

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

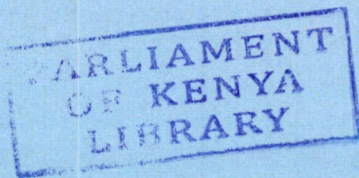
OF

THE AUDITOR-GENERAL

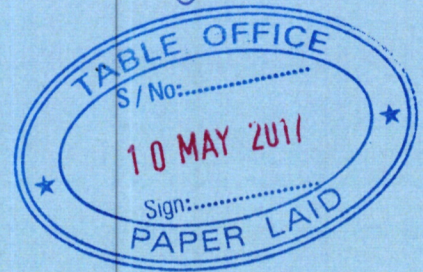
ON

**THE FINANCIAL STATEMENTS OF
INSURANCE REGULATORY AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE 2016**



*Paper laid by
LOM on 10/5/2017 (pm)*





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

21 MAR 2017

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Insurance
Regulatory
Authority

Bima Bora kwa Taifa

IRA

INSURANCE REGULATORY AUTHORITY

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2016**

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

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INSURANCE REGULATORY AUTHORITY

KEY AUTHORITY INFORMATION AND MANAGEMENT

(a) Background information

The Authority is a State Corporation established under Section 3(1) of the Insurance (Amendment) Act 2006.

(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.

(c) Key Management

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

- i) The Chief Executive Officer; and
- ii) Senior Management

(d) Fiduciary Management

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

No.	Designation	Name
1.	Chief Executive Officer and Commissioner of Insurance	Mr. Sammy M. Makove
2.	Chief Manager, Technical	Mrs. Agnes Ndirangu
3.	Chief Manager, Finance	Mr. Edward Opiayo
4.	Chief Manager, Human Capital Development and Administration	Mr. Godfrey Kiptum
5.	Chief Manager, Policy, Research and Development	Mr. Robert Kuloba

(e) Fiduciary Oversight Arrangements

The Board has put in place the following committees:

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



INSURANCE REGULATORY AUTHORITY

KEY AUTHORITY INFORMATION AND MANAGEMENT

(f) Authority's Offices

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
Website: <http://www.ira.go.ke>

(h) Authority's 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

(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)

Hon. Abdirahin 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. He currently sits in various Boards.



Ms. Joyce K. Muchena
Member
MA, BA, Dip. Human Rights, H.
Dip. Psychological Counselling

Ms. Muchena was appointed to the Board with effect from 19th January 2015 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.



Mr. Paul K. K. Cheboi
Member
Ph.D. Candidate, MBA, BSc, PG
Dip.

Mr. Cheboi was appointed to the Board with effect from 19th January 2015 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

THE BOARD OF DIRECTORS...CONTINUED



**Mr. Douglas Kailanya
Member**

MBA, B.Com, CPA(K)

Mr. Kailanya was appointed to the Board with effect from 19th January 2015 as an independent member. He is a qualified accountant with vast experience in financial management, administration, budgeting, investment portfolio management, credit control, and enterprise debt and risk management.



**Ms. Alice M. Njoroge
Member**

BA, ACII, ACI Arb.

Mrs. Njoroge was appointed to the Board with effect from 19th January 2015 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.



**Dr. Edward Odundo MBS,
Member**

PhD, MBA, B.Sc, FCPAK, FCPSK,
FKIM

Dr. Odundo is an *ex-officio* member of the Board and is the Chief Executive Officer of the Retirement Benefits Authority. He is currently the President of the International Organisation for Pension Supervisors and has vast experience in management, tax, accounting and finance.

THE BOARD OF DIRECTORS... CONTINUED



**Mr. Paul Muthaura,
Member**

M.Phil., LLM (Banking & Finance),
LLB

Mr. Muthaura is an *ex-officio* member of the Board and is the Chief Executive Officer 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.



**Mr. Matu Mugo
Member**

MBA, B.Com, CPA(K)

Mr. Mugo is an *ex-officio* member representing 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. Mutuku Nzomo
Member**

MA, BA

Mr. Mutuku is an *ex-officio* member representing the Principal Secretary, National Treasury in the Board. Currently he is the Acting Director, Financial and Sectoral Affairs Department at the National Treasury where he is charged with financial sector development including financial inclusion, efficiency and stability as well as sectoral policy issues including regional integration and climate finance.

THE BOARD OF DIRECTORS... CONTINUED



**Mr. Sammy M. Makove MBS,
CEO & Commissioner of Insurance**
MBA, MA, B.Com, ACII, CIP, AIIK,
ACI Arb

Mr. Makove is the Chief Executive Officer and Commissioner of Insurance. He has over 30 years' experience in insurance and management in both the private and public sectors. He is also credited with overseeing the successful transition from the Department of Insurance to the Insurance Regulatory Authority.



INSURANCE REGULATORY AUTHORITY

SENIOR MANAGEMENT TEAM

Chief Executive Officer and Commissioner of Insurance



Mr. Sammy Mutua Makove
MBA, MA, BCOM, ACII, CIP, CIARB

**Chief Manager Human Capital
Development and Administration**



Mr. Godfrey Kiptum
MBA, BA, ALMI, Dip. HRM

Chief Manager Technical



Mrs. Agnes Ndirangu
MBA, BCOM, ACII

Chief Manager Finance



Mr. Edward Opiayo
MBA, B.Com, CPA, CS

**Chief Manager Policy, Research and
Development**



Mr. Robert Kuloba
MA, BA



INSURANCE REGULATORY AUTHORITY

CHAIRMAN'S STATEMENT

It is my pleasure to present the 9th annual report of the Insurance Regulatory Authority.

Insurance Sector and National Objectives

In 2015, Kenya's insurance industry continued to grow, though marginally in real terms. While the Life Insurance business grew by 9.7% (1.7% in real terms), the growth in the General Insurance business was slightly higher at 11.4% (3.4% in real terms). At the global level, Life Insurance and General Insurance business grew in real terms by 4% and 3.6% respectively.

The insurance penetration-which is the relationship between Gross Direct Insurance Premiums and the Gross Domestic Product (GDP) - declined slightly from 2.82% to 2.80%. The decline is attributed to the higher growth of the economy in real terms of 5.6% compared to the insurance industry growth of 2.3%.

As a board, we are aware that at the national level, the key indicators for the performance of the industry are mainly three as indicated in the National Vision 2030. First, is the issue of insurance penetration, which as indicated above, stands at 2.88% and is considered low in comparison with rates obtaining for more developed economies. Second, is the adequacy of the level of capitalization of the insurance industry. The total assets held by the industry were estimated at Kes 478 billion in the year ending 31st December 2015. This dims in comparison with the assets held by the banking industry which were estimated at Kes 3,500 billion in the same period. The third and final issue relates to the length of time it takes for insurance companies to settle claims. This is currently estimated at 90 days and 180 days for liability and non-liability claims respectively and is considered unacceptably high compared to the national target of 30 days and 90 days for the same claims respectively.

Related to the above indicators, are the broad objectives of protecting the consumer and beneficiaries of insurance as well as ensuring that the industry maintains a reasonable level of stability. I am also quite aware that the insurance industry in Kenya suffers from issues of negative perception. Since the formation of the Authority, a number of measures have been undertaken with some level of success to address the intractable challenges facing the industry.

Vision of the IRA

In addition to measures already in place to address challenges facing the industry, my board will soon be putting in place further measures to ensure all the issues that hamper the growth of the industry and perpetuate the negative image (for example the four companies currently under statutory management) are expeditiously addressed. We therefore have approved a revised Strategic Plan for



INSURANCE REGULATORY AUTHORITY

CHAIRMAN'S STATEMENT.....CONTINUED

the period 2013 - 2018. This plan became operationally effective from June 2016. In addition to this, we intend to focus our efforts in ensuring that we create a world class insurance industry in Kenya. We are also keen to make our contribution towards making Nairobi an International Finance Centre, in line with the national objective, by creating a sound and predictable macro-economic environment that will attract all the major international players. Towards this end we will vigorously pursue our vision of being the leading insurance industry regulator.

Financial Performance of the Authority

As underscored in the previous periods, overall, the Authority has an adequate and sustainable revenue base. During the year under review the Authority's total revenue was Kes1.6 billion (2014/2015-Kes 1.5 billion) compared to a total expenditure of Kes 800 million (2014/2015-Kes 754 million). As a result, the Authority had a surplus of Kes 852 million (2014/2015-Kes 754 million) out of which Kes 766 million (2014/2015-Kes 692 million) is earmarked for transfer to the Consolidated Fund.

The recorded surplus is largely driven by the realization of revenue significantly above the budget by more than Kes 200 million (2014/2015-Kes 162 million) coupled with under-expenditure of more than Kes 200 million (2014/2015-Kes 289 million) owing to austerity measures adopted across the public sector in general but more specifically, as a result of policy shift towards creating a single unified regulator for the financial services, the Financial Services Authority.

The Board

I was appointed as the Chairman of the Board with effect from 10th March 2016, while four other members of the Board were appointed with effect from 19th January, 2015. The board comprises of highly experienced professionals. Most of the directors have a background in the insurance and/or financial services sector. All the key financial services regulators namely Central Bank of Kenya, Retirement Benefits Authority and the Capital markets Authority are represented on our Board.

As a demonstration of their commitment to the success of the Authority and the industry, the Board was able to participate in ECOP activities by attending the opening and graduation ceremonies.

Human Resource

The Insurance industry operates in a dynamic and complex environment where there is continuing demand for skills and expertise to drive greater efficiency and innovation. Human resource is therefore the key to the transformation of the insurance industry in Kenya. Towards this end, we intend to continue investing in



INSURANCE REGULATORY AUTHORITY

CHAIRMAN'S STATEMENT.....CONTINUED

the training of our staff and the industry in general. We will do this by collaborating with various stakeholders.

Future Outlook of the Industry

The future outlook of the industry remains positive as demonstrated by the entry into the Kenyan insurance industry of some of the globally recognized and highly rated insurance companies and intermediaries. This is further underlined by the presence and expansion of activities of major regional reinsurance companies.

Our strategic focus will continue to be aimed at addressing the past challenges while creating new opportunities for existing and potential players. We intend to anchor this focus on a more robust regulatory legislation for insurance industry. Already, we have spearheaded and drafted Insurance Bill, 2015 which we believe if enacted will propel the growth momentum that has been building up in the industry.

Appreciation

Let me take this opportunity to thank his Excellency the President of the Republic of Kenya for appointing me the Chairman of the Authority. Let me also on behalf of my fellow directors take this opportunity to thank the Cabinet Secretary, Finance for appointing my fellow directors who were appointed with effect from 19th January, 2016.

In conclusion, on behalf of the Board, I would like to thank National Treasury staff, our employees, the insurance industry and various stakeholders for their support during the year. We look forward to the opportunity to continue working together towards developing an insurance industry that is second to none in Africa.

Abdirahin Haithar Abdi, MGH
CHAIRMAN
BOARD OF DIRECTORS



INSURANCE REGULATORY AUTHORITY

REPORT OF THE CHIEF EXECUTIVE OFFICER

It is my pleasure to present this report highlighting the Authority's activities, accomplishments and challenges for the year 2015/2016. In the year under review, we made steady progress at an organizational and industry level despite the economic conditions and regulatory/policy developments. We finished the year strong and recorded various positive outcomes. We advanced in key strategic initiatives and revised our 2013-2018 Strategic Plan. We have a clear road map of what we would like to achieve in the next two years and how as an industry, we can play a greater role in the realization of Vision 2030.

Industry Performance

A well-functioning financial services system plays a key role in both driving and supporting growth by providing capital, facilitating trade and financing infrastructure and innovation. Financial institutions like the insurance industry play a pivotal role in providing innovative solutions to the significant social, economic and environmental challenges the country faces.

Kenya's financial sector has grown significantly in terms of its contribution to overall Gross Domestic Product (GDP). The Insurance industry has been growing steadily over the last decade. During the year under review, the industry continued to record business growth in terms of gross premium written, investments and asset base. This was underpinned by improved regulatory regime, investment in long-term growth drivers such as branding, research and development, and improved public awareness.

Industry written premium by December 2015 amounted to KES174.04 billion, representing 10.3% growth from KES 160.4 billion in 2014. The asset base, shareholder's equity and investments grew by 11.2%, 10.2% and 9.9% respectively. During the year under review, 107,591 new insurance policies were underwritten falling from 152,133 policies underwritten in 2014. However, the lives insured were 4.39 million, an increase of 9.1% from 2014.

The growth in the market was also evidenced by the entry of new players, mergers and acquisitions between local and international firms, expansion of the intermediaries' front of sourcing business and improved regulatory frameworks with the introduction of Risk Based Supervision (RBS) among others. The Authority seeks to attract more capital, increase technical expertise, and enhance innovation in product development and distribution while increasing global networks for Kenya's insurance industry.



INSURANCE REGULATORY AUTHORITY

REPORT OF THE CHIEF EXECUTIVE OFFICER..... CONTINUED

The Authority continues to focus on the following strategic issues as it strives to realize its mandate:

1. Industry Stability and Development

This is realized by putting in place the right regulatory and supervisory frameworks. We have now fully adopted the risk based supervision and have issued various guidelines and circulars aimed at ensuring that there is no disruption in the industry as we take on this new regulatory regime. We have had several engagements with the industry players and their response has been positive. Industry stability is crucial for both investor and public confidence. It is only when the companies are stable that they are able to meet their obligations in a timely manner. We continue to receive new entrants into the local market and have witnessed a number of mergers and acquisitions during the last year. The interest shown in the local market is proof enough that the Kenyan insurance market is viable and has business potential.

For the insurance industry to develop, there has to be enhanced access to it. To increase the points of insurance access, the Authority has been conducting training for insurance sales agents at the County levels. Dubbed Executive Certificate of Proficiency (ECOP), this project is conducted in partnership with the College of Insurance and County Governments. The intention is to develop capacity at the local level so that insurance services are readily available even in the rural areas. A total of 3000 students have been trained as insurance agents through this initiative that is still ongoing.

At a higher level, the Authority is still training students on Actuarial Studies at the Cass Business School in London. Since inception, 30 students have been trained on Actuarial Management and 4 of the students have qualified as Actuarial Fellows. The training on Actuarial services is very important especially considering the supervisory model adopted by the Authority. The training was borne out of the realization that there lacked industry capacity and yet the industry players are all expected to have actuarial functions.

2. Consumer Education and Protection:

With the enactment of the Consumer Protection Act 2012 among other laws, focus on the consumer has and will continue to considerably gain momentum. The implications of these changes is shifts in the nature of rights and responsibilities of a regulator viz a viz consumers of insurance services as regards access to



INSURANCE REGULATORY AUTHORITY

REPORT OF THE CHIEF EXECUTIVE OFFICER..... CONTINUED

information as well as standards of service delivery. In a survey we commissioned, it was revealed that negative perception and general lack of knowledge of insurance is a major hindrance to growth in the industry.

Consumer Education is among one of the most important ongoing activities within the Authority. This is because consumer education is an important pillar of consumer protection and this is one of the goals of the Authority. Our intention is to create awareness by providing insurance education that will reach out to all consumers in order to enhance penetration of insurance, achieve sound risk management, reduce exposure and create a savings culture among consumers.

Currently, there exists a huge information asymmetry between insurance consumers and insurance providers. We have taken up the activity of Consumer Education and are using several approaches to reach the various target audiences. We conducted a media campaign in both radio and television stations and this generated a lot of public interests in what the Authority does and on insurance matters as a whole. The media campaigns were in national and vernacular dialects. In conjunction with the County governments, we also conducted County Outreach activities where we met various groups of people and held open public activities through our Insurance Mobile Clinics. We take matters of consumer education seriously and view this as one of the ways of ultimately enhancing uptake and penetration of insurance services. In the short term, consumer education also assists in protecting existing consumers.

3. Provision of Quality Customer Service

The strategic objective identified under this key area is to increase customer satisfaction from 66.8% in 2015 to 85% by 2018. To realize this, the Authority continues to leverage its customer service on ICT and has strengthened human capital effectiveness to meet the growing consumer needs. We have automated several customer functions making it easy to interact with our stakeholders from the comfort of their offices. A customer relationship management system has been put in place to track customer issues and overall operating procedures have been revised to reduce service timelines. This initiatives are aimed at ensuring quality and timely customer service. We are open to feedback and suggestions on how to further enhance our service delivery to satisfy our customers.



INSURANCE REGULATORY AUTHORITY

REPORT OF THE CHIEF EXECUTIVE OFFICER..... CONTINUED

Acknowledgment

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 all the stakeholders for their support and confidence. The Authority will continue to work closely with the various stakeholders to ensure the continued development and growth of the insurance industry.

A handwritten signature in black ink, appearing to read "Sammy Makove", is written over the printed name.

Sammy Makove, MBS

COMMISSIONER OF INSURANCE AND CHIEF EXECUTIVE OFFICER



INSURANCE REGULATORY AUTHORITY

CORPORATE GOVERNANCE STATEMENT

The Authority's mandate is to regulate, supervise and develop the insurance industry in Kenya. In pursuit of the achievement of this mandate and in consideration of the size, complexity and systemic interconnectedness of the industry, the Authority has continued to play an important role in stimulating stability and growth. This has mainly been through formulation and implementation of varied regulatory and supervisory measures that are fundamental in ensuring fairness, efficiency and competitiveness of the insurance market in Kenya.

a) Board Composition

The Authority's management vests in its Board of Directors as prescribed under Section 3B of the Insurance Act. 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. There has neither been a resignation by nor removal of a serving director.

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 are as follows:

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

Each Board Committee has its own Terms of Reference setting forth the purposes, goals and responsibilities of the Committee as well as qualifications for committee membership, procedures for committee member appointment and removal, committee structure, operations and its reporting to the Board. During the period under review, the Board Committee membership was reconstituted by resolution of the Board of Directors on 16th September 2015.

The Board has an Internal Audit Charter in place defining the scope of internal audit, its authority, responsibility, accountability, reporting and standards of



INSURANCE REGULATORY AUTHORITY

CORPORATE GOVERNANCE STATEMENT...CONTINUED

auditing best practices. The Charter 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.

Name	Designation	Classification	Board	TRC	FAC	ARCC	HRC
Hon. Abdirahin Abdi	Chairman	Membership	¶				
		Attendance	6/6				
Mr. Sammy Makove	Member	Membership	¶	¶	¶	¶	¶
		Attendance	*12/13	8/8	5/5	5/5	*5/6
Dr. Edward Odundo	Member	Membership	¶	¶	¶	¶	
		Attendance	*9/13	*7/8	5/5	*3/4	
Mr. Paul Muthaura	Member	Membership	¶		¶		¶
		Attendance	*7/13		*1/4		*4/5
Mr. Matu Mugo	Member	Membership	¶	¶		¶	¶
		Attendance	*5/6	-		2/2	
Mr. Nzomo Mutuku	Member	Membership	¶	¶	¶	¶	
		Attendance	*8/9	*3/4	*2/3	*1/3	
Ms. Alice Njoroge	Member	Membership	¶	¶	¶		¶
		Attendance	*12/13	8/8	4/4		5/5
Mr. Douglas Kailanya	Member	Membership	¶	¶	¶		¶
		Attendance	13/13	7/7	5/5		6/6
Ms. Joyce Muchena	Member	Membership	¶			¶	¶
		Attendance	*12/13			5/5	*5/6
Mr. Paul Cheboi	Member	Membership	¶	¶		¶	
		Attendance	13/13	8/8		5/5	

KEY:

- ¶ - This means a member of respective Board Committee
- TRC - Technical, Research and Compliance Committee
- FAC - Finance & Administration Committee
- ARCC - Audit, Risk Management and Corporate Governance Committee
- HRC - Human Resource Committee

*Where a Member did not attend a Board or Board Committee 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.



INSURANCE REGULATORY AUTHORITY

CORPORATE GOVERNANCE STATEMENT...CONTINUED

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. This requirement is not only stipulated in the Insurance Act, but also in the Authority's Board Charter and the Mwongozo Code of Governance for State Corporations. 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 so as to ensure safeguard of the identity and safety of persons making corruption disclosures to the Authority.

f) Statement of Compliance

As a State Corporation, the Authority's operations are legally guided by the Constitution of Kenya, the provisions of the Insurance Act – Chapter 487 of the Laws of Kenya, the State Corporations Act - Chapter 446 of the Laws of Kenya, the *Mwongozo Code of Governance for State Corporations* and by the general principles of good corporate governance; all of which it is committed to. The Board continues to abide by its Charter, the internal codes of conduct, the Authority's statutory mandate and the Terms of Reference of Board Committees.

The Authority continues to comply with all the statutory requirements relevant to its operation as a body corporate and complies with relevant Government Circulars as issued from time to time.

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. In the same vein, the Board defines the Vision, Mission and Core Values to enable realisation of the set strategic plan. During the period under review, a mid-term review of the Strategic Plan for the period 2013 – 2018 was conducted.

The Board has delegated the day to day operations of the Authority to the Management which is headed by the Commissioner of Insurance/Chief Executive



INSURANCE REGULATORY AUTHORITY

CORPORATE GOVERNANCE STATEMENT...CONTINUED

Officer. The Board periodically monitors and evaluates the implementation of its performance contract, plans and strategies through reports received from Management through its various Committees.

The Board ensures that the Authority espouses proper corporate governance practices by confirming that the requisite codes of conduct, procedures and practices are existent, relevant and adhered to. The Board also achieves this by ensuring that the Authority complies with all the statutory requirements.

The Board is responsible for managing the Authority's risks. In this regard the Board has set up its Enterprise Risk Management Framework which enables it to fully and effectively monitor the Authority's risks. The Board, Management and key Staff of the Authority have been trained on risk management and the Board has developed a Business Continuity Plan.

The Board recognises and honours its responsibility to its key stakeholders by ensuring that it meets its undertaking under the Performance Contract. In this case Board Members are fully aware of their responsibility to discharge their function in good faith, with prudence, diligence and due care.

h) Board Induction and Training

Being newly appointed, Board members attended an in-house induction on the operations of the Authority, a customized induction training for board directors and a five day corporate governance training for directors as a foundational courses.

The Board development programmes were scheduled and attended as follows:

1. Five Day Corporate Governance Training Course for Directors, Centre for Corporate Governance
2. Trustee Development Program Kenya, College of Insurance
3. The Strategic Leadership and Innovation Seminar, Institute of Director Kenya
4. Driving Government Performance: Leadership Strategies that Produces Results, Harvard Kennedy School



INSURANCE REGULATORY AUTHORITY

CORPORATE GOVERNANCE STATEMENT...CONTINUED

5. Strategic Management of Regulatory and Enforcement Agencies, Harvard Kennedy School

The Board Development Plan is developed in accordance with the training needs identified and/or analysed for each Member and for the Board as a whole.

i) Board Evaluation

The Board schedules its annual evaluation exercise in its work plan in consultation with the State Corporations Advisory Committee (SCAC) to enable a review of its performance against set objectives. The Board evaluation exercise was conducted by the SCAC on the 15th of December 2015.

j) Board Remuneration

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

k) Corporation Secretary

The Board is assisted by a qualified, competent and experienced Corporation Secretary competitively recruited. The Corporation Secretary co-ordinates the Board activities and ensures, in conjunction with the Chairman and Chief Executive Officer, that the Board meetings are held procedurally as specified in *Mwongozo Code of Governance for State Corporations*.

l) Separation of Roles

In accordance with *Mwongozo Code of Governance for State Corporations* 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.



INSURANCE REGULATORY AUTHORITY

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 operate determines our place within it. Since establishment nine years ago, 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.

Our CSR programmes are aimed at providing long-term benefits to our employees, partners, stakeholders and the broader communities around us. We continue to create a network of CSR activities that let us act proactively in various parts of the country. Through our CSR policy, we also encourage staff members to contribute to some of the initiatives we are engaged in.

Some of the CSR activities conducted during the period under review include:

Sponsorship of the Annual Cerebral Palsy Charity Walk

For the 5th year running, the Authority partnered with the Cerebral Palsy Society of Kenya (CPSK) in organizing the annual CPSK/IRA Charity Walk. Themed “ A journey of Hope”, the Walk is aimed at raising funds and awareness about Cerebral Palsy (CP) condition

CP is a physical condition that affects muscle tone, movement, and motor skills (the ability to move in a coordinated and purposeful way) and can also lead to other health issues, including vision, hearing, and speech problems and learning disabilities. CP is not curable and most of the time, those living with it are not able to engage in activities on their own and the disabilities are combined.

Through the partnership with the Authority, the CPSK outreach programmes have expanded to counties like Kitui, Kisumu, Kiambu and Nakuru. The activities range from school/student support to formation of support groups of parents for children with CP. The Society has also started a kindergarten/day care centre for children living with CP within Nairobi. Kitui (St Magdalene School)



INSURANCE REGULATORY AUTHORITY

CORPORATE SOCIAL RESPONSIBILITY STATEMENT...CONTINUED



IRA Director Joyce Muchena flags off the 9.3 Km Charity Walk at the Nyayo National Stadium.



Some of the pupils who attended at the start of the Charity Walk.

Hospital Support Programme

In its efforts to supplement government efforts in health care, the Authority supports various public health facilities across the country. The support is in form of purchase of equipment, as identified by the institutions. The hospitals that benefited from this programme include Kenyatta National Hospital, Jaramogi Oginga Odinga Teaching and Referral Hospital and Kakamega County General Hospital.



INSURANCE REGULATORY AUTHORITY

CORPORATE SOCIAL RESPONSIBILITY STATEMENT...CONTINUED



The Chief Finance Manager Mr. Edward Opiayo (2nd from right) presenting a cheque to the Kakamega County General Hospital Medical Superintendent Dr. Roselyne Atieno.



Mr. Opiayo (2nd from left) being taken for a tour of the main theatre by board members of the Jaramogi Teaching and Referral Hospital led by the Medical Superintendent Dr. Juliana Otieno (on the right)

Support to Corporate Bodies

The Authority continues to partner with professional bodies in the organization and running of awards that are aimed at rewarding excellence in various operating areas. Through such partnerships, synergies are created and resources are shared. In addition, the Authority's visibility and reputation is enhanced. Some of the bodies that the Authority partnered with in the last year include the Institute of Certified Public Secretaries of Kenya (ICPSK) through the Champions of Governance (CoG) Awards, Institute of Certified Public Accountants of Kenya (ICPAK) through the Financial Reporting (FiRe) Awards and the Association of Kenya Insurers (AKI) through the Agents' of the Year Awards. The Authority also supported the inaugural Actuarial Convention, the Insurance Institute of Kenya (IIK), Association of Insurance Brokers of Kenya (AIBK) and Law Society of Kenya (LSK) conferences

Support to Learning institutions

The Authority supports learning institutions in various ways. Some of the institutions that have benefitted from this programme include Jomo Kenyatta University of Agriculture and Technology (JKUAT), University of Nairobi (UoN) , Maseno University and St. Bakhita primary School.



Internal Audit and Risk Manager Mrs. Joan Kirika (on the left) leads other staff members in presenting donation items to Madam Celina, the Head Teacher of St. Bakhita Primary School.



INSURANCE REGULATORY AUTHORITY

REPORT OF THE DIRECTORS

The Directors submit their report together with the financial statements for the year ended June 30, 2016 which shows the state of affairs of the Insurance Regulatory Authority (the Authority).

1. INCORPORATION

The Authority is a State Corporation established under Section 3(1) of the Insurance (Amendment) Act 2006.

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, 2016 are set out on page 27.

4. BOARD OF DIRECTORS

The Directors who served during the year are shown on page 3-6.

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

Ms. Diana Sawe Tanui
Board Secretary

Date: 19th September 2016



INSURANCE REGULATORY AUTHORITY

STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

Section 68 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, 2016. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Authority; selecting and applying appropriate accounting policies; and (v) 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, 2016, and the Authority's financial position as at that date. Financial affairs of the Authority and of its operating results. 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 7th September 2016 and signed on its behalf by:



Chairman

Date : 19th September 2016



Director

REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON INSURANCE REGULATORY AUTHORITY FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Insurance Regulatory Authority set out on pages 27 to 48, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in net assets, statement of comparison of budget, and actual amounts and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

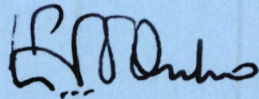
Report of the Auditor-General on the Financial Statements of Insurance Regulatory Authority for the year ended 30 June 2016

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Insurance Regulatory Authority as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Insurance Act, Cap 487 of the Laws of Kenya.



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

Nairobi

03 April 2017



INSURANCE REGULATORY AUTHORITY
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30TH JUNE 2016

		2016	<i>Reclassified</i> 2015
	Notes	KES.	KES.
Revenue from non-exchange transactions			
Insurance premium levy	3	1,426,318,831	1,286,415,084
Late payment penalties	4	-	194,231
Licence fees	5	<u>22,912,376</u>	<u>20,745,527</u>
		<u>1,449,231,207</u>	<u>1,307,354,842</u>
Revenue from exchange transactions			
Interest income	6	201,947,101	216,739,599
Miscellaneous income	7	-	20,050
		<u>201,947,101</u>	<u>216,759,649</u>
Total Revenue		<u>1,651,178,308</u>	<u>1,524,114,491</u>
EXPENSES			
Board expenses	8	27,411,494	11,397,659
Employee Costs	9	401,744,919	404,230,766
Development of the insurance industry	10	149,180,979	100,580,917
General Expenses	11	190,724,210	182,835,085*
Repairs and maintenance costs	12	5,842,622	2,682,073*
Contracted services	13	5,364,280	15,720,120*
Finance Costs	14	2,313,403	1,678,657*
Depreciation and Amortisation	16	<u>27,585,775</u>	<u>35,210,474</u>
		<u>810,167,682</u>	<u>754,335,751</u>
SURPLUS FOR THE YEAR		841,010,626	769,778,740
Transfer to Consolidated Fund	17	<u>(755,690,860)</u>	<u>(691,887,735)</u>
TRANSFERRED TO GENERAL RESERVE		<u>85,319,766</u>	<u>77,891,005</u>



* See Note 30



INSURANCE REGULATORY AUTHORITY
STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2016

		2016	<i>Reclassified</i>
	Notes	KES.	2015
			KES.
ASSETS			
CURRENT ASSETS			
Inventories	18	2,562,319	3,108,980
Receivable from exchange transactions	19	68,810,523	66,864,814
Investments	20	641,659,000	786,080,855
Cash and bank balances	21	<u>176,382,838</u>	<u>173,220,302</u>
		<u>889,414,680</u>	<u>1,029,274,951</u>
NON CURRENT ASSETS			
Property, plant and equipment	15(a)	24,591,173	45,400,599*
Intangible Assets	15(b)	816,002	6,238,236*
Investment	23	<u>1,186,595,863</u>	<u>1,182,855,878*</u>
		<u>1,212,003,038</u>	<u>1,234,494,713</u>
TOTAL ASSETS		<u>2,101,417,718</u>	<u>2,263,769,664</u>
CURRENT LIABILITIES			
Payables from exchange transactions	24	74,451,384	85,172,505
Provisions	25	<u>468,695,361</u>	<u>705,645,952</u>
		<u>543,146,745</u>	<u>790,818,457</u>
NET ASSETS		<u>1,558,270,973</u>	<u>1,472,951,207</u>
RESERVES			
General reserves		<u>1,558,270,973</u>	<u>1,472,951,207</u>
		<u>1,558,270,973</u>	<u>1,472,951,207</u>

The notes on page 32 to 47 form an integral part of these financial statements

 Chairman  Chief Executive

* See note 30



INSURANCE REGULATORY AUTHORITY
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30TH JUNE 2016

GENERAL RESERVE	Notes	KES.
1 July, 2014		1,395,060,202
Changes in reserves for 2015		
Surplus for the year		<u>77,891,005</u>
Balance at 30 June, 2015		<u>1,472,951,207</u>
1 July, 2015		1,472,951,207
Changes in reserves for 2016		
Surplus for the year		<u>85,319,766</u>
Balance at 30 June, 2016		<u>1,558,270,973</u>



INSURANCE REGULATORY AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 KES.	2015 KES.
Cash flow from operating activities			
Cash receipts from customers		1,449,231,208	1,307,374,892
Payment to suppliers and employees		<u>(794,702,076)</u>	<u>(696,387,883)</u>
Net Cash from Operating Activities		654,529,132	610,987,009
Cash flow from investing activities			
Purchase of property, plant and equipment	15	(1,354,115)	(1,014,590)
Investment	23	(3,739,985)	(4,486,373)
Surplus paid to Consolidated Fund		(992,641,451)	(656,225,008)
Interest received		201,947,101	219,387,251
Purchase of treasury bonds			<u>(45,000,000)</u>
Net cash used in investing Activities		<u>(795,788,450)</u>	<u>(487,338,720)</u>
Net(decrease) increase in cash & cash equivalents		(141,259,318)	123,648,290
Cash & cash equivalent at the beginning		<u>959,301,156</u>	<u>835,652,867</u>
Cash & cash equivalent at the end	22	<u>818,041,838</u>	<u>959,301,156</u>



INSURANCE REGULATORY AUTHORITY

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	2016 KES BUDGET	2016 KES ACTUAL	VARIANCE %
INCOME			
Insurance premium levy	1,225,265,511	1,426,318,831	16%
Interest income	160,000,000	201,947,101	27%
Licence fees	18,000,000	22,912,376	27%
Miscellaneous income	<u>2,000,000</u>	<u>-</u>	<u>(100%)</u>
	<u>1,405,265,511</u>	<u>1,651,178,308</u>	<u>18%</u>
CAPITAL EXPENDITURE	3,500,000	1,354,115	61%
OPERATING EXPENDITURE			
Board members expenses	45,047,200	27,411,494	39%
Personnel emoluments	372,173,200	305,379,449	18%
Other personnel costs	120,435,000	96,365,470	20%
Development of Insurance industry	178,000,000	149,180,979	16%
Office supplies and expenses	24,895,400	17,752,935	29%
Transport and travel expenses	57,100,000	34,542,448	40%
Public relations	71,180,000	45,258,034	36%
Telephone and ICT expenses	38,433,920	18,837,829	51%
Office rent and office services	59,112,460	61,287,589	(4%)
Consultancy & professional services	50,000,000	7,677,683	85%
Insurance Fraud & other services	32,717,535	18,887,997	42%
Depreciation and Amortisation	<u>18,500,000</u>	<u>27,585,775</u>	<u>(49%)</u>
TOTAL EXPENDITURE	<u>1,071,094,715</u>	<u>811,521,797</u>	<u>25%</u>
SURPLUS FOR THE YEAR	<u>334,170,796</u>	<u>839,656,511</u>	<u>155%</u>



INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2016

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. 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, Reinsurance Levy, Penalties and licence fees

The Authority recognizes revenues from levies, penalties and fees 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 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 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.



INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

(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 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 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 214(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 214(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.



INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

(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.

(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.

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 Authority 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 amortised cost.

Short term deposits

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

Financial liabilities

Trade payables

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

INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

(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 maintains a general reserve.

(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

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



INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

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) 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, 2016.

3. INSURANCE PREMIUM LEVY

	2016	2015
	KES	KES
Premium levy	<u>1,426,318,831</u>	<u>1,286,415,084</u>
	<u>1,426,318,831</u>	<u>1,286,415,084</u>

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%.

4. LATE PAYMENT PENALTY

Penalties	-	<u>194,231</u>
	-	<u>194,231</u>

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.



INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

5. LICENCE FEE

	2016	2015
	KES	KES
Insurance companies	8,950,000	8,250,000
Brokers	2,860,000	2,100,000
Loss Assessors	789,500	802,000
Medical Insurance Providers	200,000	100,000
Agents	8,955,876	8,513,527
Other intermediaries	777,000	540,000
Branches	380,000	440,000
	<u>22,912,376</u>	<u>20,745,527</u>

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 30th September.

6. INTEREST INCOME

Treasury bonds	110,304,850	121,400,169
Treasury bills	50,900,334	55,315,955
Fixed deposits	37,760,048	36,586,922
Current accounts	2,981,869	3,436,553
	<u>201,947,101</u>	<u>216,739,599</u>

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.

7. MISCELLANEOUS INCOME

Miscellaneous income	=	20,050
	=	<u>20,050</u>

Miscellaneous income is realized mainly from the sale of tender documents.



INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

8. BOARD EXPENSES	2016 KES.	2015 KES.
Honoraria	160,000	-
Sitting allowances	7,260,000	3,546,000
Seminars, travel and accommodation	13,964,952	6,739,645
Others	<u>6,026,542</u>	<u>1,112,014</u>
	<u>27,411,494</u>	<u>11,397,659</u>

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

9. EMPLOYEE COSTS

Basic salary	182,343,741	174,318,961
House allowances	32,075,833	32,668,838
Transport allowances	30,161,018	31,658,081
Contract/part-time staff	11,581,880	9,844,851
Special duty and extraneous allowance	13,909,078	12,422,594
Pension and gratuity	35,307,900	35,510,092
Medical	13,834,011	20,161,358
Group insurance-life and accident	2,856,128	2,751,347
Training and capacity building	64,052,808	56,488,552
Subscriptions	2,233,975	1,702,599
Staff uniforms and welfare	9,695,139	8,572,993
Staff bonus and awards	195,000	15,340,500
Leave allowance	<u>3,498,409</u>	<u>2,790,000</u>
	<u>401,744,919</u>	<u>404,230,766</u>

Number of employees at year end	74	72
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10. DEVELOPMENT OF THE INSURANCE INDUSTRY

Seminars for insurance industry	45,174,121	35,270,333
Consumer Education	67,824,928	36,190,759
Internship	898,606	753,975
Scholarship for Actuarial students	30,004,036	28,162,350
Research	<u>5,279,288</u>	<u>203,500</u>
	<u>149,180,979</u>	<u>100,580,917</u>



INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

11. GENERAL EXPENSES

	2016	2015
	KES	KES
Office supplies and expenses	17,752,935	17,877,211
Transport and travel	32,987,937	32,533,027
Public relations	45,258,034	42,087,202
ICT expenses	18,837,829	19,573,632
Office rent and office services	56,999,478	50,397,475
IFIU and Tribunal expenses	<u>18,887,997</u>	<u>20,366,538</u>
	<u>190,724,210</u>	<u>182,835,085</u>

12. REPAIRS AND MAINTENANCE COSTS

Vehicle repair and service	1,554,511	961,345
Repair and service-office equipment	<u>4,288,111</u>	<u>1,720,728</u>
	<u>5,842,622</u>	<u>2,682,073</u>

13. CONTRACTED SERVICES

Consultancy	4,494,280	14,850,120
Audit fees	<u>870,000</u>	<u>870,000</u>
	<u>5,364,280</u>	<u>15,720,120</u>

14. FINANCE COSTS

Bank charges	<u>2,313,403</u>	<u>1,678,657</u>
	<u>2,313,403</u>	<u>1,678,657</u>



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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016

15(a). PROPERTY, PLANT AND EQUIPMENT

	Motor Vehicles	Computer Equipment	Computer Networking & Cabling	Partitions Furniture & Fittings	Equipment (Telephone, Fax, Other)	Total
	KES.	KES.	KES.	KES.	KES.	KES.
At 1 July,2014	36,905,954	30,773,172	29,764,006	105,785,230	21,342,813	224,571,175
Add: additions during the year	-	177,431	580,564	65,000	191,595	1,014,590
Less: disposals during the year	-	-	-	-	-	-
At 30 June 2015	36,905,954	30,950,603	30,344,570	105,850,230	21,534,408	225,585,765
Depreciation:						
At 1 July,2014	30,095,977	25,786,885	27,945,614	60,236,713	8,750,711	152,815,900
Charge for the year	3,721,707	4,058,950	1,551,268	13,231,278	4,806,063	27,369,266
Disposal	-	-	-	-	-	-
At 30 June,2015	33,817,684	29,845,835	29,496,882	73,467,991	13,556,774	180,185,166
Net book value:						
At 30 June 2015	3,088,270	1,104,768	847,688	32,382,239	7,977,634	45,400,599
At 1 July,2015	36,905,954	30,950,603	30,344,570	105,850,230	21,534,408	225,585,765
Add: additions during the year	-	200,800	-	872,320	280,995	1,354,115
Less: disposals during the year	-	-	-	-	-	-
At 30 June 2016	36,905,954	31,151,403	30,344,570	106,722,550	21,815,403	226,939,880
Depreciation:						
At 1 July,2015	33,817,684	29,845,835	29,496,882	73,467,991	13,556,774	180,185,166
Charge for the year	2,484,047	1,108,508	653,964	13,332,662	4,584,360	22,163,541
Disposal	-	-	-	-	-	-
At 30 June,2016	36,301,731	30,954,343	30,150,846	86,800,653	18,141,134	202,348,707
Net book value:						
At 30 June 2016	604,223	197,060	193,724	19,921,897	3,674,269	24,591,173

At 30th June 2016, Assets worth Kes.125, 385,861 were fully depreciated. The notional depreciation charge on these assets is Kes38, 078,140 (As at 30th June 2015 the fully depreciated assets were worth Kes 75,805,923 with a notional depreciation of Kes. 21,605,699).



INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2016

15(b). INTANGIBLE ASSETS

	COMPUTER SOFTWARE KES.	TOTAL KES.
At 1 July,2014	27,555,005	27,555,005
Add: additions during the year	-	-
Less: disposals during the year	-	-
At 30 June 2015	<u>27,555,005</u>	<u>27,555,005</u>
Amortisation:		
At 1 July,2014	13,475,561	13,475,561
Charge for the year	<u>7,841,208</u>	<u>7,841,208</u>
Disposal	-	-
At 30 June,2015	<u>21,316,769</u>	<u>21,316,769</u>
Net book value: At 30 June 2015	6,238,236	6,238,236
At 1 July,2015	27,555,005	27,555,005
Add: additions during the year	-	-
Less: disposals during the year	-	-
At 30 June 2016	<u>27,555,005</u>	<u>27,555,005</u>
Amortisation:		
At 1 July,2015	21,316,769	21,316,769
Charge for the year	<u>5,422,234</u>	<u>5,422,234</u>
Disposal	-	-
At 30 June,2016	<u>26,739,003</u>	<u>26,739,003</u>
Net book value: At 30 June 2016	816,002	816,002

16. DEPRECIATION AND AMORTISATION

Depreciation	22,163,541	27,369,266
Amortisation	<u>5,422,234</u>	<u>7,841,208</u>
	<u>27,585,775</u>	<u>35,210,474</u>



INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2016

17. (a) TRANSFER TO THE CONSOLIDATED FUND

	2016 KES.	2015 KES.
Surplus for the year	841,010,626	769,778,740
Less purchase of assets	<u>(1,354,115)</u>	<u>(1,014,590)</u>
Realised surplus funds	839,656,511	768,764,150
90% of realised surplus funds	<u>755,690,860</u>	<u>691,887,735</u>

(b) AMOUNT DUE TO CONSOLIDATED FUND

90% of realised Surplus	755,690,860	691,887,735
Advance payment	<u>300,753,716</u>	<u>.....-</u>
Amount Due	<u>454,937,144</u>	<u>691,887,735</u>

18. INVENTORIES

Stationery	1,778,229	2,739,480
Toners	<u>784,090</u>	<u>369,500</u>
	<u>2,562,319</u>	<u>3,108,980</u>

19 . RECEIVABLES FROM EXCHANGE TRANSACTIONS

Prepayments	3,799,426	3,738,686
Staff imprests /advances	2,341,313	1,745,420
Deposits	21,369,875	16,069,875
Retirement Benefits Authority	1,711,433	7,895,673
National Treasury	1,768,500	2,161,500
Accrued Interest	<u>37,819,976</u>	<u>35,253,660</u>
	<u>68,810,523</u>	<u>66,864,814</u>

20 .SHORT TERM INVESTMENTS

National bank of Kenya	170,000,000	130,000,000
NIC bank	100,000,000	161,211,205
Treasury bills	<u>371,659,000</u>	<u>494,869,650</u>
	<u>641,659,000</u>	<u>786,080,855</u>

The effective interest rate on the Treasury bill as at 30th June 2016 was 7%.

21.CASH AND BANK BALANCES

National bank of Kenya	168,592,805	160,873,259
NIC bank	7,590,033	12,147,042
Petty cash	<u>200,000</u>	<u>200,000</u>
	<u>176,382,838</u>	<u>173,220,301</u>



INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2016

22. CASH AND CASH EQUIVALENTS

This includes cash in hand, current account balances, short term fixed deposits and investments in 91 days Treasury Bills.

	2016	2015
	KES	KES
Cash and bank balances	176,382,838	173,220,301
Fixed deposits	270,000,000	291,211,205
Treasury Bills	371,659,000	494,869,650
	<u>818,041,838</u>	<u>959,301,156</u>

23. LONG TERM INVESTMENTS

These are fixed deposits under lien and Treasury Bonds.

National bank	33,249,157	32,690,147
Kenya commercial bank	153,346,706	150,165,731
Treasury bond(15years)	1,000,000,000	1,000,000,000
	<u>1,186,595,863</u>	<u>1,182,855,878</u>

24. PAYABLES FROM EXCHANGE TRANSACTIONS

	KES	KES
Sundry creditors	74,451,384	77,613,836
Others	-	7,558,669
	<u>74,451,384</u>	<u>85,172,505</u>

25. PROVISIONS

Audit fees	1,000,000	1,000,000
Gratuity	757,625	757,625
Consultancy fees	12,000,592	12,000,592
Amount due to the Consolidated Fund	454,937,144	691,887,735
	<u>468,695,361</u>	<u>705,645,952</u>

26. RELATED PARTY TRANSACTIONS

The following transactions took place with related parties

Board expenses	27,411,494	11,397,659
Top management remuneration	49,339,200	48,379,200
	<u>76,750,694</u>	<u>59,776,859</u>



INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2016

27. 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 bank balances, trade receivables and amounts due from related parties. The Authority's management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

b) Market risk management

(i) Interest rate risk

The authority interest rate risk arises from investments in short term deposits, Government securities and corporate bonds. These are fixed income instruments and would not be significantly affected by fluctuations in interest rates.

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.



INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2016

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.

28.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 30th June, 2016.

Purchase/service orders	<u>3,950,497</u>	<u>10,420,630</u>
	<u>3,950,497</u>	<u>10,420,630</u>

29. Major Variances

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

a) Board Expenses-Actual Kes 27 million(Budget-Kes 45 million)

Board expenses are below budget mainly as a result of under-expenditure in travel expenses (by Kes 3 million) and training (by Kes 14 million). This was partly driven by the fact that for a significant part during the financial year, the Board was not fully constituted.

b) Personnel Emoluments-Kes 305 million(Budget -Kes 372 million)

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

c) Other Personnel Costs-Kes 96 million(Budget-Kes 120 million)

Other personnel cost are under-spent mainly due to the staff bonus (Kes 15 million) which was not paid during the year.

d) Transport and travel-Kes 35 million(Budget-Kes 57million)

Transport and travel is under-spent mainly in local travel (Kes 5 million) and International travel (Kes 14 million). This is partly driven by the adoption of austerity measures imposed on the same at the national level.



INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2016

e) Public Relations-Kes 45 million(Budget-Kes 71 million)

Expenditure on this item is under-spent mainly on printing of public relations materials (by Kes 6 million) and public announcements (by Kes 15 million).

f) ICT Expenses-Kes 19million(Budget-Kes 38 million)

ICT expenses are under-spent mainly as result of challenges associated with the renewal of various licenses. This is mainly due to contracting issues that arose during implementation of the software running the procurement, human resource and document management processes (Kes 3 million). Savings were also realized in setting up a disaster recovery site (Kes 3 million).

g) Development of insurance industry-Kes 149 million(Budget-178 million)

Development of the insurance industry is under-spent mainly on consumer education activities (Kes 13 million) and seminars for the industry (Kes 8 million).

h) Consultancy -Kes 8 million(Budget-Kes 50 million)

Consultancy expenses are under-spent mainly of legal fees(Kes 20million) which were budgeted merely as a contingent provision and as such may result into a saving. General consultancy was also underspend by Kes. 20million.

i) Insurance Fraud and Other Expenses- Kes. 19M(Budget -Kes. 33)

Included in this budget is a contingent amount of Kes 14million.



INSURANCE REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2016

30. RE-STATEMENT OF PRIOR YEAR COMPARATIVE FIGURES

(a) STATEMENT OF FINANCIAL PERFORMANCE

Expenses	Audited Financial Statements 2014/15	Adjustments	Draft Financial Statement 2015/16 B/F 2014/15	REMARKS/EXPLANATIONS
Office supplies and expenses	17,877,211	(17,877,211)		- Reclassified to General expenses
Transport and travel	33,494,372	(33,494,372)		- Reclassified Kshs 32,533,027 to General expenses, Kshs 961,345 to Repairs and maintenance
Public relations	42,087,202	(42,087,202)		Reclassified to General expenses
Telephone and ICT expenses	19,573,632	(19,573,632)		- Reclassified to General expenses
Office rent and services	52,118,203	(52,118,203)		- Reclassified Kshs 50,397,475 to General expenses, Kshs 1,720,728 to Repairs and maintenance
Consultancy and other professional services	17,398,777	(17,398,777)		- Reclassified Kshs 15,720,120 to Contracted services, Kshs 1,678,657 to Finance costs
Insurance Fraud Investigation & tribunal expenses	20,366,538	(20,366,538)		Reclassified to General expenses
General expenses		82,835,085	182,835,085	Reclassified as from above
Repairs and maintenance		2,682,073	2,682,073	Reclassified as from above
Contracted services		15,720,120	15,720,120	Reclassified as from above
Finance cost		<u>1,678,657</u>	<u>1,678,657</u>	Reclassified as from above
	<u>202,915,935</u>	=	<u>202,915,935</u>	

(b) STATEMENT OF FINANCIAL POSITION

Property, plant and equipment	51,638,835	(6,238,236)	45,400,599	Reclassified to Intangible assets
Intangible assets		6,238,236	6,238,236	Reclassified from Property, plant and equipment
Investments	182,855,878	1,000,000,000	1,182,855,878	Reclassified from Treasury Bonds
Treasury bonds	<u>1,000,000,000</u>	<u>(1,000,000,000)</u>	=	Reclassified to Investments
	<u>1,234,494,713</u>	=	<u>1,234,494,713</u>	