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE, 2020**

9. REPAIRS & MAINTANANCE

These are costs incurred to maintain or repair office equipment

| | 2020 | 2019 |
|------------------------|----------------|---------------|
| | KShs | KShs |
| General office repairs | <u>124,391</u> | <u>88,032</u> |

11. CONTRACTED SERVICES

This cost relates to the outsourced services engaged during the period under review. The cost increased due to the engagement of consultants to undertake the recruitment and strategic planning processes.

| | 2020 | 2019 |
|---------------------|------------------|---------------|
| | KShs | KShs |
| Contracted services | <u>2,774,420</u> | <u>400,00</u> |

12. FINANCE COST

This relates to transactional costs incurred while utilizing banking services.

| | 2020 | 2019 |
|--------------|---------------|---------------|
| | KShs | KShs |
| Bank charges | <u>71,994</u> | <u>69,644</u> |

13. DEPRECIATION

This amount relates to the depreciation charged to the Fixed Assets of the Fund

| | 2020 | 2019 |
|---------------------|----------------|---------------|
| | KShs | KShs |
| Fixed assets charge | <u>390,152</u> | <u>49,073</u> |

The increase is due to the procurement of office equipment including Laptops and Tablets.

14. RECEIVABLES FROM NON EXCHANGE TRANSACTIONS

The law requires that all contribution levy is paid within one month after the period to which it relates ends. The contribution levy for June is therefore receipted in July.

| | 2020 | 2019 |
|---|-------------------|-------------------|
| | KShs | KShs |
| Outstanding Contribution levy for June 2020 | <u>58,350,551</u> | <u>48,821,891</u> |

NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE, 2020

15. INVESTMENTS

The Fund invests its surplus assets in Government Securities. During the year under review, all the investments were placed in Treasury Bills that yielded an average interest rate of 16% as at 30th June, 2020. Treasury bills are stated at cost plus accrued interest.

| | 2020 KShs | 2019 KShs |
|---|-----------------------|-----------------------|
| Treasury bills held as at 30 th June, 2020 | <u>12,319,552,534</u> | <u>10,594,204,111</u> |

The increase in 2020 is due to the additional investment of the surplus revenues collected during the year.

16. CASH AND CASH EQUIVALENTS

| | 2020 KShs | 2019 KShs |
|---------------------------|--------------------|-------------------|
| Commercial Bank of Africa | | |
| Operational Account | 744,788 | 1,099,325 |
| Fund Account | 112,901,172 | 19,614,839 |
| Kenya Commercial Bank | 58,340 | 62,300 |
| Cooperative Bank of Kenya | - | 4,834 |
| Cash on hand | 31,200 | 72,394 |
| Imprest | 1,082,085 | 1,553,101 |
| | <u>114,817,585</u> | <u>22,406,975</u> |

The difference is due to the following:

- Fund Account – The increase is due to a Treasury Bill that matured and was credited into the account at the close of the financial year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE, 2020

17. PROPERTY, PLANT & EQUIPMENT

| | Computer Equipment | Office Furniture & Equipment | Motor Vehicle | Total |
|------------------------|-------------------------|------------------------------------|------------------|-------------------------|
| | 33.3% | 12.5% | 25% | |
| | KShs. | KShs. | KShs | KShs. |
| Cost | | | | |
| At 01 July 2018 | 2,654,419 | 384,143 | - | 3,129,959 |
| Additions | 1,080,153 | - | - | 1,080,153 |
| Disposal | - | - | - | - |
| At 30 June 2019 | <u>3,825,969</u> | <u>384,143</u> | - | <u>4,210,112</u> |
| Depreciation | | | | |
| At 01 July 2018 | 2,593,859 | 384,143 | - | 3,068,726 |
| Charge for the year | 49,073 | - | - | 49,073 |
| Disposal | - | - | - | - |
| At 30 June 2019 | 2,733,656 | 384,143 | - | 3,068,726 |
| Net book value | | | | |
| At 30 June 2019 | <u>1,092,313</u> | <u>-</u> | <u>-</u> | <u>1,092,313</u> |
| At 30 June 2018 | <u>60,560</u> | <u>-</u> | <u>-</u> | <u>60,560</u> |
| Cost | | | | |
| At 01 July 2019 | 3,825,969 | 384,143 | - | 4,210,112 |
| Additions | 377,700 | 570,000 | 4,299,569 | 5,247,269 |
| Disposal | - | - | - | - |
| At 30 June 2020 | <u>4,203,669</u> | <u>954,143</u> | <u>4,299,569</u> | <u>9,457,381</u> |
| Depreciation | | | | |
| At 01 July 2019 | 2,733,656 | 384,143 | - | 3,068,726 |
| Charge for the year | 378,174 | 13,978 | - | 392,152 |
| Disposal | - | - | - | - |
| At 30 June 2020 | <u>3,111,830</u> | <u>398,121</u> | <u>-</u> | <u>3,509,369</u> |
| Net book value | | | | |
| At 30 June 2020 | <u>1,091,839</u> | <u>558,103</u> | <u>4,299,569</u> | <u>5,948,011</u> |
| At 30 June 2019 | 1,092,313 | - | - | 1,092,313 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE, 2020

18. PAYABLES FROM EXCHANGE TRANSACTIONS

These are expenses relating to services whose rendering commenced during the period under review but not yet settled as at 30th June, 2019.

| | 2020 KShs | 2019 KShs |
|--------------------------|------------------|----------------|
| Printing and Stationery | - | 308,400 |
| Post and Telephone | - | 13,000 |
| Office Running Expenses | - | 3,420 |
| Travel and Accommodation | 95,350 | 41,550 |
| Consultancy | 1,050,000 | - |
| Managing Trustee | 886,600 | - |
| Office Equipment | 435,000 | - |
| Motor Vehicle | 4,299,569 | - |
| Sundry creditors | <u>6,766,519</u> | <u>366,370</u> |

19. PROVISIONS

This relates to allocations provided for a service relating to the period under review but yet to be established. This particular provision is for the external audit services to be rendered by the Office of the Auditor General.

| | 2020 KShs | 2019 KShs |
|------------|----------------|----------------|
| Audit fees | <u>400,000</u> | <u>400,000</u> |

20. STATEMENT OF COMPARISON OF ACTUAL AND BUDGET AMOUNTS

This statement explains the reasons contributing to material differences in the budget items. The range for a material difference is 20%

| ITEM | VARIANCE | | NOTE |
|-------------------|-------------|-------|--|
| | AMOUNT | % | |
| INCOME | | | |
| Contribution Levy | 63,944,887 | (7)% | The Levy projection was not achieved due to the reduced business in the last two quarters due Covid-19 effects. |
| Interest Income | 148,834,955 | 17% | Due to increase in volumes invested in Treasury bills and non-commencement of compensation that was planned to take place. |
| EXPENSES | | | |
| Board expenses | 4,772,736 | (23)% | The Board of Trustees was not fully constituted due to vacancies arising from expiry of terms. |
| Managing Trustee | 2,983,800 | (16)% | Budgeted training was partially and staff insurance was not paid. |

| | | | |
|----------------------|---------------|--------|---|
| Compensation | 1,000,000,000 | (100)% | Compensation did not commence as planned. |
| Statutory management | 13,200,000 | (100)% | Recruitment of staff to increase capacity of this function affected by restrictions of employment in Government agencies. |
| Insurance | 1,000,000 | (99)% | The planned ICT procurement was not done hence the insurance was not paid. |

| | | | |
|------------------------------|-----------|-------|--|
| Repairs & Maintenance | 500,000 | (75)% | Reduced break-down incidents, and non-purchase of ICT claims management system. |
| Hospitality | 318,849 | (24)% | Reduced/ scaled down activities due Covid-19 |
| Travel and accommodation | 5,577,329 | (56)% | Affected by limited operational activities resulting from delayed compensation process. |
| Printing & stationery | 1,072,718 | (90)% | Delay in printing of annual accounts and publication. |
| Public Education & Publicity | 1,408,431 | (78)% | Various planned outreach activities related to compensation not undertaken due to delayed compensation process. |
| Training & Development | 3,568,207 | (85)% | Training for anticipated new recruit's not undertaken following freeze of recruitment. |
| Library Expenses | 133,520 | (68)% | Reduced need for hardcopy newspapers due to online subscription by Managing Trustee |
| Post & Telephone | 2,046,350 | (91)% | Reduced utility due to limited operations and delay in procurement. |
| Professional Charges | 3,619,500 | (57)% | No litigation thus no need for legal services which had been budgeted for. Services related to compensation process, recruitment and public education not undertaken due to limited operations. |
| Infor | | | |
| Bank Charges | 108,006 | (60)% | Reduced transactional costs due to reduced need of banking services arising from adoption of digital banking. |

21. GOVERNMENT GRANT

The Government grant was seed capital provided to the Fund by Government of Kenya in two financial years, Kshs. 15 million in 2005/2006 and Kshs 20 million in 2006/2007. The grant was not refundable and was immediately invested.

22. ACCUMULATED SURPLUS

This amount relates to the total net revenues accumulated since the Fund's inception less the Government Grant.

| | |
|---|-----------------------------------|
| Balance as at 1st July, 2019 | KShs 10,665,758,740 |
| Surplus for the year | <u>KShs 1,825,743,420</u> |
| Balance as at 30th June, 2020 | <u>KShs 12,491,502,159</u> |

23. CONTINGENT LIABILITY

In anticipation of the payment of compensation to claimants of insolvent insurers, the Fund acknowledges the amount payable as compensation as a contingent liability it will incur in future.

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of other audit matters raised by the external auditor as there were no key audit issues, and management comments that were provided to the auditor in the financial year ended 30th June 2019. 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. on the External audit Report | Issue/ Observations from Auditor | Management comments | Focal Point person to resolve the issue | Status: |
|---|---|--|--|--|
| 1 | Bank reconciliation has long outstanding issues. They are signed by the preparer and approved | The Fund revised its operation to be in line with best practice and long outstanding issues have been resolved | Managing Trustee | The Fund has implemented recommendations on continuous basis |
| 2 | Investment income was understated | The differences was reconciled and finalized | Managing Trustee | Finalized |