


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 12 FEB 2019	DAY: TUESDAY
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REPORT

PARLIAMENT  
OF KENYA  
LIBRARY

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
INSURANCE REGULATORY AUTHORITY

FOR THE YEAR ENDED  
30 JUNE 2018



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**INSURANCE REGULATORY AUTHORITY**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED**  
**JUNE 30, 2018**

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

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## **KEY AUTHORITY INFORMATION**

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

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

### **(b) Principal Activities**

The principal activities of the Authority are to regulate, supervise and develop the insurance industry in Kenya and protect the interests of policyholders and insurance beneficiaries.

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

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

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

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

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

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

**(d) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2018 and who had direct fiduciary responsibility were:

<b>No.</b>	<b>Designation</b>	<b>Name</b>
1.	Ag. Chief Executive Officer and Commissioner of Insurance	Mr. Godfrey Kiptum
2.	Chief Manager, Technical	Mrs. Agnes Ndirangu
3.	Chief Manager, Finance	Mr. Edward Opiayo
4.	Corporation Secretary and Chief Manager Legal Affairs	Ms. Diana Sawe
5.	Chief Manager, Policy, Research and Development	Mr. Robert Kuloba

**(e) Fiduciary Oversight Arrangements**

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

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

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

**(f) Physical Address**

Insurance Regulatory Authority  
Zep- Re Place Longonot Road  
Upper Hill, Nairobi Kenya  
P.O Box 43505 – 00100  
Nairobi

**(g) Contacts**

Tel: (254)-020-4996000, Mobile: 0719 047000  
Fax: (254) -020- 2710126  
Email: [commins@ira.go.ke](mailto:commins@ira.go.ke)  
Website: <http://www.ira.go.ke>

**(h) Bankers**

National Bank of Kenya  
Harambee Avenue  
P.O Box 72866- 00200  
Tel 2828000  
Nairobi, Kenya

NIC Bank  
NIC House  
P.O Box 44599-00100  
Nairobi, Kenya  
Tel 4948000

KCB Ltd  
Capitol Hill  
P.O Box 48400-00100  
Nairobi, Kenya  
Tel. 3270000

**(i) Independent Auditors**

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

**(j) Principal Legal Adviser**

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

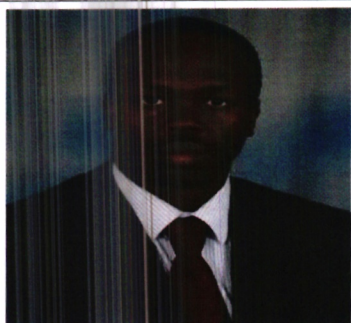
## THE BOARD OF DIRECTORS



*Hon. Abdirahin H. Abdi, MGH  
Chairman  
MBA, Bsc (Finance)*

**Date of Birth: 26<sup>th</sup> August, 1969**

Hon. Abdi is a former Speaker of the East African Legislative Assembly (EALA) where he was a Member for 10 years. As a speaker, he presided over all Assembly meetings and rulings on all decisions that required such edict of the position. As a member, he served in the Accounts and Communication, Trade and Investment Committees. Currently, he serves in various Boards.



*Mr. Godfrey Kiptum, MBS  
MPPM, MBA, BA, ACII, FLMI,  
Dip.HRM*

**Date of Birth: 5<sup>th</sup> August, 1970**

Mr. Kiptum is the Ag. Commissioner of Insurance & Chief Executive Officer. He holds a Master of Business Administration (MBA) from Maastricht School of Management/Eastern & Southern Africa Management Institute (ESAMI), Masters in Public Policy & Management, Strathmore Business School and Bachelor of Arts degree from University of Nairobi. He further holds various professional qualifications which includes Fellow of the Life Management Institute (FLMI), member of the Chartered Insurance Institute (CII) of the UK and Institute of Human Resource Management (IHRM). He is a member of the Board of Retirement Benefits Authority, Policyholders Compensation Fund and a Trustee of the College of Insurance.



*Mr. Solomon Kitungu*

*Alternate to CS, The  
National Treasury*

**Date of Birth: 25<sup>th</sup> September, 1961**

A graduate of University of Nairobi and Manchester University – UK, Mr. Solomon Kitungu is currently an Investment Director at the National Treasury. Prior to this, he served as an Executive Director of the Privatization Commission from 2009 – 2017 and Investment Director at the National Treasury from 2003 to 2009. He is currently the Alternate Director for the CS National Treasury in the Board of Directors of the Insurance Regulatory Authority and Postbank. Previously while at the National Treasury, he served in other Boards such as the Kenya Commercial Bank, National Bank of Kenya, Kenya Electricity Generating Company, Kenya Power and Kenya National Assurance (2001). He has attended the Advanced Management Programme at Strathmore Business School and University of Navara, Barcelona, Spain and has extensive experience in public sector investments and reforms, privatizations and Public Private Partnerships.



*Mr. Nzomo Mutuku*  
Member  
MA, BA

**Date of Birth: 9<sup>th</sup> December, 1969**

Mr. Mutuku is the Chief Executive Officer of the Retirement Benefits Authority. Previously he was the Acting Director, Financial and Sectoral Affairs Department at the National Treasury where he was charged with financial sector development including financial inclusion, efficiency and stability as well as sectoral policy issues including regional integration and climate finance.

Mr. Mutuku serves in the Technical, Research & Compliance and Finance & Administration Committees of the Board.



*Mr. Paul Muthaura,*  
Member  
M.Phil., LLM (Banking &  
Finance), LLB

**Date of Birth: 27<sup>th</sup> April, 1978**

Mr. Muthaura is the Chief Executive of the Capital Markets Authority. He is an Advocate of the High Court of Kenya with a wealth of experience in financial services regulation, management and finance. He is a member of various international boards the International Organization of Securities Commissions (IOSCO). At the national level he sits on the boards of the Pensions regulator as well as the Vision 2030 Delivery Board.

Mr. Muthaura serves in the Human Resource; and Finance & Administration Committees of the Board.



*Mr. Matu Mugo*  
Member  
MBA, B. Com, CPA(K)

**Date of Birth: 26<sup>th</sup> November, 1972**

Mr. Mugo represents the Governor of the Central Bank of Kenya in the Board. At the Bank, he leads teams responsible for the review and development of policies to promote safe, affordable and inclusive financial services. He has been involved in the development of legal and regulatory frameworks for sharia compliant banking, microfinance, digital financial services, credit information sharing and agency banking.

Mr. Mugo serves in the Technical, Research & Compliance; Human Resource; and Audit, Risk Management & Corporate Governance Committees of the Board.



*Ms. Alice M. Njoroge*  
*Member*

*BA, ACII, ACI Arb.*

**Date of Birth: 8<sup>th</sup> January, 1968**

Mrs. Njoroge was appointed to the Board with effect from 19<sup>th</sup> January 2015 and re appointed on 6<sup>th</sup> June 2018 as an independent member. She is the nominee of the Insurance Institute of Kenya with expertise in insurance business spanning over 20 years. She has held managerial positions in several insurance companies and has been involved in various industry technical committees.

Mrs. Njoroge Chairs the Audit, Risk Management & Corporate Governance Committee of the Board.



*Ms. Joyce K. Muchena*  
*Member*

*MA, BA, Dip. Human Rights, H. Dip. Psychological Counselling*

**Date of Birth: 15<sup>th</sup> October, 1972**

Ms. Muchena was appointed to the Board with effect from 19<sup>th</sup> January 2015 and re appointed on 6<sup>th</sup> June 2018 as an independent member. She has over 16 years' experience in strategic planning, policy formulation, socio-political conflict analysis, human resource management and project management.

Ms. Muchena Chairs the Technical, Research & Compliance Committee and serves in the Human Resource; and Audit, Risk Management & Corporate Governance Committees of the Board.



*Mr. Douglas Kailanya*  
*Member*

*MBA, B. Com, CPA(K)*

**Date of Birth: 28<sup>th</sup> November, 1965**

Mr. Kailanya was appointed to the Board with effect from 19<sup>th</sup> January 2015 and re appointed on 6<sup>th</sup> June 2018 as an independent member. He is a qualified accountant with over 20 years experience in financial management, administration, budgeting, investment portfolio management, credit control, and enterprise debt and risk management.

Mr. Kailanya Chairs the Finance & Administration Committee of the Board. He is a member of Institute of Certified Public Accountants of Kenya (ICPAK).



*Mr. Paul K. K. Cheboi*  
*Member*

*Ph.D. Candidate, MBA, BSc, PG  
Dip.*

**Date of Birth: 19<sup>th</sup> March, 1968**

Mr. Cheboi was appointed to the Board with effect from 6<sup>th</sup> 19<sup>th</sup> January 2015 and re appointed on June 2018 as an independent member. He has wide experience in management of educational institutions and manufacturing companies both in the private and the NGO sectors. He has over 17 years' experience in administration, finance, planning, academic affairs, public relations, marketing and quality assurance.

Mr. Cheboi Chairs the Human Resource Committee of the Board.



Ms. Diana Sawe Tanui

Corporation Secretary and  
Chief Manager Legal Affairs  
LLB, Dip (KSL), CPS(K), MCIrb

**Date of Birth: 5<sup>th</sup> October 1982**

CS. Diana is a Certified Public Secretary, an Advocate of the High Court of Kenya, an Arbitrator, a trained Governance Auditor, Commissioner for Oaths and Notary Public. She is a member of the Institute of Certified Public Secretaries of Kenya, the Law Society of Kenya, the Institute of Directors (Kenya) and the Chartered Institute of Arbitrators.

She is a Council Member at the Institute of Public Secretaries of Kenya in which role she provides a strategic guidance and oversight to the development of the Certified Secretaries profession; and capacity building in corporate governance in Kenya. She also serves as a member of the In-House Committee of the Law Society of Kenya, and a member of the Legal Committee of the Chartered Institute of Arbitrators Kenya Chapter

## SENIOR MANAGEMENT TEAM

### **Ag. Commissioner of Insurance & Chief Executive Officer**



*Mr. Godfrey Kiptum*  
MPPM, MBA, BA, FLMI, Dip.HRM

### **Corporation Secretary and Chief Manager Legal Affairs**



*Ms. Diana Sawe Tanui*  
LLB, Dip (KSL), CPS(K), MCIRb

### **Chief Manager Technical**



*Mrs. Agnes Ndirangu*  
MBA, BCOM, ACII

### **Chief Manager Finance**



*Mr. Edward Opiayo*  
MBA, B. Com, CPA(K) CPS(K)

### **Chief Manager Policy, Research and Development**



*Mr. Robert Kuloba*  
MA, BA

## **CHAIRMAN'S STATEMENT**

It is my pleasure to present the Insurance Regulatory Authority's financial statements for the year 2017-2018. The year under review marked the onset of a series of activities for the Authority and the industry. The Authority celebrated its 10<sup>th</sup> Year Anniversary with a number of activities being undertaken across various counties mainly in the area of insurance industry development as well as insurance awareness and publicity. As a result, the Authority recorded positive growth mainly as result of leveraging on or building on our successes to ensure a conducive environment that can spur industry growth and development as measured by key industry performance indicators such as insurance coverage, insurance density and insurance penetration all of which registered positive growth.

### **Performance of the Authority**

The year under review also coincided with the final phase of implementation of the 2013 – 2018 strategic plan (revised in 2016) and development of the 2018 – 2022 strategic plan. The 2013 –18 plan was mapped on three goals namely; promotion of consumer education and protection, promotion of an inclusive, competitive and stable insurance industry and offering quality customer service. The plan was operationalized through annual work plans (to include performance contracts) that formed the basis of budgeting and program execution.

During the year, the focus of the Authority has been on enabling the insurance industry to conduct its business. The Authority therefore continued to strengthen risk-based supervision, support industry development through the agency development and actuarial scholarship programs. A number of milestones were realized with gross written premiums crossing the 200 billion-mark, insurance penetration registering some marginal growth as well as insurance coverage.

As a result of celebrating ten years, the Authority conducted a targeted public education and awareness program ultimately covering over eight counties in which the Authority held road shows, conducted TV and radio campaigns, trained insurance champions as well as setting up insurance clinics. Insurance clinics were key in enabling members of the public learn more about insurance and also have their unanswered insurance questions and complaints addressed by IRA officers.

From the financial front, the levy income for the year under review increased from Kes. 1,565,811,292 in the FY 2016/17 to Kes. 1,593,994,473 in the year under review. No doubt this increase was a positive reflection of the industry's performance and growth despite the challenges. The growth is a confidence show



of the industry. Other incomes received were in form of interest from government securities and miscellaneous income.

At a higher level, the Insurance Industry in Kenya has expanded over the years in terms of number of companies, the amount of premiums written and in asset base. Kenya is currently commanding a leadership position in East Africa. This is as a result of the improvement of regulatory and supervisory framework that has enhanced the business environment among other factors.

### **Board and Management Performance**

I appreciate the support of all Board members whose strategic leadership and insights have contributed to the milestones realized in the last one year. Indeed, the good performance realized is a reflection of their support. It is worth noting that the independent directors are serving their second and final term and their reappointment is proof of the good work they carried out during their first term.

At the management level, the board filled some key management positions and some officers were appointed to fill existing vacancies. To help curb insurance fraud, the Insurance Fraud Investigation Unit's capacity has been beefed by 4 additional officers. We have developed a new organization structure to facilitate in the realization of the 2018-2022 strategic plan and arising vacancies will be filled once the requisite approvals have been granted.

### **Going forward**

The Authority is an enabler for the Government's Big Four agenda. Going forward, a number of measures will be put in place with the objective of enabling the insurance industry to play its rightful role in the realization of the Big Four agenda. Areas of focus are universal health care, food security and infrastructure financing.

The Authority's success would not be possible without the continued support of all our stakeholders. On behalf of the Board of Directors, I wish to extend our gratitude to the National Treasury, regulated entities and other stakeholders who have continued to support our programmes.

A special recognition to the management team and the rest of the staff members without whose support, we would not have realized what we set out to.

  
**Hon. Abdirahim H. Abdi, MGH**  
**Chairman**  
**Board of Directors**

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

It is my pleasure to present this report setting the performance of the Authority for the year 2017/2018 that also saw the Authority mark 10 years since establishment.

### **Authority's Performance**

In the last year, the Authority embarked on various activities aimed at ensuring that it delivers on its mandate. For a start, the Authority has developed its 3<sup>rd</sup> Strategic Plan for the period 2018-2022. The same was approved by the Board in January 2018 and implementation to start in July 2018. The strategic plan has prioritized issues of regulation and supervision, policy and market development, consumer protection and education and institutional capacity building.

In the discharge of its core mandate, significant improvements continue to be recorded on a number of fronts such as:

- i. The use of technology to facilitate service delivery both externally and internally.
- ii. Enforcement of prudential guidelines.
- iii. Protection of consumers through standardizing wordings of a number of insurance policies, resolution of consumer complaints, roll out of treating customers fairly framework, dedicated consumer education and awareness program etc.
- iv. The development of the industry through various engagements with the members of the industry, actuarial scholarship program, agency development program etc.

For the year under review, the Authority realized a number of milestones;

- i. Continued offsite and on-site inspections
- ii. Monthly analysis of claims data
- iii. Dedicated multimedia public education and awareness campaigns including corporate awareness
- iv. Training agents and insurance champions in the counties
- v. Sensitization of the insurance industry on RBS framework
- vi. Publication of RBS guidelines
- vii. Enhanced utilization of social media platforms
- viii. Staff skills and capacity development including talent management

### **Service Delivery**

The Authority is committed to excellent service delivery and strives to meet and exceed its customers' expectations. The Authority is transitioning from the ISO 9001:2008 to 9001:2015 Standard. The initiative to upgrade our ISO certification standard confirms the Authority's intention to embrace the best work practices that ensure consistent quality management systems and service delivery in line with globally recognized standards. It also reaffirms its commitment to seeking opportunities for continual improvement in the delivery of its services.

In addition to the Quality Management System, we have reviewed our business processes and reduced the time taken in provision of our services. We are focusing on innovative mechanisms for service delivery as we work towards ensuring that all our stakeholders are satisfied with our services.


### **Institutional capacity**

Human Capital is a focal point as we strive to build individual and institutional capacity to steer the Authority towards achieving its Vision and Mission. The invaluable role and contribution of each employee of the Authority is recognized and rewarded appropriately. Our commitment to staff development is steadfast and we intend to continue investing in a number of initiatives that will help us effectively discharge our mandate. Staff is core to our success and we shall extensively train them so as to enhance their competencies in various techniques in preparation for higher responsibilities and challenges commensurate with our strategic objectives.

We have identified key divisions and sections that are appropriate to deliver on our strategic plan and plans are underway to have all positions approved filled with the right people.

### **Appreciation**

I wish to thank the Board for their leadership and support. I also wish to thank the Management and the rest of the staff members for their dedication and support. Without them, it would not have been possible to realize our success. I am also grateful to the all the stakeholders for their support and confidence.



**Godfrey Kiptum, MBS**  
**Ag. Chief Executive Officer and Commissioner of Insurance**

## CORPORATE GOVERNANCE STATEMENT

The Authority is a State Corporation established under the Insurance Act with the mandate to regulate, supervise and develop the insurance industry in Kenya and protect the interests of policyholders and insurance beneficiaries.

### a) Board Composition

The Authority's management vests in its Board of Directors as prescribed under Section 3B of the Insurance Act. The composition of the Board of the Authority in the year under review was as follows:

<b>Name</b>	<b>Membership</b>	<b>Profession</b>
Hon. Abdirahin H. Abdi	Chairman	Business Development Expert & Legislator
Mr. Godfrey K. Kiptum	Ag. Chief Executive Officer & Commissioner of Insurance	Management, Insurance & Human Resource
Mr. Solomon Kitungu	Representing, Cabinet Secretary, National Treasury & Planning	Investments, Planning & Management
Mr. Nzomo Mutuku	Chief Executive Officer, Retirement Benefits Authority	Economics & Financial Services Regulation
Mr. Paul Muthaura	Chief Executive, Capital Markets Authority	Legal, Management & Finance
Mr. Matu Mugo	Representing, Governor Central Bank of Kenya	Finance & Accounting
Ms. Alice M. Njoroge (term expired 18.01.18 and renewed 06.06.18)	Member, Nominee Insurance Institute of Kenya	Management & Insurance
Mr. Douglas Kailanya (term expired 18.01.18 and renewed 06.06.18)	Member	Finance, Management & Accounting
Ms. Joyce K Muchena (term expired 18.01.18 and renewed 06.06.18)	Member	Strategic Planning & Management
Mr. Paul K K Cheboi (term expired 18.01.18 and renewed 06.06.18)	Member	Academic Affairs, Management & Planning

Members of the Board other than *ex-officio* members hold office for a period of three (3) years and are eligible for re-appointment for another term. The Board

Members represent an appropriate skill, experience, gender, diversity and geographical mix to facilitate effective execution of the Authority's mandate.

The Inspector of State Corporations (or his representative) may attend any meeting of the Board or Board Committees as in his opinion is necessary for the effective carrying out of the duties of his office.

There has neither been a resignation by removal of a serving director. The term of four Directors expired on 18<sup>th</sup> January 2018 and was renewed on 6<sup>th</sup> June 2018, these are Alice Njoroge, Joyce Muchena, Paul Cheboi and Douglas Kailanya.

#### **b) Board Committees**

The Board has delegated its Authority to the standing Committees to enable it effectively carry out its mandate. The Committees of the Board have respective Terms of Reference and are constituted as follows:

- (i) Technical, Research and Compliance;
- (ii) Audit, Risk Management and Corporate Governance;
- (iii) Finance and Administration;
- (iv) Human Resource; and
- (v) 10<sup>th</sup> Anniversary Celebrations (Ad Hoc Committee)

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

#### **c) Board Attendance**

A record of attendance of Board Meetings and Board Committee Meetings was kept during the period under review. The provisions of the Insurance Act, the State Corporations Act and the Mwongozo Code of Governance for State Corporations pertaining to attendance and absence from meetings have been adhered to.

#### **d) Conflict of Interest**

Board Members are required to disclose any conflict of interest in relation to matters that are brought before them for deliberation.

The Corporation Secretary maintains a register of conflicts of interest which is updated where a conflict is declared.

#### **e) Whistle Blowing Policy**

The Authority has provided for protection of whistle blowers under its Code of Conduct and Ethics as well as its Whistleblowing Policy so as to ensure safeguard of the identity and safety of whistleblowers. An email has equally been provided on the Authority's website for this purpose.

#### **f) Statement of Compliance**

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

#### **g) Board Oversight**

The Board is responsible for the formulation, implementation and monitoring of the Authority's Strategic Plan thus providing appropriate strategic direction for the Authority. During the period under review the Authority's Strategic Plan for 2018-2022 was approved.

The Board ensures that the Authority espouses proper corporate governance practices and is also responsible for managing the Authority's risks. The Board recognises and is committed to delivering its responsibility to all its stakeholders.

#### **h) Board Induction and Training**

The Board development programmes attended during the period under review were aligned to individual training needs as follows:

1. Driving Government Performance – Harvard Kennedy School, USA
2. Leadership in Crisis - Harvard Kennedy School, USA
3. Emerging Leaders – Harvard Kennedy School, USA
4. Audit Committee Workshop – Institute of Internal Auditors, Mombasa
5. Women on Board Conference – Women on Boards Network, Mombasa
6. Making Corporate Boards More Effective - Harvard Business School, USA

#### **i) Board Evaluation**

The Board schedules its annual evaluation exercise in its work plan in consultation with the State Corporations Advisory Committee (SCAC) which conducted the exercise in January 2018.

#### **j) Board Remuneration**

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

#### **k) Corporation Secretary**

The Board is assisted by a qualified, competent and experienced Corporation Secretary. The Corporation Secretary co-ordinates the Board activities with the guidance of Chairman and Chief Executive Officer to facilitate procedural conduct of board business.

#### **l) Separation of Roles**

The role of the Board is separated from that of the Management; the office of the Chairperson and that of the Chief Executive Officer are held by different persons; and the office of the Chief Executive Officer and that of the Corporation Secretary are held by different persons.

#### **m) Social Responsibility**

Being conscious of the Authority's responsibility to the society, the Board is committed to operate ethically and promote corporate social responsibility and investments in accordance with its CSR Policy.

#### **n) Board Attendance**

Board meetings attendance registers are maintained for all board and board committee meetings. Where a Member did not attend any meeting, an acceptable apology was duly received by the Chairman and recorded by the Corporation Secretary. The Chief Executive Officer/Commissioner of Insurance is an ex officio member of all Board Committees except the Audit Committee to which he may attend by invitation. The Inspector of State Corporations (or his representative) may attend any meeting of the Board or Board Committees as in his opinion is necessary for the effective carrying out of the duties. The board meetings attendance matrix is indicated below:

Name	Designation	Classification	Board	TRC	FAC	ARCC	HRC	10 <sup>TH</sup> AC
Hon. Abdirahin Abdi	Chairman	Membership	¶					
		Attendance	11/11					
Mr. Godfrey Kiptum	Ag. CEO	Membership	¶	¶	¶	-	¶	¶
		Attendance	11/11	5/5	4/4	-	3/3	3/3
Mr. Paul Muthaura	Member	Membership	¶	-	¶	-	¶	-
		Attendance	7/11	-	3/4	-	2/3	-
Mr. Matu Mugo	Member	Membership	¶	¶	-	¶	¶	¶
		Attendance	4/11	3/5	-	1/2	1/3	1/3
Mr. Nzomo Mutuku	Member	Membership	¶	¶	¶	-	-	¶
		Attendance	8/11	3/5	2/4	-	-	3/3
Ms. Alice Njoroge	Member	Membership	¶	¶	¶	¶	-	¶
		Attendance	11/11	5/5	4/4	2/2	-	3/3
Mr. Douglas Kailanya	Member	Membership	¶	¶	¶	-	¶	¶
		Attendance	10/11	4/5	4/4	-	2/3	3/3
Ms. Joyce Muchena	Member	Membership	¶	¶	-	¶	¶	¶
		Attendance	10/11	5/5	-	2/2	3/3	3/3
Mr. Paul Cheboi	Member	Membership	¶	-	¶	¶	¶	-
		Attendance	11/11	-	3/4	2/2	3/3	-
Mr. Solomon Kitungu	Member	Notification of appointment received by the Authority on 17 <sup>th</sup> January 2018 when the term of some Board Members was ending. Thereafter there was no quorum to convene a Board meeting and thus no meetings were held.						

**KEY:**

¶ - This is a member of respective Committee

\* - This is not a member of the Committee but in attendance

**TRC** - Technical, Research and Compliance Committee

**FAC** - Finance & Administration Committee

**ARCC**- Audit, Risk Management and Corporate Governance Committee

**HRC** - Human Resource Committee

**10<sup>th</sup>AC** - 10<sup>th</sup> Anniversary Celebrations Committee (Ad Hoc)

## MANAGEMENT DISCUSSION AND ANALYSIS

During the year, management considered overall performance and achievement of targets planned and budgeted for during 2017/2018 financial year in retreat held in June 2018 in Naivasha. The purpose of the retreat was not only to assess whether targets as planned had been achieved, but also why/why not, and lessons learnt. Overall, management assessed progress made in implementation of activities as set out in the strategic plan implementation matrix, annual work plan and performance Contract for 2017/2018 FY

In terms of overall performance, 84% of the planned activities were realized. A further analysis of performance based on target outcomes and progress made in achievement of outcomes nonetheless shows a lower rating i.e. 71% of accomplished activities directly contributed to achievement of institutional objectives. Among key milestones are;

- i. Continued offsite and on-site inspections of regulated entities in line with risk-based supervision
- ii. Analysis and publication of quarterly and annual industry financial reports
- iii. Dedicated multimedia public education and awareness campaigns including corporate awareness (regional Insurance/Open Days in counties and PR campaign in leading TV stations)
- iv. End Term Evaluation of 2013 -2018 Strategic Plan and development of the 2018-2022 Strategic Plan
- v. Training agents and insurance champions in the counties
- vi. Sensitization of the insurance industry on RBS framework
- vii. Publication of RBS guidelines
- viii. Enhanced utilization of social media platforms
- ix. Application of Service Delivery Innovations
- x. Resolution of Public Complaints
- xi. Actuarial Scholarships
- xii. Youth Internships/Industrial Attachments/Apprenticeships

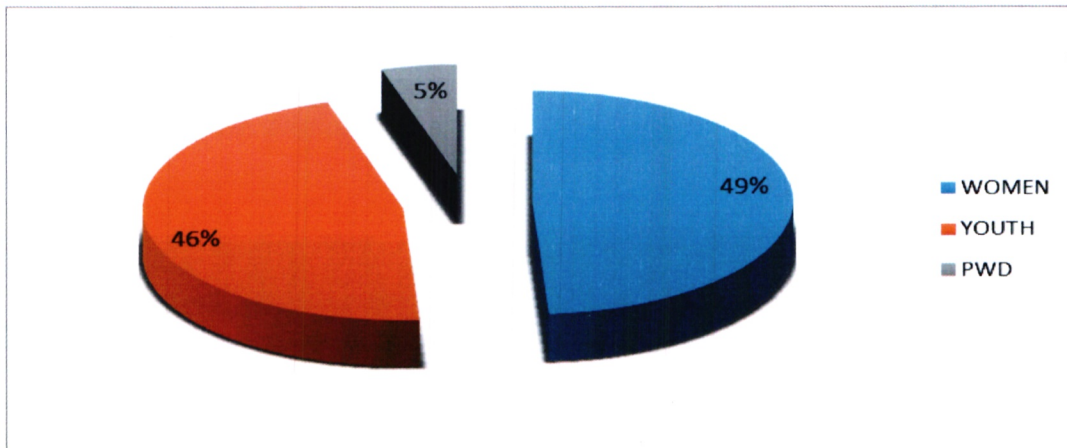
With respect to the performance contract, the Authority attained a self-evaluation rating of Very Good with a weighted score of 2.8618 compared to 2.857 achievement same period in the 2016/2017 FY with performance gaps being in utilization of allocated funds, resolution of consumer complaints and insurance claims settlement (general business)

The Insurance Fraud Investigation Unit which was established in 2011 and has been in operations since then continued with its work. The Directorate of

Criminal Investigations handles the insurance fraud incidences registering significant milestones during the financial year such as;

- i. Many cases were successfully investigated and quality reports that informed decisions by the stakeholders were written.
- ii. As shown above many cases were investigated and taken to court
- iii. The Unit greatly carried out awareness creation
- iv. Many officers so far have undergone trainings
- v. The DCI Director is in the process of adding more investigators to the unit
- vi. The impromptu operations on forged insurance certificates across the country is very successful

With respect to implementation of the annual procurement plan for 2017/2018, specifically, Access to Government Procurement Opportunities for Youth, Women & Persons with Disabilities, total awards was Kes. 58,041,339.76 equivalent to 30.44% achievement of the 30% uptake of the allocated budget.



There was overall improvement in performance this year relative to same period last year.

Key policy areas flagged out in the 2018/2019 FY based on the 2018 – 2022 strategic plan that require significant resources are:

- i. Strengthening of enforcement
- ii. Supporting measures to enhance financial inclusion
- iii. Promoting industry capacity
- iv. Promoting innovation, regulatory sandboxes and InsureTech
- v. Promoting partnerships and collaborations
- vi. Deepening insurance awareness and corporate identity

## CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Corporate Social Responsibility (CSR) programme is an integral part of our business operations. Our CSR activities reflect our philosophy of adopting a responsible approach to developing relationships between ourselves and the communities in which we operate because how we interact with the world in which we live determines our place within it. Since establishment, we continue to build a strong reputation for social responsibility and uphold high standards, of corporate conduct with an aim to build value for our business and brand. The Authority promotes CSR activities in line with its CSR agenda. These are driven by a CSR committee comprising of staff from various divisions.

In our CSR policy, we have clearly identified the area of focus which include: -

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

In addition to the above focus areas, the Authority partners with the other financial sector regulators as per the Memorandum of Understanding (MoU) signed among them in implementing joint CSR activities.

The objective of the year 2017/2018 CSR activities was to evaluate the impact of CSR activities implemented by IRA since 2012 and as such the CSR budget was scaled down. A study was commissioned to assess the impact of the CSR activities undertaken by IRA over the period 2012 to 2017.

### Support to Corporate Bodies

The Authority continues to partner with professional bodies and as such the Authority's visibility and reputation is enhanced.

Below is a summary of the corporate sponsorship.

No.	Organization/Institution	Event	Month	Amount
1.	Association of Insurance Brokers of Kenya	Regional Conference	July 2017,	400,000.00
2.	The Actuarial Society of Kenya	TASK Convention	November, 2017	500,000.00
3.	Institute of Certified Public Accounts of Kenya (ICPAK)	FiRe Awards	November, 2017	350,000.00
4.	Insurance Institute of Kenya	Annual Conference	November,	350,000.00

	(IIK)		2017	
5.	Institute of Certified Public Secretaries of Kenya (ICPSK)	Governance Awards	November, 2017	400,000.00
6.	Association of Kenya Insurers (AKI)	Agents' of the Year Awards	March, 2018	300,000.00
7.	Institute of Loss Adjusters & Risk Surveyors	International Conference	March, 2018	200,000.00
8.	Chartered Institute of Arbitrators	Inaugural Arbitral Women Conference	March, 2018	50,000.00

### CSR Requests for the Year 2017/18

During the same financial year, the Authority continued receiving requests for sponsorships from various institutions as hereunder;

No.	Organization/Institution	Event	Month
1.	Cerebral Palsy Society of Kenya (CPSK)	CPSK Walk	October
2.	Kenya Society for the Blind	Mt. Longonot Climb	September
3.	Lady of Nazareth Primary School	Book Donation for their Library	August
4.	Tunyai Children's Centre	Christmas Donation for their Children	December
5.	Abiria Tugutuke Foundation	Road safety & Insurance Training	December

### FLAGSHIP PROJECT

A CSR committee was appointed comprising of nine (9) members and are working on identifying a flagship project. They have researched different areas within the CSR policy and looked at the statistics. They have gone ahead to have a meeting with National Council of People Living with Disability (NCPWD) to understand the role of NCPWD and how they can partner with the institution.

The committee is in the process of coming up with a paper which will highlight proposals of areas the Authority can take up as a Flagship Area.



## REPORT OF THE DIRECTORS

The Directors submit their report together with the financial statements for the year ended June 30, 2018 which shows the state of affairs of the Insurance Regulatory Authority (the Authority).

### 1. INCORPORATION

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

### 2. PRINCIPAL ACTIVITIES

The principal activities of the Authority are to regulate, supervise and develop the insurance industry in Kenya and protect the interests of policyholders and insurance beneficiaries.

### 3. RESULTS

The results of the Authority for the year ended June 30, 2018 are set out on page 25.

### 4. BOARD OF DIRECTORS

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

### 5. AUDITORS

The Auditor General is responsible for the statutory audit of the Authority pursuant to the Article 229(2) (h) and in accordance with Section 35 of the Public Audit Act, 2015 and Section 68(2) (k) of the Public Finance Management Act, 2012.

**By Order of the Board**

A handwritten signature in blue ink, appearing to read 'Diana', is written over a circular stamp.

Ms. Diana Sawe Tanui

**Board Secretary**

Date: 13<sup>th</sup> September 2018

## STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and at the end of the financial year ended June 30, 2018. 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 of the Authority; selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accepts responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of the Authority's transactions during the financial year ended June 30, 2018, and the Authority's financial position as at that date. The Board of Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

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

### Approval of the Financial Statements

The Authority's financial statements were approved by the Board of Directors on 27<sup>th</sup> August 2018 and signed on its behalf by:

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

  
\_\_\_\_\_  
**Godfrey Kiprui, MBS**  
**Ag. Commissioner of Insurance &**  
**Chief Executive Officer**

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON INSURANCE REGULATORY AUTHORITY FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS

##### **Opinion**

I have audited the accompanying financial statements of Insurance Regulatory Authority set out on pages 25 to 43 which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Insurance Regulatory Authority as at 30 June, 2018, 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 Insurance Act 2017.

##### **Basis for Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Insurance Regulatory Authority in accordance with ISSAI 30 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.

##### **Other Matter**

There were no Other Matter to report in the year under review.

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*Report of the Auditor-General on the Financial Statements of Insurance Regulatory Authority for the year ended 30 June 2018*

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

### **Conclusion**

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

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

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND 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 governance were not effective.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standard Accrual Basis and for such 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.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to cease operations of the Authority, or have no realistic alternative but to do so.

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

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

### **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.

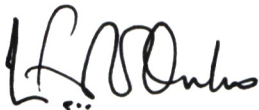
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority's to cease to continue as a going concern or to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Authority's 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.



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

**Nairobi**

**28 December 2018**

**STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

		2018	2017
	Notes	KES.	KES.
<b>Revenue from non-exchange transactions</b>			
Insurance premium levy	4	1,593,994,473	1,565,811,292
Late payment penalties	5	-	146,115
Licence fees	6	<u>26,849,980</u>	<u>24,692,682</u>
		<b><u>1,620,844,453</u></b>	<b><u>1,590,650,089</u></b>
<b>Revenue from exchange transactions</b>			
Interest income	7	<u>151,409,026</u>	<u>161,955,191</u>
		<b><u>151,409,026</u></b>	<b><u>161,955,191</u></b>
<b>Total Revenue</b>		<b><u>1,772,253,479</u></b>	<b><u>1,752,605,280</u></b>
<b>EXPENSES</b>			
Board expenses	8	32,324,069	40,816,088
Employee costs	9	445,984,964	434,012,010
Development of the insurance industry	10	187,959,335	151,625,419
General expenses	11	285,546,073	215,819,207
Repairs and maintenance costs	12	5,492,556	3,214,644
Contracted services	13	25,227,444	9,585,714
Finance costs	14	1,134,448	1,964,800
Depreciation and amortisation	15	<u>14,445,272</u>	<u>18,883,061</u>
		<u>998,114,161</u>	<u>875,920,943</u>
<b>SURPLUS FOR THE YEAR</b>		<b>774,139,318</b>	<b>876,684,337</b>
Transfer to Consolidated Fund	16	<u>(660,216,502)</u>	<u>(786,852,392)</u>
<b>TRANSFERRED TO GENERAL RESERVE</b>		<b><u>113,922,816</u></b>	<b><u>89,831,946</u></b>

**STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2018**

	Notes	2018 KES.	2017 KES.
<b>ASSETS</b>			
CURRENT ASSETS			
Cash and bank balances	17	71,607,346	193,907,117
Receivable from exchange transactions	18	67,061,580	69,796,613
Investments	19	441,265,500	481,432,500
Inventories	20	<u>2,101,248</u>	<u>2,885,997</u>
		<u>582,035,674</u>	<u>748,022,227</u>
NON-CURRENT ASSETS			
Property, plant and equipment	22	33,169,894	8,304,276
Intangible assets	23	1,878,277	623,740
Investment	24	<u>1,242,251,159</u>	<u>1,189,722,902</u>
		<b><u>1,277,299,330</u></b>	<b><u>1,198,650,918</u></b>
<b>TOTAL ASSETS</b>		<b><u>1,859,335,004</u></b>	<b><u>1,946,673,145</u></b>
CURRENT LIABILITIES			
Payables from exchange transactions	25	36,520,201	35,229,033
Provisions	26	<u>60,789,118</u>	<u>263,341,244</u>
		<u>97,309,319</u>	<u>298,570,277</u>
<b>NET ASSETS</b>		<b><u>1,762,025,685</u></b>	<b><u>1,648,102,869</u></b>
RESERVES			
General reserves		<u>1,762,025,685</u>	<u>1,648,102,869</u>
		<b><u>1,762,025,685</u></b>	<b><u>1,648,102,869</u></b>



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



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

The notes on page 31 to 43 form an integral part of these financial statements



**STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

<b>GENERAL RESERVE</b>	<b>Notes</b>	<b>KES.</b>
1 July, 2016		1,558,270,923
<b>Changes in reserves for 2017</b>		
Surplus for the year		<u>89,831,946</u>
<b>Balance as at 30<sup>th</sup> June, 2017</b>		<b><u>1,648,102,869</u></b>
1 July, 2017		1,648,102,869
<b>Changes in reserves for 2018</b>		
Surplus for the year		<u>113,922,816</u>
<b>Balance as at 30<sup>th</sup> June, 2018</b>		<b><u>1,762,025,685</u></b>



**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

	Notes	<b>2018</b> <b>KES.</b>	<b>2017</b> <b>KES.</b>
<b>Cash flow from operating activities</b>			
Cash receipts from customers		1,620,844,453	1,590,650,089
Payment to suppliers and employees		<u>(978,957,939)</u>	<u>(898,327,676)</u>
<b>Net Cash from Operating Activities</b>		<b>641,886,514</b>	<b>692,322,413</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment	22	(38,258,366)	(1,553,390)
Purchase of Intangible assets	23	(2,307,061)	(850,512)
Investment	24	(52,528,257)	(3,127,039)
Surplus paid to Consolidated Fund		(862,668,628)	(991,448,884)
Interest received		151,409,026	161,955,191
Net cash used in investing Activities		<u>(804,353,286)</u>	<u>(835,024,634)</u>
Net(decrease) increase in cash & cash equivalents		(162,466,772)	(142,702,221)
Cash & cash equivalent at the beginning		<u>675,339,617</u>	<u>818,041,838</u>
Cash & cash equivalent at the end	21	<b><u>512,872,845</u></b>	<b><u>675,339,617</u></b>



**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

	<b>2018 KES BUDGET</b>	<b>2018 KES ACTUAL</b>	<b>VARIANCE %</b>
<b>INCOME</b>			
Insurance premium levy	1,697,936,826	1,593,994,473	-6%
Interest income	160,000,000	151,409,026	-5%
Licence fees	<u>20,000,000</u>	<u>26,849,980</u>	34%
	<b><u>1,877,936,826</u></b>	<b><u>1,772,253,479</u></b>	<b><u>-6%</u></b>
<b>CAPITAL EXPENDITURE</b>	<b>42,900,000</b>	<b>40,565,427</b>	<b>5%</b>
<b>OPERATING EXPENDITURE</b>			
Board members expenses	62,185,200	32,324,069	49%
Personnel emoluments	406,871,400	332,023,430	18%
Other personnel costs	141,432,500	113,961,534	19%
Development of Insurance industry	202,550,000	186,784,001	8%
Office supplies and expenses	21,560,180	20,686,735	4%
Transport and travel expenses	47,975,000	45,630,872	5%
Public relations	115,480,000	108,216,671	6%
Telephone and ICT expenses	28,013,920	22,490,832	20%
Office rent and office services	74,454,836	65,490,010	12%
Consultancy & professional services	29,650,000	26,361,892	11%
Insurance Fraud & other services	43,399,368	29,698,844	32%
Depreciation and Amortisation	<u>18,500,000</u>	<u>14,445,272</u>	<u>22%</u>
<b>TOTAL EXPENDITURE</b>	<b><u>1,234,972,404</u></b>	<b><u>1,038,679,588</u></b>	<b><u>16%</u></b>
<b>SURPLUS FOR THE YEAR</b>	<b><u>642,964,422</u></b>	<b><u>733,573,891</u></b>	<b><u>14%</u></b>

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

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

**a) Board Expenses-Kes 32million (Budget – kes 62million)**

The term of the board expired in January 2018 and was renewed in June 2018. Therefore for 5 months in the financial year the board was not fully constituted.

**b) Personnel Emoluments-Kes 332 million (Budget –Kes 407 million)**

Personnel emoluments are below the budget mainly as a result of a number of established posts being vacant.

**c) Other Personnel Costs-Kes 114 million (Budget-Kes 141 million)**

Other personnel costs are below the budget mainly as a result of a number of established posts being vacant. The circular requiring approval for foreign travel also impacted expenditure on training costs as some staff were unable to attend annual training.

**d) Development of the Insurance industry- Kes 187 million (Budget Kes.202million)**

Expenditure on this item is underspent mainly because a number of researches budgeted for were not undertaken as the quotation received were higher than the amounts budgeted.

**e) Insurance Fraud and Other Expenses- Kes. 30M (Budget –Kes. 43Million)**

Included in this budget is a contingent amount of Kes 19million for any eventualities.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

**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 cash flow is prepared using the direct method.

**2. ADOPTION OF NEW AND REVISED STANDARDS**

(a) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

<b>Standard</b>	<b>Effective date and impact:</b>
<b>IPSAS 40:</b> Public Sector Combinations	<b>Applicable: 1<sup>st</sup> January 2019:</b> The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.
<b>IPSAS 41:</b> Financial Instruments	<b>Applicable: 1<sup>st</sup> January 2022:</b> The standard (based on IFRS 9) substantially improves the relevance of information for financial assets and financial liabilities. It will replace IPSAS 29, <i>Financial Instruments: Recognition and Measurement</i> , and improves that Standard's requirements by introducing: <ul style="list-style-type: none"> <li>• Simplified classification and measurement requirements for financial assets;</li> <li>• A forward-looking impairment model; and</li> <li>• A flexible hedge accounting model.</li> </ul>

**(b) Early adoption of standards**

The Authority did not early – adopt any new or amended standards in year 2018.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### **(a) Income recognition**

##### **i) Revenue from non-exchange transactions**

###### ***Premium levy Penalties and licence fees***

The Authority recognizes revenues from levies, penalties and fees when received. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Authority and the fair value of the asset can be measured reliably.

##### **ii) Revenue from exchange transactions**

###### ***Interest income***

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

#### **(b) Budget information**

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

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

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

Depreciation and amortisation are calculated on the cost of each asset on a straight-line basis at annual rates estimated to write off the cost of the asset over its estimated useful life. Assets purchased in the first three quarters of the financial year are depreciated fully for the year while those purchased in the last quarter are not depreciated in the financial year under review but their depreciation starts in the following year.

The Depreciation and amortisation rates used are as follows.

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

**(d) Taxation**

Under regulation 219(2) of the Public Finance Management Act No. 18 of 2012, the Authority is required to remit 90% of its surplus funds to the Consolidated Fund. As a result, the Authority is exempted from paying income tax under regulation 219(3) of the same act.

**(e) Retirement benefits**

The Authority operates a defined contribution pension scheme for all its eligible employees. The scheme is funded from contributions from both the Authority and employees. The assets of this scheme are held in a separate trustee administered scheme.

The Authority also contributes to a statutory defined contribution plan, National Social Security Fund. The contributions are determined by local statute and are currently limited to Kes.200 per employee per month.

Contributions by the Authority to staff retirement benefit schemes are charged to the statement of financial performance as they fall due.

**(f) Related parties**

The Authority regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Authority, or vice versa. The Board of Directors and members of key management are regarded as related parties. The transactions that took place with related parties are as per note 27.

**(g) Financial instruments**

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

**(h) Inventories**

Inventory refers to consumable store items. Initial recognition of inventory is done at cost and subsequently measured at the lower of cost and net realizable value.

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

**(i) Provisions**

Provisions are recognized when;

- the Authority has a present obligation (legal or constructive) as a result of a past event,
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and;
- a reliable estimate can be made of the amount of the obligation.

**(j) Nature and purpose of reserves**

The Authority creates and maintains reserves in terms of specific requirements. The Authority also states the reserves maintained and appropriate policies adopted. The capital reserves arise through investment in capital assets which basically facilitate the mandate of the Authority. The revenue reserves are through operation and are fully attributable to the GOK.

**(j) 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, short term fixed deposits and 91-day Treasury Bills.

**(k) Comparatives**

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

**(l) Significant judgments and sources of estimation uncertainty**

In preparing of the Authority's financial statements in conformity with IPSAS, management makes judgments and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include; provision for doubtful debts, useful lives and depreciation methods and asset impairment. Notes relating to the subject are included under the affected areas of the financial statements.

***Estimates and assumptions***

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

### **Useful lives and residual values**

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

- The condition of the asset based on the assessment of experts retained by the Authority
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

### **Provisions**

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

#### **(m) Currency**

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

#### **(n) Foreign Currency transactions**

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

#### **(o) 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, 2018.

<b>4. INSURANCE PREMIUM LEVY</b>	<b>2018 KES.</b>	<b>2017 KES.</b>
Premium levy	<u>1,593,994,473</u>	<u>1,565,811,292</u>
	<b><u>1,593,994,473</u></b>	<b><u>1,565,811,292</u></b>

As per section 197A (1) (2a) of the Insurance Act, Insurers are required to pay a levy on gross direct premiums written at a rate prescribed by the Cabinet Secretary. The rate is currently at 1%.

#### **5. LATE PAYMENT PENALTY**

Penalties	-	<u>146,115</u>
	:	<b><u>146,115</u></b>

As per section 197A (6) of the Insurance Act, failure to pay the premium levy by the due date attracts a late payment penalty of 5% of the amount not paid for each month or part of the month that it remains unpaid.

#### 6. LICENCE FEE

	<b>2018 KES</b>	<b>2017 KES</b>
Insurance companies	9,050,000	8,050,000
Brokers	3,060,000	3,000,000
Loss Assessors	1,239,000	1,001,000
Medical Insurance Providers	200,000	260,000
Agents	12,661,980	10,899,682
Other intermediaries	459,000	682,000
Branches	180,000	300,000
	<b><u>26,849,980</u></b>	<b><u>24,692,682</u></b>

This is an annual fee paid by all licensed industry players. The fees charged are kes.150,000 for insurance companies, kes.250,000 for reinsurance companies, kes.10,000 for brokers and medical insurance providers, kes. 3,000 for surveyors, loss adjustors, loss assessors, investigators, risk managers, claims settling agents and kes.1,000 for insurance agents. For annual renewals, the industry players are required to pay twice the amount if the application is received after the deadline, currently 30<sup>th</sup> September.

#### 7. INTEREST INCOME

Treasury bonds	111,651,270	111,270,208
Treasury bills	34,260,556	35,675,222
Fixed deposits	4,340,472	12,536,734
Current accounts	1,156,728	2,473,027
	<b><u>151,409,026</u></b>	<b><u>161,955,191</u></b>

This comprises interest earned on investment in treasury bonds, treasury bills, fixed deposit accounts and current accounts. Interest on treasury bonds and treasury bills is recognized on a straight-line basis over the maturity period of the investments.

#### 8. BOARD EXPENSES

Honoraria	960,000	960,000
Sitting allowances	7,620,000	9,440,000
Seminars, travel and accommodation	22,798,469	28,710,374
Others	945,600	1,705,714
	<b><u>32,324,069</u></b>	<b><u>40,816,088</u></b>

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

## 9. EMPLOYEE COSTS

	<b>2018 KES</b>	<b>2017 KES</b>
Basic salary	197,375,372	198,811,217
House allowances	34,570,968	33,613,773
Transport allowances	30,170,548	30,096,641
Contract/part-time staff	12,192,837	6,595,127
Special duty and extraneous allowance	14,678,205	13,799,000
Pension and gratuity	40,175,500	39,525,140
Medical	25,036,072	17,112,924
Group insurance-life and accident	3,534,987	3,179,054
Training and capacity building	72,643,225	72,051,288
Subscriptions	1,762,478	1,831,797
Staff uniforms and welfare	10,864,772	5,211,349
Staff bonus and awards	120,000	9,334,700
Leave allowance	<u>2,860,000</u>	<u>2,850,000</u>
	<b><u>445,984,964</u></b>	<b><u>434,012,010</u></b>
Number of employees at year end	83	78

## 10. DEVELOPMENT OF THE INSURANCE INDUSTRY

Seminars for insurance industry	61,837,719	45,335,543
Consumer education	92,624,178	68,472,657
Internship	1,175,334	801,821
Scholarship for Actuarial students	30,673,611	26,573,883
Research	<u>1,648,493</u>	<u>10,441,515</u>
	<b><u>187,959,335</u></b>	<b><u>151,625,419</u></b>

## 11. GENERAL EXPENSES

Office supplies and expenses	20,686,736	19,772,966
Transport and travel	43,589,675	41,209,542
Public relations	107,041,337	52,535,642
ICT expenses	22,490,832	18,511,633
Office rent and office services	62,038,650	56,454,779
IFIU and Tribunal expenses	<u>29,698,843</u>	<u>27,334,645</u>
	<b><u>285,546,073</u></b>	<b><u>215,819,207</u></b>

## 12. REPAIRS AND MAINTENANCE COSTS

Repair and service-office equipment	3,451,360	1,527,580
Vehicle repair and service	<u>2,041,196</u>	<u>1,687,064</u>
	<b><u>5,492,556</u></b>	<b><u>3,214,644</u></b>

## 13. CONTRACTED SERVICES

Consultancy	24,427,444	8,715,714
Audit fees	<u>800,000</u>	<u>870,000</u>
	<b><u>25,227,444</u></b>	<b><u>9,585,714</u></b>

## 14. FINANCE COSTS

Bank charges	<u>1,134,448</u>	<u>1,964,800</u>
	<b><u>1,134,448</u></b>	<b><u>1,964,800</u></b>

## 15. DEPRECIATION AND AMORTISATION

Depreciation	13,392,748	17,878,642
Amortisation	<u>1,052,524</u>	<u>1,004,419</u>
	<b><u>14,445,272</u></b>	<b><u>18,883,061</u></b>

## 16 (a) TRANSFER TO THE CONSOLIDATED FUND

	<b>2018</b>	<b>2017</b>
	<b>KES</b>	<b>KES</b>
Surplus for the year	774,139,318	876,684,337
Less purchase of assets	<u>(40,565,427)</u>	<u>(2,403,902)</u>
Realised surplus funds	<u>733,573,891</u>	<u>874,280,435</u>
90% of realised surplus funds	<b><u>660,216,502</u></b>	<b><u>786,852,392</u></b>
<b>b) AMOUNT DUE TO CONSOLIDATED FUND</b>		
90% of realised Surplus	660,216,502	786,852,392
Advance payment	<u>(612,327,976)</u>	<u>(536,511,740)</u>
Amount Due	<b><u>47,888,526</u></b>	<b><u>250,340,652</u></b>
<b>17. CASH AND BANK BALANCES</b>		
NBK Account No. 0100306688400	21,840,062	60,219,357
KCB Ltd Account No. 1202647413	38,927,590	129,652,340
NIC bank Account no. 1000009632	10,676,624	3,835,420
CO-OP Account no.01141163618300	100,000	-
Petty cash	<u>63,070</u>	<u>200,000</u>
	<b><u>71,607,346</u></b>	<b><u>193,907,117</u></b>
<b>18. RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>		
Prepayments	5,335,886	6,732,326
Staff imprests /advances	2,091,804	3,617,473
Deposits	24,633,275	24,623,275
National Treasury	982,500	1,572,000
Accrued Interest	33,962,517	33,048,319
PHCF	<u>55,598</u>	<u>203,220</u>
	<b><u>67,061,580</u></b>	<b><u>69,796,613</u></b>
<b>19. SHORT TERM INVESTMENTS</b>		
National bank of Kenya	-	50,000,000
NIC bank	-	30,000,000
Treasury bills	<u>441,265,500</u>	<u>401,432,500</u>
	<b><u>441,265,500</u></b>	<b><u>481,432,500</u></b>
The effective interest rate on the Treasury bill as at 30th June 2018 was 8%.		
<b>20. INVENTORIES</b>		
Stationery	1,020,251	1,536,693
Toners	<u>1,080,996</u>	<u>1,349,304</u>
	<b><u>2,101,248</u></b>	<b><u>2,885,997</u></b>
<b>21. CASH AND CASH EQUIVALENTS</b>		
This includes cash in hand, current account balances, short term fixed deposits and investments in 91 days Treasury Bills.		
Cash and current account balances	71,607,346	193,907,117
Investment in fixed deposits	-	80,000,000
Treasury bills	<u>441,265,500</u>	<u>401,432,500</u>
	<b><u>512,872,846</u></b>	<b><u>675,339,617</u></b>

<b>22. PROPERTY, PLANT AND EQUIPMENT</b>	<b>Motor Vehicles</b>	<b>Computer Equipment</b>	<b>Computer Networking &amp; Cabling</b>	<b>Partitions Furniture &amp; Fittings</b>	<b>Equipment (Telephone, Fax, Other)</b>	<b>Total</b>
	<b>KES.</b>	<b>KES.</b>	<b>KES.</b>	<b>KES.</b>	<b>KES.</b>	<b>KES.</b>
At 1 July,2016	36,905,954	31,151,403	30,344,570	106,722,550	21,815,403	226,939,880
Add: additions during the year	-	569,934	-	408,976	574,480	1,553,390
Less: disposals during the year	-	-	-	-	-	-
<b>At 30 June 2017</b>	<b>36,905,954</b>	<b>31,721,337</b>	<b>30,344,570</b>	<b>107,131,526</b>	<b>22,389,883</b>	<b>228,493,270</b>
Depreciation:						
At 1 July,2016	36,301,731	30,954,343	30,150,846	86,800,653	18,141,134	202,348,707
Charge for the year	604,223	183,849	193,724	13,370,827	3,487,664	17,840,287
Disposal	-	-	-	-	-	-
<b>At 30 June,2017</b>	<b>36,905,954</b>	<b>31,138,192</b>	<b>30,344,570</b>	<b>100,171,480</b>	<b>21,628,798</b>	<b>220,188,994</b>
<b>Net book value: At 30 June 2017</b>	<b>-</b>	<b>583,149</b>	<b>-</b>	<b>6,960,046</b>	<b>761,085</b>	<b>8,304,276</b>
At 1 July,2017	36,905,954	31,721,337	30,344,570	107,131,526	22,389,883	228,493,270
Add: additions during the year	24,000,000	2,352,798	9,604,350	1,362,775	938,443	38,258,366
Less: disposals during the year	-	-	-	-	-	-
<b>At 30 June 2018</b>	<b>60,905,954</b>	<b>34,074,135</b>	<b>39,948,920</b>	<b>108,494,301</b>	<b>23,328,326</b>	<b>266,751,636</b>
Depreciation:						
At 1 July,2016	36,905,954	31,138,192	30,344,570	100,171,480	21,628,798	220,188,994
Charge for the year	6,000,000	996,425	3,247,717	2,649,952	498,654	13,392,748
Disposal	-	-	-	-	-	-
<b>At 30 June,2018</b>	<b>42,905,954</b>	<b>32,134,617</b>	<b>33,592,287</b>	<b>102,821,432</b>	<b>22,127,452</b>	<b>233,581,742</b>
<b>Net book value: At 30 June 2018</b>	<b>18,000,000</b>	<b>1,939,518</b>	<b>6,356,633</b>	<b>5,672,869</b>	<b>1,200,874</b>	<b>33,169,894</b>

At 30<sup>th</sup> June 2018, Assets worth Kes.245,460,402 were fully depreciated. The notional depreciation charge on these assets is Kes 52,574,914. (As at 30<sup>th</sup> June 2017 the fully depreciated assets were worth Kes 231,998,654 with a notional depreciation of Kes. 48,536,390).

## 23. INTANGIBLE ASSETS

### COMPUTER SOFTWARE

	<b>KES.</b>	<b>TOTAL KES.</b>
At 1 July, 2016	27,555,005	27,555,005
Add: additions during the year	850,512	850,512
Less: disposals during the year	-	-
<b>At 30 June 2017</b>	<b><u>28,405,517</u></b>	<b><u>28,405,517</u></b>
Amortization:		
At 1 July, 2016	26,739,003	26,739,003
Charge for the year	<u>1,042,774</u>	<u>1,042,774</u>
Disposal		
<b>At 30 June, 2017</b>	<b><u>27,781,777</u></b>	<b><u>27,781,777</u></b>
<b>Net book value: At 30 June 2017</b>	<b><u>623,740</u></b>	<b><u>623,740</u></b>
At 1 July, 2017	28,405,517	28,405,517
Add: additions during the year	2,307,061	2,307,061
Less: disposals during the year	-	-
<b>At 30 June 2018</b>	<b><u>30,712,578</u></b>	<b><u>30,712,578</u></b>
Amortization:		
At 1 July, 2017	27,781,777	27,781,777
Charge for the year	<u>1,052,524</u>	<u>1,052,524</u>
Disposal		
<b>At 30 June, 2018</b>	<b><u>28,834,301</u></b>	<b><u>28,834,301</u></b>
<b>Net book value: At 30 June 2018</b>	<b><u>1,878,277</u></b>	<b><u>1,878,277</u></b>

### 24. LONG TERM INVESTMENTS

These are fixed deposits under lien and Treasury Bonds.

	<b>2018 KES</b>	<b>2017 KES</b>
National bank	35,413,178	34,895,530
Kenya commercial bank	206,837,981	154,827,372
Treasury bond(12years)	<u>1,000,000,000</u>	<u>1,000,000,000</u>
	<b><u>1,242,251,159</u></b>	<b><u>1,189,722,902</u></b>

### 25. PAYABLES FROM EXCHANGE TRANSACTIONS

Sundry creditors	35,911,341	33,841,533
Others	<u>608,860</u>	<u>1,387,500</u>
	<b><u>36,520,201</u></b>	<b><u>35,229,033</u></b>

### 26. PROVISIONS

Audit fees	900,000	1,000,000
Consultancy fees	12,000,592	12,000,592
Amount due to the Consolidated Fund	<u>47,888,526</u>	<u>250,340,652</u>
	<b><u>60,789,118</u></b>	<b><u>263,341,244</u></b>

### 27. RELATED PARTY TRANSACTIONS

The following transactions took place with related parties

Board (Allowances & other expenses)	32,324,069	40,816,088
Top management (Remuneration)	<u>40,456,000</u>	<u>50,470,000</u>
	<b><u>72,780,069</u></b>	<b><u>91,286,088</u></b>

## 28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

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

The authority regularly reviews its risk management policies and systems to reflect changes in markets and emerging best practices. Risk management is carried out by the management under the supervision of the Board of Directors.

The Board provides policies for overall risk management, as well as policies covering specific areas such as liquidity risk, interest rate risk, credit risk, use of non-derivative financial instruments and investing excess liquidity.

### a) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Authority.

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

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

	<b>2018</b>	<b>2017</b>
	<b>KES</b>	<b>KES</b>
Prepayments	5,335,886	6,732,326
Staff imprests / advances	2,091,804	3,617,473
Deposits	24,633,275	24,623,275
National Treasury	982,500	1,572,000
Accrued Interest	33,962,517	33,048,319
PHCF	<u>55,598</u>	<u>203,220</u>
	<b><u>67,061,580</u></b>	<b><u>69,796,613</u></b>

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

### b) Market risk management

Market risk is the risk that the value of an investment will decrease due to changes in market factors. Although this risk is unlikely to occur, it is mitigated as follows;

- i. Cash and short-term deposits are placed with well-established financial institutions and also approved by the National Treasury.
- ii. Funds are invested in short term facilities and Government securities which are risk free

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

	<b>2018</b>	<b>2017</b>
	<b>KES</b>	<b>KES</b>
Cash & current account balances	71,607,346	193,907,117
Short term Fixed deposits	-	80,000,000
Treasury bills	441,265,500	401,432,500
National bank-Lien Deposit	35,413,178	34,895,530
Kenya commercial bank-Lien deposit	206,837,981	154,827,372
Treasury bond(12years)	<u>1,000,000,000</u>	<u>1,000,000,000</u>
	<b><u>1,755,124,005</u></b>	<b><u>1,865,062,519</u></b>

### c) Liquidity risk management

Liquidity risk is the risk that the authority will not be able to meet its financial obligations when they fall due. The authority's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or at the risk of damaging the authority's reputation.

The authority ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. All liquidity policies and procedures are subject to review and approval by the board of directors.

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

Sundry creditors	35,911,341	33,841,533
Provisions	60,789,118	263,341,244
Others	<u>608,860</u>	<u>1,387,500</u>
	<b><u>97,309,319</u></b>	<b><u>271,570,277</u></b>

### 29. CONTINGENT LIABILITIES

There were no contingent liabilities at the close of the financial year

### 30. OPERATING LEASES

The Authority has an uncancellable three operating leases of six years for office space in the second, sixth, seventh, tenth and ground floors with ZEP RE PTA. The rents are payable quarterly in advance.

### 31. COMMITMENTS

The Authority had issued local purchase orders and local service orders for various supplies for which goods/services had either not been received or had been partly received by 30<sup>th</sup> June, 2018.

Purchase/service orders	<u>966,835</u>	<u>1,367,188</u>
	<b><u>966,835</u></b>	<b><u>1,367,188</u></b>

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

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



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



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