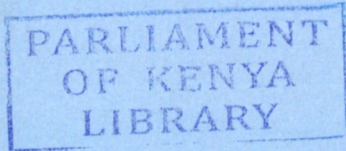


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT



OF



*Paper laid by
LOM
Wednesday
11/10/17
Afternoon
sitting
A/g*

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
NATIONAL SOCIAL SECURITY FUND

FOR THE YEAR
ENDED 30 JUNE 2016



NATIONAL SOCIAL SECURITY FUND

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

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Nairobi, Kenya
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CORPORATE INFORMATION

1. Principal Activity

NSSF was incorporated under the NSSF Act, Chapter 258 Laws of Kenya that was repealed after the NSSF Act no 45 of 2013 was enacted, which came into effect on 10th January 2014. NSSF mandate is to register members, receive their contributions, prudent investment of Funds, process and ultimately pay out benefits to eligible members or dependants.

2. Board of Trustees

The Fund is governed by a Board of Trustees constituted as per the NSSF Act No. 45 Of 2013 (section 6), with representation from the most representative workers' organization, most representative employers' organization and the Government of Kenya (through the Ministry of East Africa Community (EAC), Labour & Social protection and The National Treasury). The composition of the Board of Trustees is meant to accommodate the views and aspirations of the three social partners in policy formulation and running of the organization. During the year 2015/2016 the members of the Board of Trustees were as follows:-

- | | |
|--|---|
| a) Hon. Gideon M. Ndambuki, EGH | -Chairman |
| b) Mrs. Jacqueline Mugo, OGW, MBS | -Trustee-FKE |
| c) Dr. Khadija Kassachoon, CBS | -Trustee, Representing Ministry of EAC, Labour, & Social protection (State Dept. of Labour) |
| d) Mr. Francis Atwoli, EBS, MBS, NOM (DZA) | -Trustee-COTU |
| e) Ms. Damaris Wanjiru Muhika | -Trustee -COTU |
| f) Mr. Mutua Kilaka. CBS, SS | -Trustee-National Treasury |
| g) Ms. Teresa Maina | -Trustee |
| h) Mr. Patrick. Ogola | -Trustee |
| i) Eng. Erastus K. Mwangera CBS, EBS, OGW | -Trustee-FKE |
| j) Dr. Anthony O. Omerikwa | - Ag. Managing trustee/CEO NSSF |

3. Senior Management

The members of the senior management team were as follows:-

- | | |
|-------------------------|---|
| a) Dr. Anthony Omerikwa | - Ag. Managing Trustee/ CEO |
| b) Mr. Joseph Kimote | - General Manager (Research and Strategy) |
| c) Mr. Austin Ouko | - Ag. General Manager (Corporate Affairs/Corporation Secretary) |
| d) Mr. Moses Cheseto | - Ag. General Manager (Finance & Investment) |
| e) Mr. Pius Metto | - Ag. General Manager (Social Security) |

12. Our mission

To provide social security to members through enhanced coverage, efficient registration and collections, prudent fund management, competitive benefits and exemplary governance.






13. Our core values

- Integrity
- Innovation
- Customer Focus
- Teamwork
- Accountability

14. Corporate behaviour






The vision of NSSF which is anchored on excellence in performance has influenced corporate behaviour by setting a high performance culture among the Board Members, Management and Staff, through monitoring of performance against targets, measuring and rewarding high performance. In an effort to maintain the strategic direction of the Fund, the corporate behaviour is enhanced by adherence to the core values. NSSF attained ISO 9001:2015 Certification in order to enhance service delivery to our esteemed customers. Various strategies have been implemented in line with the Strategic Plan 2014-2019 geared towards inculcating high performance behavioural culture at all levels.

MEMBERS OF THE BOARD OF TRUSTEES






S/N	Name	Status	Date Appointed	Year of Birth	Key Profession / Academic Qualification	Experience
1	 Hon. Gideon M. Ndambuki, EGH Chairman	Chairman	31/05/2016	1947	<ul style="list-style-type: none"> • Holds an MBA and BSC degrees in business. administration from Emporia state university (USA) • Holds certificates in banking from Bank of America and small business mgt from Emporia university 	<ul style="list-style-type: none"> • Has experience in banking (trade bank and commercial bank of Africa • Hotel Industry • Public sector having served in Ministries of Planning, Economic and National Devt, Higher Education and Lands as well as Office of the President.
2	 Eng. Erastus Mwongera CBS, EBS,OGW	Trustee	12/01/2014	1949	<ul style="list-style-type: none"> • BSc Civil Eng. • Registered Engineer. • Fellow of the institute of Engineers. • Chief of the Order of the Burning spear. 	<ul style="list-style-type: none"> • Over forty years' experience in engineering and public sector having served as a permanent Secretary in various Ministries
3	 Ms. Damaris Wanjiru Muhika Trustee	Trustee	02/02/2015	1977	<ul style="list-style-type: none"> • MBA Africa Nazarene university • Bachelor of commerce- African Nazarene university • CPA 	<ul style="list-style-type: none"> • Experience in labour matters, currently serving as programs coordinator COTU • Lecturing • Accounting
4	 Dr. Khadijah Kassadhoon, CBS Principal Secretary, Ministry of EAC, Labour & Social Protection (State Department of Labour) – Trustee	Trustee, Representative of Ministry of EAC, Labour & Social Protection (State Department of Labour)		1969	<ul style="list-style-type: none"> • PHD –Business Management-UON • Bachelor of veterinary medicine- UON • Expert in management systems accreditation 	<ul style="list-style-type: none"> • Experience in the public sector gained in the Ministry of EAC, Labour & Social Protection (State Department of Labour) and KBS • Private sector experience gained at KENAS and UNIDO
5	 Mr. Patrick O. Ogoia – Trustee	Trustee	25/06/2015	1978	<ul style="list-style-type: none"> • Bachelor of Laws – LLB • Diploma in Law – Kenya school of law • The International Bar association- member • Kenya industrial property Institute- member and registered patent • Expert in intellectual property • Commissioner of oaths and notary public 	<ul style="list-style-type: none"> • Has experience in legal practice having worked with Ogola & Mujera Advocates, Daley & Figgs Advocates, Mohammed Madhani & Co Advocates, Kemboy and Ogola Advocates • Experience in drafting and negotiating commercial instruments

National Social Security Fund
Reports and Financial Statements
for the Year ended 30 June 2016 (Kes)



S/N	Name	Status	Date Appointed	Year of Birth	Key Profession / Academic Qualification
6	 Mrs. Jacqueline Mugo, OGW, MBS. Trustee – FKE	Trustee – FKE	16/9/2015	1957	<ul style="list-style-type: none"> Vast experience in labour matters between employers and employees and currently serving as Executive director of Kenya employers
7	 Mr. Francis Atwoli, EBS, MBS, NOM (DZA). Trustee	Trustee-COTU	16/09/2015	1949	<ul style="list-style-type: none"> Trained in Turin college of international labour organisation in advanced industrial relations practices/ labour economics/collective bargaining techniques/international labour laws/trade union organisation Trained extensively in labour movement history
8	 Mr. Mutua Kilaka, CBS,SS Trustee	Alternate Trustee		1952	<ul style="list-style-type: none"> Experience in the Public Sector serving as Finance Secretary, The National Treasury, provincial administration and National Government
9	 Ms. Teresa Maina Trustee	Trustee	31/05/2016	1966	<ul style="list-style-type: none"> MBA- University of Nairobi MA-International relations-part BA UoN HND-Inhuman resource-Institute of Human Resource Management
	 Dr. Anthony Omerikwa	Ag.ceo/ Managing Trustee	16/04/2015	1977	<ul style="list-style-type: none"> PhD Ed.S MSc HRD BA Econ. Dip MIS

SENIOR MANAGEMENT TEAM

S/N	Name	Year of Birth	Key Professional/ Academic Qualifications	Key Responsibilities
1	 Dr. Anthony Omerikwa Ag. CEO/Managing Trustee	1977	<ul style="list-style-type: none"> • PhD • Ed.S • MSc HRD • BA Econ. • Dip MIS 	<ul style="list-style-type: none"> • Provide strategic leadership • Strategy formulation • Implement Board decisions • Accounting officer of the Fund • Facilitate preparation of corporate policies. • In charge of all staff in the Fund • Advise the Board from time to time. • Implement the Funds mandate
2	 Mr. Joseph Kimote General Manager (S,R&D)	1971	<ul style="list-style-type: none"> • BA(Econ) • MBA Strategic Mgt, Project Management 	<ul style="list-style-type: none"> • Strategy formulation and implementation, research, Monitoring and Evaluation, • Performance contracting, business process improvement, organizational development, quality management system and business continuity development
3	 Mr. Moses Cheseto Ag. General Manager (F&I)	1974	<ul style="list-style-type: none"> • BA Land • Economics • MA Planning 	<ul style="list-style-type: none"> • Identification & implementation of Finance & Investment strategic objectives/ policies • Manage Finance & Investment portfolio • Formulate strategies to maximize return on members' funds. • Develop and review Financial/ Investment policies
4	 Mr. Pius Metto Ag. General Manager (SS)	1967	<ul style="list-style-type: none"> • MBA • Bed 	<ul style="list-style-type: none"> • Formulate policies and strategies to increase member coverage. • Develop strategies for market penetration. • Ensure completeness of revenue from both mandatory and voluntary.
	 Mr Austin Ouko Ag. General Manager CA/ CS	1981	<ul style="list-style-type: none"> • Master of Laws (LLM) • Bachelor of Laws (LL.B) degrees • Postgraduate Dip.(KSL) • Adv. Dip. (Bus. Admin). • Dip. MIS 	<ul style="list-style-type: none"> • Carry out the Trustees' instructions; • Help ensure that the Fund obeys the law and its own constitutional rules • Prepare and maintain the associated Funds documents. • Formulation of the Fund's Corporate strategy and operating plans

CHAIRMAN'S STATEMENT

I take great pleasure to present the Annual Report and Financial Statements for the year ended 30 June 2016.

Operating Environment

Kenya maintained a stable economic environment and fiscal discipline despite the heightened security concerns due to acts of terrorism which continue to put a dent on the country's investment environment.

In 2015/2016, the Kenyan economy grew by 5.9% from 5.6% in 2014/2015. The marginal growth was attributed to growth in infrastructure, slow growth in manufacturing and bearish Nairobi Securities Exchange (NSE). We expect 2017 Gross Domestic Product (GDP) growth to stand at 6.1%, mainly predicated on increased government spending and resource absorption capacity in the counties. However, the government remains optimistic that the country will record a 6.1% growth in 2016.

Financial Performance

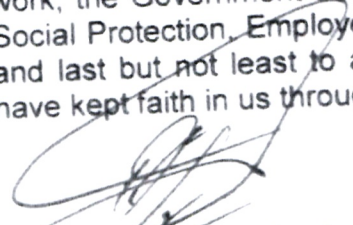
I am therefore delighted to note that in line with our tagline "Growing you for Good" The Fund recorded a surplus of **Kes 5.27 billion** as compared to **Kes 13.20 Billion** in 2014/2015. Our Net asset base grew from **Kes. 165.5 billion** in 2014/2015 to **Kes 172.09 billion** in 2015/2016, an equivalent of **3.1%** increase. The growth in the surplus is as result of increased collection of members' contributions, prudent investment and operational efficiency.

Outlook

The economy is expected to grow at between 5.8% - 6.5% in 2016, according to projections by the World Bank and the International Monetary Fund (IMF). The National Social Security Fund (NSSF) will endeavour to leverage on its strength and the conducive business environment to continue championing the socio-economic welfare of our people to deliver sustainable performance and contribute to the Nation's economic development.

Conclusion

Finally, I wish to express my sincere appreciation for the teams that have contributed to make these great strides over the years. I wish to thank my fellow members of the Board of Trustee, the management and staff of NSSF for their commitment to hard work, the Government through the line Ministry of East Africa Community, Labour & Social Protection, Employers, Employees, our customers for their continued support and last but not least to all our development partners and other stakeholders who have kept faith in us throughout this journey.


Hon. Gideon M. Ndambuki
CHAIRMAN BOARD OF TRUSTEES

CEO/MANAGING TRUSTEE STATEMENT

Performance

I'm pleased to present the Fund's performance for the year ended 30 June, 2016. This gives me and my staff great joy and confidence in our understanding that you walk through a path but implement a plan. The strategic path set by the Board of Trustees is yielding the intended result. Member contributions and return on investment showed growth in the year 2015/2016 as compared to last financial year.

This growth is a reflection of deliberate effort by the Board of Trustees and management of NSSF in modernising and professionalizing the operations of the Fund. The Fund has a huge responsibility to contribute to the achievement of the vision 2030 set by the national government, through provision of sustainable and comfortable retirement benefits to all Kenyan workers and voluntary members.

Financial Results

During the year, member contributions grew by **9.6%** from **Kes. 11.75 billion** in 2015 to **Kes. 12.88 billion** in 2016. Benefits paid to members increased by **1%** from **Kes. 3.09 billion** paid in 2015 to **Kes. 3.12 billion** paid in 2016. Similar to the previous year, the net return on investment continued to decline from **Kes. 10.71 billion** in 2015 to **Kes. 1.03 Billion** in the year 2016 due to a steady decline in activity at the Nairobi Securities Exchange (NSE) which controls a sizeable share of our investments portfolio.

Total operating expenses decreased by **10.1%** to **Kes. 5.51 billion** in 2016 from **Kes. 6.17 billion** in 2015. Provisions for doubtful assets in the financial statements declined to **Kes 441.1 Million** from the previous year's **Kes 1.1 billion**.

Overall Performance

A net increase in Scheme Funds of **Kes. 5.27 billion** was achieved in 2015/2016 compared to **Kes. 13.20 billion** achieved in 2015. The Fund's net assets, therefore, increased by **3.1%** from **Kes. 165.58 billion** in 2015 to **Kes. 172.09 billion** in 2016.

Investments

We continue to participate at the Nairobi Securities Exchange through our fund managers. As a result, we have been able to achieve a well-diversified and balanced investment portfolio that will maximise the return on investment for our members. Am pleased to report that, the Fund complied with the portfolio mix as required by the Retirement Benefit Authority.

Technology

The focus in 2015/2016 was to implement e-service products to drive efficiency, and offer better customer service in the areas of Employer/Member registration and Employer contribution systems. In the near future, members will be able to access their account information online through mobile applications and integrated networks through internet. Further, various strategies have been implemented to facilitate online payment of contributions in addition to the Mpesa option already in use.

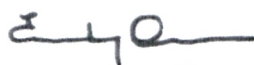
Customer Focus

The Fund has continued to implement the best management practice initiated in 2014/2015 financial year by applying performance planning and appraisal systems, regular performance reviews, and ISO surveillance audits. The Balanced Score Card performance management system is fully entrenched in our performance monitoring and measurement. The Fund has further enhanced its customer focus by being among the first countries in Africa to achieve ISO 9001:2015 certification.

Conclusion

The improved performance of the Fund during the year has been due to the support of all our dedicated contributors, employers and tripartite business partners who include The National Government, COTU and FKE. We thank them for their continued support and look forward to cordial working relations in 2016/2017.

I would also like to express my gratitude to the Board of Trustee, Senior Management Team, Staff and the business partners for their hard work, dedication and commitment to the Fund during the year. This commitment has gone a long way in ensuring that the Fund continues to prosper for the benefit of all our stakeholders.



Dr. Anthony Omerikwa
Ag. CEO/Managing Trustee

CORPORATE GOVERNANCE STATEMENT

The Fund is committed to the highest standards of corporate governance and business ethics. Recognizing that good corporate governance is key to the enhancement of our business performance, the Board of Trustees seek to discharge their duties and responsibilities in the best interest of the Fund, its shareholders, customers, business partners and the wider community. Our corporate values and ethics are entrenched in our corporate strategic plan (2014-2019) and business objectives and are focused on transforming and accelerating growth in value for the benefit of all our stakeholders.

The Board of Trustees has delegated the authority for day-to-day management of the Fund to the CEO/ Managing Trustee. However, it retains overall responsibility for the Fund's financial performance, compliance with laws and regulations, and monitoring of its operations as well as ensuring efficient and effective management of the business.

Board of Trustees

The Board of Trustees comprises nine Trustees' and the CEO/Managing Trustee as the ex-official, each of whom brings a wide range of skills and experience, independent judgement and a considerable knowledge to the board's discussions. The members of the Board of Trustee are drawn from:-

- a) Principal Secretary in the Ministry for the time being responsible for matters relating to EAC, Labour, Social Protection;
- b) Principal Secretary responsible for matters relating to the National Treasury;
- c) Seven persons appointed by the Cabinet Secretary as follows -
 - i) Two persons, one of whom shall be of opposite gender, nominated by the most representative employers' organization with knowledge and experience in matters relating to employers to represent employers in Kenya;
 - ii) Two persons, one of whom shall be of opposite gender, nominated by the most representative workers organization by virtue of their knowledge and experience in matters relating to employees to represent employees in Kenya;
 - iii) Three persons one of whom shall be of opposite gender, not being public officers nor employees or directors of any public company, appointed by the Cabinet Secretary by virtue of their knowledge and experience in matters relating to administration of scheme funds, actuarial science, insurance, accounting and auditing or law. The Cabinet Secretary appoints the Chairperson from amongst these three Trustees.

Board Meetings Attendance & Trustees Remuneration

The Board of Trustees hold meetings on regular basis as per the Board's annual timetable while special meetings are called when deemed necessary. The activities of the Board are controlled by the Board Charter.

During the year the Board held **5 (five)** full Board meetings and **16 (Sixteen)** Committee meetings. The attendance of the Committee meetings by the board members is as shown below;

Name (Member)	Full Board/ Attendance (No.)	Board Committee Attendances (No.)	Total (Kes)
Current			
Mr. Gideon Ndambuki.	1	--	35,000.00
Eng. Erastus Mwongera	4	8	420,000.00
Mr. Khadija Kassajoon	1	2	105,000.00
Mr. Mutua Kilaka	3	4	245,000.00
Mrs. Patrick Odour	5	7	420,000.00
Mrs. Jacqueline Mugo	5	11	560,000.00
Mr. Francis Atwoli	4	10	490,000.00
Ms. Damaris Muhika	4	9	455,000.00
Ms. Teresa Maina	1	0	35,000.00
Former Board Members			
Mr. Kariithi Karimi	2		70,000.00
M/s Susan Mochache	3	7	350,000.00
Ms Lynn Mengich	2	6	280,000.00
Mr. Ali Noor Ismail		3	105,000.00
Total Remuneration			3,570,000.00

*Board Allowances paid include amounts paid while attending official functions for the Fund.

Committees of the Board

The Board of Trustees has set up three (3) principal Committees namely:

1. Audit and Risk Committee
2. Finance, Investments and Social Security;
3. Human Resource, Legal and Strategy; and

These committees meet under well-defined Terms of Reference set up by the Full Board. This is intended to achieve efficient decision making by the Board of Trustees in discharging its duties and responsibilities.

Finance, Investments and Social Security Committee members

1. Eng. Erastus Mwongera- Chairman
2. Mr. Francis Atwoli
3. Mr. Patrick Ogola
4. Dr. Khadija Kassachoon
5. Mr. Mutua Kilaka

Responsibilities

Besides directing the investment, financial and IT function of the Fund, the committee assists the Board in fulfilling its core mandate: customer care, marketing, registration, contributions, benefits payment, Product development and investment policy oversight. Other responsibilities include review and approval of budgets, periodic performance, review and approval of financial statements, review and guide on ICT strategy and review and approval of accounting policies' and procedures.

No. of meetings held:

The committee held 6 meetings during the year.

Attendance

Name(Members)	Attendance (No.)
Eng. Erastus Mwongera	6
Mr. Patrick Ogola	-
Dr. Khadija Kassachoon	1
Mr. Francis Atwoli	4
Mr. Mutua Kilaka	2
Previous members	
Mr. Ali Noor Ismail	2
Mrs. Jacqueline Mugo	4
Ms. Damaris Muhika	6
M/S Susan Mochache	2

Human Resource, Legal and Strategy Committee members

1. **Ms. Teresa Maina** - Chairperson
2. Mr. Francis Atwoli
3. Eng. Erastus Mwongera
4. Mr. Patrick Ogola
5. Mrs Jacqueline Mugo

Responsibilities

The committee reviews and recommends matters relating to Human Resource development, legal cases and the overall corporate strategy of the fund. Their responsibilities include review and guidance on Human Resource policies, legal cases. The committee also monitors strategic changes and oversights good corporate governance.

No. of meetings held:

The committee held a total of 7 meetings including one special one.

Attendance

Name (Members)	Attendance (No.)
Eng. Erastus Mwongera	5
Mr. Patrick Ogola	5
Mrs. Jacqueline Mugo	7
Mr. Francis Atwoli	4
Ms. Teresa Maina	-
Previous members	
Mr. Ali Noor Ismail	1
Dr. Khadija Kassachoon	1
Ms. Susan Mochache	5
Ms. Lynn Mengich	4

Audit and Risk Committee members

1. **Ms Damaris Muhika** -Chairperson
2. Mr. Mutua Kilaka
3. Dr. Khadija Kassachoon
4. Teresa Maina
5. Mrs Jacqueline Mugo

Responsibilities

As per Mwongozo 2015 and Treasury circular No. 16/2005 the Audit Committee is the only mandatory committee of the board. The committee is entrusted with the responsibility of ensuring overall compliance, governance and risk management.

Specific role include reviewing and approving the board charter, internal and external audit findings and preventive measure, systems and internal controls. The committee may also initiate specific special/investigation of any allegations on corruption and accountability.

No. of meetings held;

The committee held 3(three) meetings

Attendance

Name	Attendance (No.)
Mr. Mutua Kilaka	2
Dr. Khadija Kassachoon	-
Teresa Maina	-
Mrs. Jacqueline Mugo	-

Previous members of the committee	
Mr. Francis Atwoli	2
Ms. Damaris Muhika	3
Ms Lynn Mengich	2
Mr. Patrick Ogola	2

Annual General Meetings

The Fund held its third Annual General Meeting (AGM) on 5th August, 2016 as part of its corporate governance practice and to comply with the law and regulations as set up by the Retirement Benefits Authority (RBA).

Accountability and Audit

The board of trustees oversees accountability and audit function through its Audit and Risk Committee by reviewing and approving the internal and external audit findings, preventive measures, systems and internal controls. The committee initiates special investigation on allegations on corruption and accountability.

Capacity Building for Board of Trustees

During the year, trustees were trained in Mwongozo code of conduct and on corporate governance

Internal Controls

The board of trustees has put in place adequate internal controls to ensure there is no loss or pilferage of Funds resources. Risk mitigation strategies are incorporated into the control structures that include a functional internal audit department.

Enterprise Risk Management

The Board of Trustees and Management is cognisant of the fact that all risks cannot be eliminated completely. However, the Fund will endeavour as much as possible within the available resources to manage risks to acceptable levels in all its activities.

The Fund is committed to embedding risk management principles and practices into:

- Strategic and operational plans;
- Decision making process;
- All levels of the Fund; and
- On major projects undertaken.
- On major transactions entered into with third parties

Key Exposure Risks

Based on the enterprise risk management framework, the following key exposure risks have been identified and strategies put in place to manage them:

- a) Corporate Governance risk due to frequent changes in the Board of Trustees and the office of the Chief Executive.

- b) General economic downturn leading to low numbers of new business, downsizing, increase in closure of business.
- c) Market risks caused by:
 - i) Price risks due to decline in stock market prices, and volatility in the exchange rates.
 - ii) Interest rate volatility affected by shifts in market forces, Government policies, and intervention in the money market.
- d) Court cases affecting business especially the petition on the Fund to collect contribution as per the NSSF Act 2013.

Board Evaluation Results

Board evaluation has not yet taken place but it's under consideration. The evaluation is required for purposes of complying with Mwongozo and best practice.

Key Stakeholders

The key stakeholders are members of the fund and the employers. The members contribute monthly prescribed amount to the Provident Fund and the Pension Scheme in accordance with the NSSF Act and on voluntary basis through various employers. The members expect various benefits from the Fund depending on the amount contributed and paid in compliance with predetermined terms. All members have the same influence on the sustainability of the Fund.

Factors which affected the Financial Performance

The court cases against the implementation of certain key clauses in the NSSF Act No. 45 of 2013 and the effect of terrorism especially in the coastal region where most hotels closed business were operating below capacity. This affected negatively the amount of contributions received. Further changes in the Nairobi Securities Exchange (NSE) and overall investment environment affected the investment return.

Senior Management in Acting Appointments

Among the top management team, there were a total of 4 staff within the period under review who served in acting capacity in various senior managerial positions. The recruitment process has been initiated for the vacant posts.

STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) is an integral component in the NSSF Strategic Plan 2014-2019. In as much as we deliver our social security mandate, the Fund aspires to positively reposition and engage in the society within which we operate. The five key focus areas within the CSR Policy are Education, Public Health, Sports, Environmental Conservation, and Entrepreneurship among the youth and supporting the elderly.

NSSF commitment to corporate social responsibility proves that there are tremendous opportunities for innovation and growth in tackling social problems as part of its core business objectives. We also understand that addressing societal pain points through innovative initiatives, serves to unlock the economic transformation of entire communities. Our long term strategy is to engage in strategic CSR which we believe will not only benefit our stakeholders but will also reinforce the Fund's corporate strategy and leverage on key focus areas.

CSR Activities during the Year ended 30 June 2016

As a caring corporate, the Fund supported various CSR activities during the year, among them;

- (i) **Matatu Welfare Association (MOA)**
This is the leading and largest business membership organisation in public transport in Kenya and the whole of East Africa. The Fund sponsored their PSV/Matatu Congress and Expo that took place on 11th -13th November 2015, for Kes 750,000.00
- (ii) **SOYA Awards 2015**
The fund sponsored Kes 1 Million towards the SOYA Awards Gala night held on 15 January, 2016 at the KICC Nairobi.
- (iii) **Beyond Zero Campaign**
NSSF participated in the First Lady's Half Marathon 2016 on 6th March 2016 at Nyayo Stadium.
- (iv) **Heritage of faith and hope children rehabilitation based at Mlolongo in Athi River**
The Fund supported the construction of permanent kitchen by contributing Kes 500,000.00 to the worthy cause
- (v) **Little sisters of the poor, nyumba ya wazee**
The Fund donated Kes 500,000.00 to this charitable home which has been in existence since 1985 and accommodates 70 poor elderly people.
- (vi) **AIC Kavatanzou secondary school in Makueni County**
NSSF contributed toward completion of the school science laboratory by donating Kes 500,000.00

- (vii) **Sponsorship towards treatment, education and distribution of shoes to children infested with jiggers in Busia County, Amagoro Constituency**
Fund staff participated in the event by removing jiggers, sensitizing the community, going for home visits and distribution of shoes to schools as depicted partly in the pictures here below;



REPORT OF THE TRUSTEES FOR THE YEAR ENDED 30 JUNE 2016

Principal activities

The principal activity of the Fund continues to be provision of social security to members through enhanced coverage, efficient registration and collections, prudent fund management, competitive benefits and exemplary governance.

Results for the Year

The Trustees hereby submit their report together with the unaudited Financial Statements for the year ended 30 June, 2016 which shows the state of the Fund's affairs.

The results of the Fund for the year ended 30 June, 2016 are set out on pages 24-61.

Membership

The schemes active membership was as follows:

Active membership	No. of active members
Members as at 30 June 2015(Restated)	2,138,320
Paid during the year	(28,838)
Non-contributing members	(829)
Deferred members	-
New entrants during the year	298,674
Members as at 30 June 2016	2,407,327

Active Employers

	No. of active members
As at 30 June 2015	72,876
Additions(New Active)	491
Less (closures/Inactive)	-
Active Employers 30 June 2016	73,367

Interest to Members

Section 2 of the NSSF Act 2013, Laws of Kenya requires that investment income be credited to the accounts of individual members, at such rates as the Board may, in consultation with the Actuary or such other qualified person, determine and approve at least annually, having regard to the income on the Fund's assets. In the year ended 30 June 2016, the Board of Trustees approved interest of **6.0 %** after actuarial valuation of the Fund by Alexander Forbes Financial Services.

Trustees

The members of the Board of Trustees who served and changes during the year are shown on page 7.

NSSF Act No. 45 of 2013 Section 6 stipulates that membership of the board shall comprise of nine members. Section 11(1) of the Act further states that the board shall hold not less than 4 (four) meetings in every financial year for the conduct of its business and not more than four months shall elapse between the date of 1 (one) meeting and the date of the next.

During the year under review, there were a total of 5 (five) full board meetings and 24 (twenty four) committee meetings of the Board of Trustees.

The Board of Trustee is committed to implement fully the provisions of the Mwongozo Code of Conduct for State Corporations which was issued in January 2015.

Auditors

The Auditor General is responsible for the statutory audit of the Fund in accordance with Section 84 of the Public Finance Management (PFM) Act, (Revised) 2015, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By order of the Board of Trustees



Dr. Anthony Omerikwa
Ag. CEO/Managing Trustee

STATEMENT OF TRUSTEES' RESPONSIBILITIES

The National Social Security Fund Act No.45 of 2013 requires the Trustees to prepare Financial Statements for each financial year which include, a balance sheet (statement of assets available for benefits) showing in detail the assets and liabilities of the Fund, a statement of income and expenditure (statement of changes in net assets available for benefits) and such other statements that the Trustees may deem necessary. It also requires the Trustees to ensure that the Fund keeps proper books of account and other books and records in relation to the Fund, and, to all the undertakings of the Fund's investments.

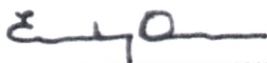
The Trustees take responsibility for the annual Financial Statements which have been prepared using appropriate accounting policies, supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and in the manner required by the National Social Security Fund Act 2013 as well as the Retirement Benefits Act 1997. The Trustees are of the opinion that the Financial Statements give a true and fair view of the state of the financial affairs of the Fund and of its operating results. The Trustees further take responsibility for keeping proper books of accounts. The Trustees hereby confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Funds Financial Statements as well as the adequacy of the systems of internal control in all operations of the Fund.

The Trustees certify that to the best of their knowledge and belief the information furnished to the Auditors for the purpose of the audit was correct and complete in every respect.

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

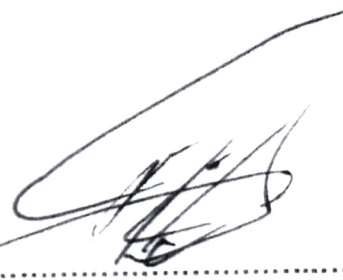
Approval of the Financial Statements

The Funds Financial Statements were approved by the Board of Trustee's on 29 September 2016 and signed on its behalf by:



Dr. Anthony Omerikwa
Ag. CEO/Managing Trustee

25th May 2017
Date



Hon. Gideon Ndambuki
Chairman Board of Trustees

25/5/2017
Date

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NATIONAL SOCIAL SECURITY FUND FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the National Social Security Fund set out on pages 24 to 61, which comprise the statement of net assets available for benefits as at 30 June 2016, and the statement of changes in accumulated members funds 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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

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 circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the

Report of the Auditor-General on the Financial Statements of the National Social Security Fund for the year ended 30 June 2016

appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Unremitted Members Contributions

Employers are required under Section 8(a) of the NSSF Act, 2013 to remit into the Fund contributions deducted from members in full and in time. However, examination of twenty (20) sampled employer files maintained in nine (9) NSSF branches disclosed that contributions totalling Kshs.754,995,366.55 had not been remitted in the stipulated time period.

Management has however taken action by issuing demand letters and making alternative payment arrangements with employers such as instalment payments before considering legal action.

In view of the foregoing, demand letters should be sent to all the other defaulters not included in the sample taken in order to enforce compliance.

2. Members' Contribution Held in a Suspense Account

As previously reported, the financial statements as at 30 June 2015 reflected an amount of Kshs.748,000,000 that was held in a suspense account due to lack of proper details of the members from their employers. During the financial year 2015/2016, the contributions held in a suspense account increased by Kshs.16,000,000 from Kshs.748,000,000 to Kshs.764,000,000.

No explanation has been provided in the respective Note 43 to the financial statements as to why the suspense account balance increased instead of reducing and mechanisms to clear the balance.

3. Irregular Disposal of Undeveloped Land - Mavoko

Note 27 to the financial statements reflect disposal proceeds figure of Kshs.126,000,000 in respect of sale of undeveloped land in Mavoko Municipality. Information available indicates that land measuring 69.16 acres was subdivided into seven (7) plots measuring 9.88 acres and disposed-off at Kshs.18,000,000 each.

According to documents availed for audit in support of the sale, the plots were sold to AMS Properties Limited on the basis of an agreement dated 21 November, 2011 at a total cost of Kshs.126,000,000. However, only Kshs.12,600,000 or 10% was paid vide Miscellaneous Receipt M010022315 dated 23 August, 2011. The balance of

Kshs.113,400,000 which was to be paid within 90 days from the date of execution of the agreement has not been settled more than five (5) years later.

No reasons have been provided for the failure to terminate the sale agreement upon the expiry of the 90 days execution period provided for in the contract agreement. The Fund risks loss of the land and additional claim on the paid 10% Deposit.

4. Hazina Plaza Mombasa Lease – LR. NO.MSA/BLK XX/328 & 329

Hazina Plaza formally known as Polana Hotel is located at the Heart of Mombasa Island and was purchased by the Fund at a cost of Kshs.450 Million from M/s Cannon Investments Ltd in 1994. However, the sale agreement and details of the actual payments were not provided for audit review. The Plaza is built on land measuring ninety thousand square feet (90,000). On it stands a nine storey building with a plinth area of approximately 115,589 sq ft.

The plaza was leased to M/s Azania Hotels Ltd on 1 November 1994 and operated as a four star hotel at an annual rent of Kshs.60 Million. The hotel has however reportedly remained partially closed since 2001 due to failure by the then tenant to meet rent obligations. Correspondences available indicate that the building was later advertised for sale on 3 September 2009 at a reserved price of Kshs.300 million however the bids received were below the reserve price.

On 25 May 2010, during the 11 meeting of the Operations and Investment Committee of the Board, it was agreed that the premises be leased to M/s Techno Holdings Ltd at a monthly rent of Kshs.2.25 million or 27 million annually net of all taxes with an escalation cost of 10% after every two (2) years.

According to the lease agreement entered between the Fund and M/s Techno Holdings Ltd, the lessee was to pay a total of Kshs.164,837,000 to the fund for the hire of the building as a hotel for a period of ten (10) years from 1 August 2010 to 30 July 2020.

Although the building was handed over to M/s Techno Holdings Ltd on 29 April 2014, later on 27 January, 2016 during the 169th Board of Trustees meeting, the firm was granted a two year grace period commencing 2 May, 2014 when they formerly got vacant possession. Rent payment was therefore effective from 1 May 2016 which was also extended by a further six (6) months to 31 December 2016 by the Board of Trustees to allegedly enable the firm complete the undocumented buildings repairs. Further, the lease did not engage any contract variations in terms of grace period or cost of repairs.

Audit inspection at the site carried out in September, 2016 confirmed that the building had rent due of Kshs.323,585,144 between 1 November 1994 and 30 October 2014 and only Kshs.66,500,000 had been paid leaving a balance of Kshs.239,500,000 outstanding. No reasons have been provided for the failure to demand and collect the outstanding rent of Kshs.239,500,000

In view of the forgoing, the fund has not realised value for money from the investment of Kshs.450 million in Hazina Plaza Mombasa since 1994 nor has prudent financial management been exercised in the contract.

5. Milimani Plots - Kisumu

The financial statements for the year ended 30 June 2016 reflects Kshs.19,908,756,000 as the total value of developed land under statement of net assets available for benefits. Included in this figure is Kshs.178,000,000 being value for LR.KISUMU/MUN/8/258 in Milimani Estate, Kisumu County. The land originally belonged to the Municipal Council of Kisumu and was on 26 November 2012 swapped to offset a debt of Kshs.150 million owed to the Fund.

The land is situated in Milimani estate in Kisumu Municipality and measures 0.7740 Ha. in size. Within the land is a flat comprising of eight two bedroom apartments and three separate maissonettes of three bedrooms each with a servant quarter.

Audit inspection of the NSSF plots carried out in September 2016 revealed, that the houses were fully occupied by NSSF staff and information obtained indicated that only Kshs.66,000 was being received as rental income from the houses but no documents were provided to support this figure. Despite lack of rental income from these houses over the years, the fund continues to provide security and other services.

No explanation has been given for the failure to review the rent payable since taking over the property. Consequently, value for money has not been realised since the year 2012 from the investment worth Kshs.178,000,000.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of National Social Security Fund as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with National Social Security Fund Act, No. 45 of 2013.

Other Matter

1. Budget Control and Performance

1.1 Income

The Fund had budgeted to collect income totalling Kshs.44,086,349,000 during the year ended 30 June 2016 as follows:

Item	Budget Kshs. '000'	Actual Kshs. '000'	Excess/(Shortfall) Kshs. '000'	Excess/ (Shortfall)%
Contribution Receivable	23,317,132	12,874,685	(10,442,447)	(45%)
Benefits Payable	(3,407,504)	(3,121,006)	286,498	8%
Investment Income	13,125,035	13,048,067	(76,968)	(0%)
Realised gain on sale of Investment	651,913	(18,038)	(669,951)	(102%)
Unrealised gain on sale of investment	10,750,273	(11,785,920)	(22,536,193)	(210%)
Investment management expenses	(358,000)	(279,468)	78,532	22%
Other Income	37,500	63,233	25,733	69%
Total	44,086,349	10,781,553	(33,334,796)	(76%)

However, the actual income realized amounted to Kshs.10,781,553,000 resulting to under collection of Kshs.33,334,796,000 or 76%. The shortfall was mainly attributed to decline in net return on investment from the budgeted Kshs.10,750,273,000 to a negative of Kshs.11,785,920,000 or Kshs.22,536,193,000 (210%) shortfall occasioned by poor performance of equities at the Nairobi Stock Exchange and non-implementation of the NSSF Act, No. 45 of 2013 which had introduced new contribution rates by between 12% and 180% leading to a shortfall of Kshs.10,442,447,000 or 45%. The non-implementation of the Act was due filing of court cases objecting to the increases.

The fund further realized a shortfall of Kshs.669,951,000 in sale of investment instead of the budgeted Kshs.651,913,000 thus performed negatively by Kshs.18,038,000 also attributed mainly to the poor performance at the Nairobi stock exchange.

1.2 Expenditure

The actual expenditure for the year amounted to Kshs.5,509,264,000 against the approved budget of Kshs.8,251,255,000 thus resulting to an under expenditure of Kshs.2,741,991,000 or 33% as follows:

Item	Budget Kshs. '000'	Actual Kshs. '000'	(Over)/Under Kshs. '000'	(Over)/Under %
Staff Costs	3,352,545	3,420,644	(68,099)	(2%)
General Administrative Costs	1,498,710	1,647,568	(148,858)	(10%)
Provisions	3,400,000	441,052	2,958,948	87%
Total	8,251,255	5,509,264	2,741,991	33%

Report of the Auditor-General on the Financial Statements of the National Social Security Fund for the year ended 30 June 2016

The under expenditure of Kshs.2,741,991,000 was largely attributed to provision of unrecoverable assets where Kshs.3,400,000,000 was budgeted for against actual provisioning of Kshs.441,052,000 resulting to overprovision by 2,958,948,000 or 87%. The actual provision was attributed to less claims by contractors than expected with regard to stalled projects.

An over expenditure of Kshs.148,858,000 or 10% also occurred under general administrative costs of which Kshs.1,498,710,000 was budgeted but actual expenditure amounted to Kshs.1,647,568,000. No explanation has been provided for the over expenditure of Kshs.148,858,000 as required.

2.0 Unresolved Prior Year's Issues:

2.1 Illegal Transfer of National Social Security Land in Upper Hill Nairobi – LR No. 209/11642

As previously reported, title deed for undeveloped parcel of land belonging to the Fund - LR.209/11642 measuring (approximately) 0.2100 hectares located at Upper Hill, Nairobi – next to Milimani law Courts purchased on 20 April 1996 at a cost of Kshs.20,000,000, was irregularly revoked and reallocated to the Judiciary.

In the circumstances, the Fund risks losing workers' pensions funds invested in the property currently valued at Kshs.115,000,000 if the land is not reinstated to NSSF.

2.2 Nyayo Estate Embakasi Phase Six Contract No. 18/2012/2013

As previously reported, the construction of 324 units at Nyayo Embakasi at a total cost of Kshs.2,155,407,742 by M/s China Jiangxi International Kenya Limited had stalled. The construction works which according to the contract signed on 21 February 2013 were to take seventy eight (78) weeks from 2 June 2013 to 30 November 2014 had by 30 June 2016 not been completed.

As at 30 June 2016, only fifty two (52) units had been constructed. Although the failure to proceed with the construction was attributed to failure by the Nairobi City County to grant relevant approvals to enable construction of the remaining two hundred and seventy two (272) units, no efforts appear to have been made to ensure completion of the project. The contract period also expired on 30 November 2014.

By the time of stoppage, the contractor had been paid an advance fee of Kshs.215,540,744.22 against a bank guarantee from the Standard Chartered Bank which expired on 30 September 2015.

In the circumstances, the Fund stands a risk of losing the Kshs.215,540,744.22 already paid and additional losses on delayed completion of the project.

2.3 Stalled Construction of Hazina Trade Centre - Nairobi

The statement of net assets available for benefits reflects total amount of Kshs.4,860,634,000 which includes a figure of Kshs.1,681,749,000 in respect of assets under construction relating to completion of the Hazina Trade centre, Nairobi.

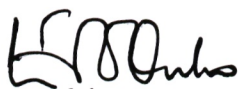
As previously reported, the construction of Hazina Trade centre, Nairobi at a total cost of Kshs.6,715,218,188 by the contracted firm M/s China Jiangxi International Kenya Ltd had stalled. The construction works which were to be undertaken in 155 weeks from 17 June 2013 to July 2016 had by 30 June 2016 not been completed.

Completion of the building was approved by the board on 31 August 2010 to include an additional 36 floors and the contract was competitively awarded on 26 February 2013 to M/s China Jiangxi International Kenya Ltd at a contract sum of Kshs.6,715,218,188.

However, an audit inspection carried out on 14 January 2016 revealed that the work had stalled after reaching 15th floor or at 38%. The reasons given for stalling of the project was that the columns inside Nakumatt Lifestyle Supermarket needed to be reinforced and strengthened for other floors to be added but Nakumatt Holdings Limited, the tenants, had denied the contractor access to the basement floors contrary to the provisions of the lease agreement signed in 2003.

At the time of the stoppage of builders works, a total of Kshs.1,912,043,004 had been paid to the contractor as at 30 June 2016. The continued stalemate may lead to escalation of costs and contractual claims emanating from the delay.

In view of the foregoing, NSSF should take legal action against the tenant to secure completion of the building to safeguard members' contributions.



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

Nairobi

12 July 2017

**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR
 BENEFITS**
 FOR YEAR ENDED 30 JUNE 2016

	Note	2016 Kes' 000	As Restated 2015 Kes' 000
Dealings with Members			
Contributions Receivable	3	12,874,685	11,748,588
Benefits Payable	4	(3,121,006)	(3,091,470)
Net Surplus from dealings with members		9,753,679	8,657,118
RETURN ON INVESTMENTS			
Investment Income	5	13,048,067	10,953,271
Investment Management Expenses	6	(279,468)	(412,553)
Fair value gain on revaluation of Investments	7	(11,785,920)	(449,340)
Gain on realisation of investments	8	(18,038)	475,907
Other Income	9	63,233	146,811
Net returns on investments		1,027,874	10,714,096
Staff cost	10	3,420,644	3,326,362
General administrative cost	11	1,647,568	1,732,979
Provisions	12	441,052	1,109,943
Total operating cost		5,509,264	6,169,284
Increase/(decrease) in net assets for the year		5,272,290	13,201,930
As previously reported		165,580,764	153,028,834
Prior year adjustment		1,233,244	(650,000)
As restated		166,814,008	152,378,834
Net Assets as at 30 June		172,086,297	165,580,764

**STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
 AS AT 30 JUNE 2016**

	Note	2016 Kes' 000	Restated 2015 Kes' 000
ASSETS			
Cash and bank balances	13	334,566	177,979
Call Deposits	14	5,147,890	4,983,550
Fixed Deposits	15	3,015,800	7,469,830
Commercial Papers	16	-	10,000
Government Securities-(Treasury bills)	17	3,459,382	1,187,170
Government Securities-(Treasury bonds)	18	52,735,961	38,368,526
Corporate bonds	19	8,995,873	8,525,382
Accrued Income	20	3,240,555	2,382,682
Stores and Supplies	21	36,412	31,691
Receivables and Prepayments	22	3,264,757	2,386,449
TPS Loans	23	7,368,245	8,375,899
Long-term deposits	24	531,587	430,232
Quoted Stocks	25	49,901,026	57,037,979
Unquoted Stocks	26	1,672,681	1,672,681
Undeveloped investment property	27	9,816,628	9,432,128
Developed investment property	28	19,908,756	19,394,856
Assets under construction	29	4,860,634	4,473,072
Intangible Assets -(ICT Software)	30	173,705	363,202
Property, plant and equipment	30	338,398	519,655
		174,802,857	167,222,962
LIABILITIES			
Payables and accruals	31	(2,716,559)	(1,642,198)
		172,086,297	165,580,764
NET ASSETS			
REPRESENTED BY			
FUND BALANCE			
		172,086,297	165,580,764

The financial statements on pages 24 to 61 were approved and authorised by the Board of Trustees on Signed on their behalf by:


 Dr. Anthony O. Omerikwa
Ag. CEO/Managing Trustee


 Hon. Gideon M. Ndambuki
Chairman, Board of Trustee

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 Kes' 000	2015 Kes' 000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net increase in assets		5,157,290	13,201,930
Adjustments:			
Depreciation on PPE	11	211,091	218,088
Amortisation of intangible assets	11	189,497	189,497
Increase/(decrease) in provisions	12	556,052	1,109,943
Reversal of accrued contributions			(209,041)
Fair value gain/(loss) on revaluation	7	11,785,920	449,340
Operating surplus/(deficit) before working capital changes		17,899,849	14,959,757
Changes in Working Capital:			
Decrease/(increase) in inventories	21	(4,721)	(14,582)
Decrease/(increase) in debtors & prepayments	22	(889,535)	101,189
Decrease/(increase) in accrued income	20	(857,874)	(615,243)
increase/(decrease) in payables and accruals	31	(300,680)	414,859
		(2,052,810)	(113,777)
Net cash flows generated from operating activities		15,847,039	14,845,980
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase/sale of equities	25	(3,604,231)	(2,319,786)
Purchase/sale or redemption of treasury bonds	18	(16,524,390)	(1,699,880)
Purchase/sale or redemption of treasury bills	17	(2,272,213)	598,682
Purchase/sale or redemption of corporate bills	19	(834,651)	(5,195,356)
Placement of deposits with financial institutions	15/16	4,040,190	(6,230,838)
Development of land and buildings		(211,559)	(2,287,022)
Proceeds from sale of plots/houses		682,458	-
Receipts from TPS scheme	23	3,063,776	1,364,125
Purchase/sale of PPE	30	(29,831)	(187,279)
Net cash flows from investing activities		(15,690,451)	(15,957,354)
Net increase/(decrease in cash and cash equivalents		156,588	(1,111,374)
Cash and cash equivalents as at 1 July		177,979	1,289,353
Cash and cash equivalents as at 30 June		334,566	177,979

**STATEMENT OF CHANGES IN ACUMULATED MEMBERS' FUNDS
 AS AT 30 JUNE 2016**

Items	Members' Funds Kes'000	Accumulated Reserves Kes'000	Reserve Fund Kes'000	Total Kes'000
Balance as at 30 June 2014	92,979,706	50,752,063	9,297,064	153,028,833
Prior Year Adjustments		(650,000)		(650,000)
Net Increase/(Decrease) in Surplus		13,201,930	-	13,201,930
Adjustment to member funds as per actuarial valuation	58,038,894	(48,741,829)	(9,297,064)	1
Balance as at 30 June 2015	151,018,600	14,562,164	-	165,580,764
Prior Year Adjustments		1,233,244		1,233,244
Net Increase in Surplus		5,272,290		5,272,290
Balance as at 30 June 2016	151,018,600	21,067,697	-	172,086,297

***Prior Year Adjustments**

(i) Court cases involving Mutula Kilonzo, Kes 293,836,000 B. M. Musau Kes 29,250,000 and Kes 7,278,000. The above court cases are still in court and neither the date of determination of the cases nor the outcome is unknown. As per IAS 37 such contingent liabilities should only be disclosed in the financial statements and as such cannot be accrued. In the previous years financial years the above cases were erroneously accrued as sundry creditors in contravention of IAS 37. The provisions on the above cases were reversed in compliance with IAS 37.

(ii) Kenya Revenue Authority owed Fund a tax refund of Kes. 904,904,000 against which a provision had been made due to a counterclaim by KRA. The counter claim has since been ruled against by the high court hence reversal of the provision.

Sundry creditors/Debtor

Reversed Debtor	Note	Reason for reversal of accrual in prior years	Kes '000
Mutula Kilonzo	31	Court case erroneously accrued	293,836
B.M Musau	31	Court case erroneously accrued	29,250
Okoth, Okendo & Kiplagat	31	Court case erroneously accrued	7,278
Benefits sundry debtor	22	Balance of benefits paid twice in error whose recovery is doubtful	(2,024)
Kenya Revenue Authority		Tax refund	904,904
Total			1,233,244

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

1. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

The Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS). The principal accounting policies adopted are set out below: Adoption of new and revised International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC), The National Treasury guidelines and the Code of Conduct for State Corporations (Mwongozo, 2015)

- i) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016.

At the date of authorisation of these Financial Statements, various revised standards and interpretations were in issue but not yet effective. The Trustees anticipate that the adoption of these standards, interpretations and amendments when effective, will have no material impact on the Financial Statements of the Scheme.

ii) Early adoption of standards

The Scheme did not early-adopt new or amended standards in 2016. Amendment to an existing standard and issue of a new standard will become mandatory for the Fund's accounting periods beginning 1st January 2017, but which the Fund has not early-adopted:

The principal accounting policies adopted in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

b. Basis of Preparation

The Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRSs) under the historical cost convention as modified by the revaluation of certain assets. The provisions of IFRS' Retirement Benefit Plans used in the preparation of the Financial Statements. Further, the Financial Statements comply with the Public Finance Management Act, 2015, Retirement Benefits Authority Act 1997 and the Retirement Benefits Authority Regulations 2000, both as amended and Income Tax (NSSF Exemption) Rules 2002.

The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's Accounting policies.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

c. Accounting for Contributions and Benefits

Contributions from employers/employees and benefit payments to members are accounted for on accrual basis in the year due.

Interest payable on members accumulated contributions (standard contributions plus interest) is accrued annually in accordance with section 19(2) and (3) of the National Social Security Fund Act (2014 – 12.5 % and 2015 – 3.0%). The interest for the year 2016 is under consideration to the board of trustees by the Actuary, Alexander Forbes. The distribution of interest for 2015/2016 will be done, once the actuarial report is received from Alexander Forbes Financial Services and approved by the Board of Trustees.

d. Revenue Recognition

i) Dividend Income

Dividend income from investments is recognized in the Statement of Changes in Net Assets, when the Fund's right to receive payment as a shareholder have been established or declared in the Annual General Meeting.

ii) Interest on Deposits with Financial Institutions (Finance Income)

This comprises interest receivable from bank deposits with financial institutions and is recognised in the Statement of Changes for Net Assets on a time proportion basis using the effective interest rate method. It is accounted for on accrual basis.

iii) Interest/Discounts on Treasury Bills and Treasury Bonds

Interest on Treasury Bills and Bonds is credited to income on a straight-line basis over the maturity period of the investment instruments.

iv) Coupon Interest on Government Securities

Coupon interest on Government Securities is accounted for on accrual basis.

v) Rental Income

Rental Income is recognised in the Statement of Net Assets, as it accrues using the effective lease agreements.

vi) Other Income (Miscellaneous Income)

This is recognised as it accrues.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Vii) Tenant Purchase Scheme and loan Advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Fund provides loans, money or services directly to debtors with no intention of trading the receivables. All loans and receivables fall under this category and are stated at amortized costs. Receivables which do not carry interest rate are stated at their invoice price.

e. Property, Plant and Equipment(PPE)

i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses arising on disposal of an item of property and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the item and are recognised net within 'other operating income' in profit or loss.

Low value assets up to Kes. 10,000.00 are recognised as assets during the year but are fully expensed during the year of purchase

ii) Depreciation and impairment of property, plant and equipment

Investment assets and capital work in progress are not depreciated. Asset under construction relates mainly to the cost of ongoing but incomplete works on building and ICT projects.

Depreciation is recognised in the income statement on a straight-line basis to write down the cost of each asset or the revalued amount to its residual value over its estimated useful life. The annual rates in use are:

Particulars	%
Freehold and Long Term Leasehold Land	Nil
Low Value Assets	100
Motor Vehicles	20
Computer and Microfilming Equipment	33.33
Amortization of Intangible Assets	33.33
Office Furniture	10
Office Equipment	12.5
Fittings and Furnishings	20

NOTES TO THE FINANCIAL STATEMENTS (Continued)

A full depreciation charge is recognised both in the year of asset purchase and in the year of disposal.

i) **Subsequent costs**

Subsequent expenditure is capitalized only when it is probable that future economic benefits of the expenditure will flow to the Fund. Recurrent repairs and maintenance costs are expensed as incurred.

f. **Intangible assets**

Intangible assets comprise purchased computer software licenses, which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than the estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

g. **Finance and operating leases**

Leases which confer substantially all the risks and rewards of ownership to the entity are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognised in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

h) **Investments**

i) **Quoted Equities**

Equities are stated at market value. Differences between cost and market value are debited/ (credited) to the revenue account. Upon sale of the investment, the surplus/ (deficit) relating to the transaction is dealt within the revenue statement.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange (NSE) or other regional and international securities exchanges. Quoted investments are stated at fair value.

ii) Unquoted Equities

Unquoted equities are stated at cost/valuation less provision for any permanent diminution in value.

iii) Fixed Interest Investments (Bonds) Treasury Bills and Bonds and Government Bearer Bonds

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK), long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss account.

Treasury bills and bonds and Government bearer bonds which are held to maturity, are stated at amortized value.

i) Investments Property (Land, Buildings and Plots)

Land and buildings and undeveloped land/plots are stated at valuation/fair value. Investment properties under construction are measured at cost. Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the entity, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external valuers. Changes in fair values are included in profit or loss in the income statement.

j) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

k) Trade and other Receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted, but recognised as miscellaneous income once recovered after write off.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

l) Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

m) Cash and Cash Equivalents

For purposes of presentation in the cash flow statement, cash and cash equivalents comprise bank balances, short-term deposits maturing within 3 months.

n) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any cost of issue and any discount or premium on settlement. Finance charges, including premiums payable on settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

2. Critical Accounting Estimates and Judgements in Applying the Fund's Accounting Policies

In the process of applying the Scheme's accounting policies, Trustees have made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

(i) Impairment and un-collectability of Financial Assets

At the end of each reporting period, the Scheme reviews the carrying amounts of its financial assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognised in the statement of changes in net assets available for benefits whenever the carrying amount of the asset exceeds its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(ii) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

(iii) Valuation of Assets

Valuation of Investments in land and buildings, and undeveloped land was done during the year by professional valuers and a report issued based on balances as at 30 June 2016. The professional valuers were Ms Crystal Valuers, Ebony and Value zone. The valuations were carried out in September 2016.

(iv) Retirement Benefits Obligations

Full time Fund employees are eligible for retirement benefits under a defined contribution plan. Contributions to the defined contributions plan are expensed through the statement of changes in net assets, as they are incurred. Any difference between the amount expensed and the annual contributions recorded to the statement of changes in net assets and the annual contributions paid is recorded in the Statement of Net Assets under other liabilities/assets. The staff retirement pension scheme is administered independently by Eagle Africa. The rates of contributions are 8% staff and 16 % Employer.

The Fund staff also contribute to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme administered as per The National Social Security Act No. 45 of 2013. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at 16% of basic salary per employee per month.

(v) Foreign Currencies

Monetary assets and liabilities expressed in foreign currencies are translated into Kenya shillings at the rates of exchange ruling at year end. Transactions during the year in foreign currencies are translated at the rates ruling at the dates of the transactions. Gains and losses on exchange are included in the statement of changes in net assets available for benefit.

(vi) Actuarial Valuation 30 June 2016

An actuarial valuation was carried out by Alexander Forbes Limited in 2016 and a report issued on balances as at 30 June 2016. The valuation was done on an attained Age method. The actuarial report indicates that the value of liabilities of the scheme as at 30 June 2016 was **Kes. 155.75 billion** compared to the value of assets amounting to **Kes. 171.17 billion (per draft financial statements)** giving rise to a surplus of **Kes.15.41 billion** resulting to a **Funding level of 109.9%**.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The valuation for 2016 is currently being undertaken by Alexander Forbes Financial Services.

(vii) Provision for Staff Leave Pay

Employees' entitlement to annual leave is recognised as it accrues to the employees. A provision is made for the estimated liability for annual leave at the reporting date.

(viii) Comparative Figures

Comparative figures for the previous financial year have been represented to conform to the required changes in presentation.

(ix) 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 30 June 2016.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Kes' 000	2015 Kes' 000
3 CONTRIBUTIONS		
Pension Contribution	11,804,607	10,274,779
Old provident Fund	262,436	465,088
New Provident Fund	400,066	421,977
Fines and penalties	470,488	586,745
	12,937,597	11,748,588
Add: Accruals at end of the year	591,602	654,515
Less: Accruals at start of the year	654,515	445,474
	12,874,685	11,748,588
4 BENEFITS		
Age benefit	1,610,765	1,441,496
Survivors benefit	356,265	374,194
Invalidity benefit	24,119	29,610
Withdrawal benefit	1,113,124	1,226,619
Emigration benefit	12,652	15,565
Funeral grant	4,083	3,985
	3,121,006	3,091,470
5 INVESTMENT INCOME		
Interest Income	8,507,772	6,605,204
Rent income (note 33)	1,153,903	1,033,679
Dividend Income (note 34)	2,412,046	2,218,755
Interest on TPS loans	966,991	1,080,102
Other investment income	7,356	15,531
	13,048,067	10,953,271
6 INVESTMENT MANAGEMENT EXPENSE		
Fund managers' fees	140,964	168,551
Custodian fees	44,395	68,276
Actuarial & investment management fees	35,471	26,143
Land rent & rates	56,252	85,143
Asset valuation expense	2,387	64,440
	279,468	412,553

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Kes' 000	2015 Kes' 000
7 FAIR VALUE GAIN/LOSS ON REVALUATION		
Corporate bonds	(231,281)	(102,254)
Treasury bonds	(2,156,955)	(630,647)
Quoted equities	(10,741,184)	(1,400,439)
Undeveloped investment property	716,500	654,000
Developed investment property	627,000	1,030,000
	(11,785,920)	(449,340)
8 GAIN/LOSS ON REALISATION OF INVESTMENTS		
Corporate bonds	(1,214)	-
Treasury bonds	(26,055)	4,163
Quoted equities	9,231	471,744
	(18,038)	475,907
9 OTHER INCOME		
Profit on sale of PPE	-	11,459
Sale of Tender forms	39,516	42,372
Interest on staff loans	14,656	12,121
Fines and penalties	6,476	4,512
Other miscellaneous receipts	2,588	76,347
	63,235	146,811
10 STAFF COST	2016	2015
	Kes' 000	Kes' 000
Salaries and Allowances	2,789,176	2,826,891
Pension and Gratuity	286,009	162,507
Medical Expenses	226,155	220,511
Staff Welfare	40,365	31,780
Insurance	31,438	13,753
Provision for Leave pay and Gratuity	47,500	70,920
	3,420,644	3,326,362

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Kes' 000	2015 Kes' 000
11 GENERAL ADMINISTRATIVE COST		
Trustee' Emoluments	22,683	34,712
Travelling Costs	136,897	127,557
Transport Costs	43,232	38,682
Rent Expense	218,219	184,963
Printing, Stationery and Photocopying	39,208	38,080
Postage, Telephone and Internet Expenses	62,384	80,756
Electricity, Water, Security and Conservancy	53,912	51,431
Training Expenses	42,597	48,183
Repairs and Maintenance	96,766	87,973
Hospitality Material and services	1,538	1,691
Consultancy and Professional Expense	24,252	61,355
Legal Expense	57,082	122,385
Audit Fees	-	5,684
SS Policy Development	51,616	200,309
General Insurance	29,003	29,077
Advertising and Publicity	-	9,297
Corporate Social Responsibility	14,305	8,838
Finance Expense	2,538	1,922
Project Claims	80,998	44,252
Rationalization Expense	21,608	46,545
Other Administrative Expense	91,117	101,700
Depreciation	211,091	218,088
Amortisation	189,497	189,497
Bad debts erroneous billing reversal	157,025	-
	1,647,568	1,732,977
12 PROVISIONS		
Corporate bond	132,200	-
Accrued Income	1,096	-
Doubtful interest(Chase /Imperial bank)	37,030	-
Fixed Deposits	259,500	-
Investment property	-	160,000
Tax receivable	-	904,904
Bad and doubtful debts(Rent Billings)	11,226	45,039
	441,052	1,109,943
13 CASH AND BANK BALANCES		
Cash balances	4,473	4,107
Bank balances	330,092	173,872
	334,566	177,979

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Kes' 000	2015 Kes' 000
14 CALL DEPOSITS (Held to Maturity)		
Commercial Bank of Africa	218,500	472,100
CFC Stanbic bank	39,600	-
Cooperative bank	380,690	328,000
Diamond Trust bank	430,500	7,800
Equity bank	598,900	220,000
Kenya Commercial bank	605,100	757,650
Family Bank Ltd	-	108,700
Housing Finance	-	29,300
National bank	2,050,000	2,050,000
NIC bank	424,600	10,000
BRITAM	-	400,000
STANLIB MMF	400,000	600,000
	5,147,890	4,983,550
15 FIXED DEPOSITS (Held to Maturity)		
Commercial Bank of Africa	449,000	283,500
Cooperative bank	1,294,300	3,871,000
Diamond Trust Bank	242,500	608,000
Equity bank	259,500	843,000
Family Bank Ltd	80,000	143,300
Housing Finance	120,000	370,000
I&M bank	40,500	-
Kenya Commercial Bank	310,000	584,500
NIC bank	150,000	367,000
Development bank	-	33,600
Chase bank	70,000	265,930
Imperial bank*	259,500	100,000
	3,275,300	7,469,830
Less: Provision for doubtful deposits	(259,500)	-
	3,015,800	7,469,830
Maturity analysis:		
Already due	329,500	-
Maturing within 90 days	2,179,800	7,089,830
Maturing over 90 days	766,000	380,000
	3,275,300	7,469,830

***Fixed deposit held at Imperial bank**

Imperial Bank of Kenya Ltd was placed under statutory management by the Central Bank of Kenya on 13 October 2015. At the time, the Fund through its fund managers held fixed deposits totalling Kes.259, 500,000.00.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

A provision for the entire amount has been made in the financial statements.

	2016 Kes' 000	2015 Kes' 000
16 COMMERCIAL PAPER		
Athi River Mining Ltd	-	10,000
	-	10,000

The Athi River Mining commercial paper matured during the period. There was no new investment in this instrument during the year ending 30 June 2016.

17 TREASURY BILLS (Held to maturity)		
Balance at the beginning of the year	1,187,170	1,785,852
Additions	3,554,379	1,329,112
Proceeds on maturity/disposals	1,282,166	1,927,794
Balance at the end of the year	3,459,382	1,187,170

18 TREASURY BONDS (Available for sale)		
Balance at the beginning of the year	38,368,526	36,668,646
Additions	23,990,050	10,596,627
Proceeds from disposal	7,465,660	8,266,100
Gain/(loss) on disposal	(26,055)	4,163
Add: Fair value gain/(loss)	(2,156,955)	(630,647)
	52,735,961	38,368,526

19 CORPORATE BONDS		
Balance at the beginning of the year	8,525,916	3,430,027
Additions	1,616,600	5,595,641
Proceeds from disposal/redemption	781,949	397,498
Gain/(loss) on disposal	(1,214)	-
Add: Fair value gain/(loss)	(231,281)	(102,254)
	9,128,753	8,525,916
Less: Provision for doubtful bonds	(132,200)	-
	8,995,873	8,525,916

Provision relates to Imperial bank bond. Imperial bank was put under statutory management by Central Bank of Kenya (CBK) on 18/10/2015.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19a CORPORATE BONDS	2016 Kes' 000	2015 Kes' 000
ABC Bank -Fixed medium term note	100,000	100,000
Centum- Floating Note	74,965	75,000
Centum- Fixed Note	225,248	265,256
Barclays Bank Kenya - FXD (MTN)/2008/7Yr	-	75,805
East African Breweries Ltd--FXD01/2015/3 T1	698,095	698,095
Kengen-Infrastructure bond	407,392	525,294
Housing Finance-FXD 2010/7yr bond	1,014,860	951,386
Housing Finance-FXD 2012/7yr bond 2nd Tranche	235,641	247,400
Consolidated bank- FXD(SN)/2012/7Yr	381,796	381,796
Consolidated bank- FXD(SBN)/2012/7Yr	40,000	50,000
Shelter Afrique-FXD2/2012/3Yr 2nd Tranche	-	3,364
Shelter afrique-FXD 1/13/05Yr	283,400	327,000
I&M-Fixed bond	392,933	325,000
Britam-Fixed bond 1st Tranche	257,738	256,038
UAP-5YR fixed bond	75,021	81,284
NIC bank-Medium term note	979,262	988,727
CIC Insurance Group Ltd-Medium term note	848,479	872,525
CBA Bank- Fixed medium term note	1,172,331	1,071,992
FXDCHASE2015	496,278	534,658
CNTB.BD.08.06.20/13	40,237	-
Centum-Equity linked bond	156,894	156,419
CFC Stanbic-Multicurrency medium term note	650,671	538,339
RealPeople-5YR fixed bullet note	174,740	-
FM -FXD 5.5YR BOND	290,570	-
Imperial Bank- 5.25YR FXD BOND	132,200	-
	9,128,753	8,525,382
20 ACCRUED INCOME		
Dividend	750,940	473,197
Rent	25,557	-
Interest	2,464,058	1,909,485
	3,240,555	2,382,682

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 (a)	2016 Kes' 000	2015 Kes' 000
ACCRUED DIVIDEND INCOME	398,346	341,440
Bamburi Cement	185,870	-
Kenya Commercial Bank	160	-
Jubilee Holdings Limited	605	621
Nairobi Securities Exchange	68,824	68,824
Nation Media Group	16,387	18,511
Kenya Re-insurance Corporation	485	-
TPS Eastern Africa Limited	22,694	16,654
CFC Stanbic Holdings	43,447	24,468
The Co-operative Bank of Kenya	14,121	-
Umeme	1,096	1,096
Uchumi Supermarket	-	1,584
Scangroup	752,035	473,197
Less: Provision for Doubtful Income	(1,096)	-
	750,940	473,197

The provision relates to dividend declared by Uchumi Ltd in September 2014 which is yet to be received

20(b) ACCRUED INTEREST INCOME	544,642	-
Deposits	188,224	-
Treasury bills	1,453,376	1,909,485
Treasury bonds	277,816	-
Corporate bonds	2,464,058	1,909,485

21 STORES AND SUPPLIES	29,012	25,802
General office stationery	4,522	3,822
Office and computer accessories	1,152	571
Tools and electrical accessories	77	76
Safety materials and clothing	1,650	1,420
Hospitality materials	36,412	31,691

The stores and supplies represents the value of items of stationery and other materials held in store as at 30 June 2016. A stock take to ascertain the value is carried at the end of every financial year and reconciliation carried out.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 RECEIVABLES AND PREPAYMENTS

Rent and TPS debtors	155,097	283,783
Sundry debtors (note 22a)	338,128	242,166
Deposits and advances	988,122	963,466
Prepayments	150	150
Staff debtors (note 22b)	300,073	274,916
Prepaid rent	26,548	-
Benefit debtors	2,024	-
Contributions debtors (22c)	591,602	654,515
Tax receivables	919,277	12,492
	3,321,022	2,431,488
Less: Provision for bad debts (22d)	(56,265)	(45,039)
	3,264,757	2,386,449

22a SUNDRY DEBTORS

Bounces cheques	34,777	23,551
ECASSA debtors	9,212	9,212
Mutula Kilonzo	5,015	5,015
Lloyd Masika Ltd	4,787	4,787
City Council of Nairobi	2,474	2,474
Staff pension debtor	4,588	4,588
Service Charge Debtors(22a)i	277,276	192,539
	338,128	242,166

22a (i)SERVICE CHARGE DEBTORS

Opening	192,539	-
Addition	84,737	192,539
Reduction	-	-
	277,276	192,539

22b STAFF DEBTORS

Commuted pension	2,645	2,645
Staff mortgage loans	6,401	6,401
Other loans	4,221	4,412
Advances	8,150	4,159
Imprest	1,705	5,412
Staff Car loans	276,951	251,887
	300,073	274,916

Staff debtors' balances represent the various loans, advances and imprest to staff members outstanding as at 30 June 2016. The staff car loans are advanced at an interest rate of 4% for a maximum of six years. The interest earned is recognised as other miscellaneous income

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Kes' 000	2015 Kes' 000
22c CONTRIBUTION DEBTORS		
Outstanding for less than 30 days	591,602	654,515
Outstanding for more than 30 days		
	591,602	654,515
22d Provision for bad debts		
ECASSA debtors	9,212	9,212
City Council of Nairobi	2,474	2,474
Mutula Kilonzo	5,015	5,015
Lloyd Masika Ltd	4,787	4,787
Bounces cheques	34,777	23,551
Total provision	56,265	45,039
23 TPS LOANS		
TPS Loans-held by NSSF Employees	1,397,315	1,451,214
TPS Loans-held by Public	5,970,930	6,924,685
	7,368,245	8,375,899
24 LONGTERM DEPOSITS		
Savings and Loan Ltd (Security deposit)	56,894	56,894
Savings and Loan Ltd (Revolving Funds)	14,029	14,029
Housing Finance	314,725	310,227
National Bank of Kenya	145,939	49,081
	531,587	430,232

Long-term deposits are made of staff mortgage security deposits and balances of mortgage revolving funds bank accounts. The Fund has a mortgage scheme for its staff advanced at 5% interest rate. All cadres of staff enjoy the facility according to the Human Resource Policy.

	2016 Kes' 000	2015 Kes' 000
25 QUOTED EQUITIES		
Balance at beginning of the year	57,037,979	56,376,282
Purchases	5,770,218	7,883,113
Sales	2,165,986	5,813,305
Realised gain	9,231	471,744
Fair Value gain/(loss) on valuation	(10,741,184)	(1,408,112)
Balance at end of the year (Note 35)	49,901,026	57,037,979

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 UNQUOTED EQUITIES	No. of units	2016 Kes' 000	2015 Kes' 000
Consolidated Bank Ltd			
i. 4% Kes. 20 Cumulative preference shares	8,050,000	86,694	86,694
ii. Kes. 20 Ordinary shares	2,225,000	161,000	161,000
UAP Holdings Ltd			
		249,987	249,987
National Bank N/Cum pref shares	235,000,000	1,175,000	1,175,000
		1,672,681	1,672,681

27 UNDEVELOPED LAND		2016 Kes' 000	2015 Kes' 000
Opening balance		9,389,128	8,938,128
Additions		-	-
Disposal		(126,000)	-
Gain/(loss) on disposal		-	-
Gain/(loss) on revaluation		713,500	654,000
		9,976,628	9,592,128
Less: Provision(Forest Edge plot LR. 209/20840)		(160,000)	(160,000)
Schedule(Note 36)		9,816,628	9,432,128

The disposed undeveloped land relates to pieces of land in Mavoko.

28 DEVELOPED LAND			
Opening balance		19,569,656	20,613,582
Additions		-	-
Disposal Proceeds		(290,900)	2,248,726
Gain/(loss) on disposal		-	-
Gain/(loss) on revaluation		630,000	1,030,000
		19,908,756	19,394,856
Less: Provision		-	-
Schedule (Note 37)		19,908,756	19,394,856

The disposed developed land relates to land in Nyayo Embakasi.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Kes' 000	2015 Kes' 000
29 ASSETS UNDER CONSTRUCTION		
Mavoko Project	1,806	1,806
Tassia Scheme	37,295	37,295
Parking Silo	695,388	632,634
Hazina Trade Centre	1,681,749	1,678,194
Kitisuru Roads	36,433	18,648
Milimani Flats	1,879,633	1,685,570
Field Office Refurbishment	12,419	1,298
SPSS Software	1,879	1,879
Nyayo Embakasi	217,349	215,593
SSH Mombasa Refurbishment	29,254	29,254
SSH Block C Refurbishment	75,824	69,047
SSPAS Reimplementation	95,929	69,851
SAP project costs	26,319	26,319
Hazina Estate South B	5,684	5,684
Electronic Shelves	57,309	-
View park Towers Roof Repairs	6,364	-
	4,860,634	4,473,072

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 PROPERTY, PLANT & EQUIPMENT MOVEMENT

	Motor Vehicle	ICT	Furniture	Equipment	Fittings	Software	Totals
Cost/Valuation	Kes'000	Kes'000	Kes'000	Kes'000	Kes'000	Kes'000	Kes'000
Opening carrying value	408,854	1,193,814	238,373	285,515	43,774	568,490	2,738,820
Additions During the year	-	5,021	14,597	8,839	1,375	-	29,831
TOTALS(30th June 2016)	408,854	1,198,835	252,970	294,354	45,148	568,490	2,768,651
Depreciation							
As at 30 June 2015	342,118	925,135	150,545	232,808	39,115	205,288	1,895,009
Disposal	-	-	-	-	-	-	-
Charge for the year	37,370	144,921	14,780	12,522	1,498	189,497	400,587
TOTALS 30th June 2016	379,487	1,070,056	165,325	245,330	40,614	394,785	2,295,596
NBV As at 30 June 2016	29,367	128,779	87,645	49,024	4,535	173,705	473,055
NBV As at 30 June 2015	66,736	268,650	87,817	52,693	4,658	363,202	843,811

(b) Property, Plant and Equipment include the following items that are fully depreciated:

Description	Cost or valuation	Normal annual depreciation
	Kes.'000	Kes.'000
Motor vehicles including motor cycles	776,322	13,957
Computers and related equipment	279,133	-23,292
Office Equipment,	216,535	17,323
Furniture	101,207	12159
Fittings	36,327	1,816
Total	1,409,525,	66,509

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Note 35	Additions	Disposals	Number of Shares 30.6.2016	Description	Market value at 30.06.2015 Kes'000	Additions (Purchases/Bonus) Kes'000	Disposal Proceeds Kes'000	Market gain/(loss) Kes'000	Market value at 30.06.2016 Kes'000
				Kenya Power					
				Ordinary Shares	1,896,226	1,446,501	1,455,380	(874,508)	1,012,839
103,336,546	80,361,153	80,871,453	102,826,246	Cum Preference Shares	19	-	-	-	19
3,550	-	-	3,550	Cum Preference Shares	4	-	-	-	4
750	-	-	750	East African Breweries Ltd	7,543,311	-	-	645,152	6,898,160
24,813,524	-	-	24,813,524	British American Tobacco (K) Ltd	2,770,848	-	412,720	330,017	2,688,146
3,739,336	-	520,000	3,219,336	Kengen Company Ltd	277,427	154,810	2,945	80,979	348,314
29,992,089	23,524,049	338,477	53,177,661	Bamburi Cement Co. Ltd	8,763,623	4,422	4,652	910,736	9,674,129
56,906,640	26,000	26,000	56,906,640	E.A. Portland Cement Ltd	1,397,250	-	-	528,525	868,725
24,300,000	-	-	24,300,000	Kenya Commercial Bank Ltd	10,310,854	18,143	104,436	3,951,446	6,273,115
187,470,067	442,500	2,042,500	185,870,067	Housing Finance Group	796,921	21,080	21,080	204,714	592,208
29,244,817	2,000,000	2,000,000	29,244,817	Sameer Africa Ltd	23,893	-	-	10,882	13,011
4,731,292	-	-	4,731,292	National Bank of Kenya Ltd	2,856,448	-	-	1,435,624	1,420,824
148,002,497	-	-	148,002,497	Barclays Bank of Kenya Ltd	2,575,521	-	-	985,489	1,590,032
165,628,349	-	-	165,628,349	Standard Chartered Bank Kenya Ltd	1,605,701	50,938	-	443,596	1,213,043
5,388,258	832,471	-	6,220,729	Nation Media Group Ltd	1,826,128	-	-	449,650	1,376,479
9,176,524	-	-	9,176,524	Athi River Mining Ltd	720,900	-	-	413,316	307,584
9,612,000	-	-	9,612,000	Kenya Re Insurance Corporation Ltd	473,348	4,532	97,554	45,727	426,054
26,444,043	206,000	4,801,144	21,848,899	Britam (K) Ltd	2,382,982	-	-	732,331	1,650,651
116,243,005	-	-	116,243,005	Safaricom Limited	4,883,935	415,205	49,181	434,002	5,683,961
296,895,753	26,327,400	3,000,000	320,223,153	Jubilee Holdings	-	-	-	18,810	18,810
-	41,341	-	41,341	CFC Stanbic of Kenya Holdings Ltd	365,102	86,980	-	115,871	336,212
3,202,651	1,000,000	-	4,202,651	Centum Investment Co. Ltd	233,764	126,191	-	77,206	282,749
3,568,918	2,857,200	-	6,426,118	TPS Eastern Africa Ltd	67,883	-	-	27,153	40,730
1,939,500	-	-	1,939,500	Scangroup Ltd	135,415	71,209	-	91,271	115,352
3,167,600	2,600,000	-	5,767,600	The Cooperative Bank of Kenya Ltd	1,043,733	126,827	4,958	288,516	877,086
47,987,716	6,571,000	250,000	54,308,716	NIC Bank Ltd	651,053	75,880	-	212,414	514,519
12,169,223	1,927,200	-	14,096,423	Equity Bank Ltd	1,831,554	2,334,897	-	762,111	3,404,340
38,559,027	49,865,400	-	88,424,427	Diamond Trust Bank Kenya Ltd	1,062,174	25,371	-	211,268	876,277
4,699,883	610,887	-	5,310,770	Umeme Ltd-Uganda	138,872	-	-	7,216	146,089
9,840,200	-	-	9,840,200	Umeme Ltd-Kenya	119,519	84,731	-	16,378	187,871
7,051,261	4,000,000	-	11,051,261	Stanlib I-REIT	-	700,000	2,471	61,307	758,836
-	35,000,000	111,000	34,889,000	KenolKobil Ltd	109,722	5,787	10,610	26,659	131,559
12,984,900	665,000	1,000,000	12,649,900	I&M Holdings Ltd	112,507	-	-	6,731	105,776
961,600	-	-	961,600	Nairobi Securities Exchange	32,455	-	-	11,036	43,491
1,635,000	545,000	-	2,180,000	CRDB Bank PLC	18,979	16,713	-	19,377	16,315
950,000	-	-	950,000	Stanlib Uganda	9,909	-	-	2,189	7,720
10,000,000	-	-	10,000,000						
					57,037,979	5,770,218	2,165,986	(10,741,184)	49,901,026
Total									

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36	UNDEVELOPED INVESTMENT PROPERTY	Fair value 30.06.2015 Kes'000	Additions Kes'000	Disposal Proceeds Kes'000	Fair value adjustments	Balance 30.06.2016 Kes'000
	L.R. 209/12287-Kenyatta Avenue-Nairobi	2,100,000	-	-	100,000	2,200,000
	L.R. 209/12220-Kenyatta Avenue-Nairobi	200,000	-	-	5,000	205,000
	L.R. 209/12219-Kenyatta Avenue-Nairobi	180,000	-	-	5,000	185,000
	L.R. 209/11331-Kenyatta Avenue-Nairobi	260,000	-	-	10,000	270,000
	L.R. 209/11412-Kenyatta Avenue-Nairobi	800,000	-	-	40,000	840,000
	L.R. 20694-Mavoko-Sabaki	50,000	-	-	5,600	55,600
	L.R. 24575-Mavoko Municipality	100,000	-	-	11,200	111,200
	L.R. 26472-Mavoko Municipality	150,000	-	-	37,800	187,800
	L.R. 24574-Mavoko Municipality	155,000	-	-	23,300	178,300
	L.R. 24577-Mavoko Municipality	115,000	-	-	27,000	142,000
	L.R. 24578-Mavoko Municipality	1,500,000	-	-	232,000	1,732,000
	L.R. 24579-Mavoko Municipality	440,000	-	-	39,200	479,200
	L.R. 20355-Mavoko Municipality	420,000	-	-	44,400	464,400
	L.R. 20181-Mavoko Sabaki	450,000	-	-	53,000	503,000
	L.R. 20183-Mavoko Sabaki	18,000	-	18,000	-	-
	L.R. 20184-Mavoko Sabaki	18,000	-	18,000	-	-
	L.R. 20201-Mavoko Sabaki	18,000	-	18,000	-	-
	L.R. 20205-Mavoko Sabaki	18,000	-	18,000	-	-
	L.R. 20206-Mavoko Sabaki	18,000	-	18,000	-	-
	L.R. 20207-Mavoko Sabaki	18,000	-	18,000	-	-
	L.R. 20589-Makutano Junction	18,000	-	18,000	-	-
	L.R. Kisumu/Mun/Block 8/258-Kisumu Estate-Kisumu	320,000	-	-	50,000	370,000
	L.R. 209/20840 Forest Edge	175,000	-	-	3,000	178,000
	L.R.209/11642-Upperhill-Nairobi(Note 35(i))	160,000	-	-	-	160,000
	L.R. MSA/MN/2535-Bamburi-Mombasa	115,000	-	-	-	115,000
	L.R. MSA/MN/2537-Bamburi-Mombasa	700,000	-	-	30,000	730,000
	L.R. MSA/MN/2538-Bamburi-Mombasa	85,000	-	-	-	85,000
	L.R. MSA/MN/2539-Bamburi-Mombasa	85,000	-	-	-	85,000
	L.R. MSA/MN/2540-Bamburi-Mombasa	85,000	-	-	-	85,000
	L.R. MSA/MN/982-Mombasa	620,000	-	-	-	620,000
	Tassia Estate	20,265	-	-	-	20,265
	Tassia Infrastructure	67,863	-	-	-	67,863
	Less: Provision for Impairment	9,389,128	-	126,000	713,500	9,976,628
	L.R. 209/11642-Upperhill-Nairobi*	-	-	-	-	-
	L.R. 209/20840 Ngong Road Forest Edge plot (Note 35(ii))	(160,000)	-	-	-	(160,000)
	Total provision for impairment	(160,000)	-	-	-	(160,000)
	Total (Less impairment)	9,229,128	-	126,000	713,500	9,816,628

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36(i) L.R. No.209/11642 in Upper Hill Community

*Included in undeveloped property is land, L.R. No.209/11642 in Upper Hill Community Area, Nairobi measuring 0.2100 Hectares purchased from Le-Kuna Company in 1995 at a cost of Kes.20 Million and registered in on 20 April 1995. The National Government repossessed the land and handed it over to the Ministry to enable the creation of an access road to the Milimani High Court Building in Community. The Fund was not given a hearing or any formal notification of the revocation of title. The Fund is engaging the Chairman, National Land Commission and the Commissioner of Lands seeking for the reinstatement of the title. As at 30 June 2015, the valuation of the land stood at Kes.115 million. A provision of Kes 115 Million for possible impairment of the asset has been made in the financial statements.

36(ii) L.R. No. 20840 Provision for Property in Gazetted Areas

The Fund acquired investment property in a gazetted forest area off Ngong Road and lying next to Lenana School (part of Ngong Forest). **Note 42(a) (i)**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 37

DEVELOPED INVESTMENT PROPERTY	Fair value 30.06.2015 Kes'000	Additions Kes'000	Disposal Proceeds Kes'000	Gain/(loss) on disposal Kes'000	Fair value adjustments Kes'000	Balance 30.06.2016 Kes'000
L.R. 209/13920 -NSSF Complex-Nairobi	7,900,000	-	-	-	200,000	8,100,000
L.R. MSA/Block XXV/123 -SSH Mombasa	1,300,000	-	-	-	100,000	1,400,000
L.R. 209/6776 -Bruce House- Nairobi	2,600,000	-	-	-	75,000	2,675,000
L.R. 209/6708 -Hazina Trade Centre-Nairobi	2,950,000	-	-	-	50,000	3,000,000
L.R. 209/8595 -ViewPark Towers-Nairobi	2,200,000	-	-	-	100,000	2,300,000
L.R. 209/1567 -Hazina Towers-Nairobi	1,290,000	-	-	-	10,000	1,300,000
L.R. Nairobi/block 93/1598 -Hazina Shopping Complex South B	155,000	-	-	-	25,000	180,000
L.R. Nairobi/Block 93/1599 -Hazina school South B	73,500	-	-	-	16,500	90,000
L.R. Nairobi/Block 96/1667 -Hazina Multi-Purpose Hall South B	36,500	-	-	-	500	37,000
L.R. MSA/Block XX/328&329-Hazina Plaza- Mombasa	400,000	-	-	-	50,000	450,000
Nyayo Estate Embakasi	489,656	-	290,900	-	-	198,756
L.R. Kisumu/Mun/Block 8/258-Kisumu Estate-Kisumu	175,000	-	-	-	3,000	178,000
Total	19,569,656	-	290,900	-	630,000	19,908,756

NOTES TO THE FINANCIAL STATEMENTS (Continued)

38. Taxation

According to Section 45 of the First schedule of Income Tax Act Cap 470 effective 18 June, 1996, the Fund is exempted from taxation. According to Income Tax (National Social Security Fund (Exemption) Rules 2002, effective 1 July, 2002 the Fund should comply with certain regulations for it to remain exempted. With effect from 2006/2007 financial year the Fund has complied with most regulations for exemption.

In 2013/2014 financial year (and prior years), an amount of Kes.904, 904.00 had been recognised as a debt. The amount relates to taxes overpaid in years prior to the exemption together with any withholding tax on interest and dividends deducted at source. NSSF demanded a refund which was disputed by KRA and the matter proceeded to the Local Tribunal for arbitration. NSSF appealed the ruling of the local tribunal in the high court and won the case against KRA. The provision of Kes. 904,904 Million in 2014/2015 financial year will be recognised as income in the year it will be received from Kenya Revenue Authority.

39. Basis of Non-Consolidation of Interest in Associate

The Financial Statements of NSSF are prepared in accordance with Section 5 of the NSSF Act No 45 of 2013. The Section requires NSSF statement of net assets (balance sheet) to show in details the assets and liabilities of the Fund. Although NSSF owns 48.05% of ordinary shares and 235 million non-cumulative preference shares in National Bank of Kenya Limited (NBK), the operations of the bank have not been consolidated in the Fund's Financial Statements as required by the International

Financial Reporting Standards. The Fund does not have significant control over the operations.

Had consolidated Financial Statements been prepared based on the latest audited Financial Statements of NBK as at 30 June 2016, NSSF's share in the operations of NBK would have been as follows:

	2016 (Kes 000)	2015 (Kes 000)
Profit after taxation(48.05%*308,796,000)	943.994	562,413
Accumulated Surplus/(Deficit) (48.05%*3,145,589,000)	735.415	1,301,873
	1,679,409	1,864,286

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40. Related Party Disclosures

a. Income earned from related parties	2016	2015
	Kes.'000	Kes.'000
National Bank of Kenya Limited (NBK)	49,081	49,081
Kenya Commercial Bank – Dividend income	185,570	382,760
East African Portland Cement Company	18,225	18,225
NASSEFU Savings and Credit Society Limited – Rental income	5,606	5,606
	209,401.00	455,672.00

b. Board of Trustees Remuneration and Expenses	Kes.'000	Kes.'000
Expenses – Board	22,525	27,942
Board Chairman Honoraria	158	760
Sitting allowance - Board Committees	-	1,874
Air tickets - Board	-	3,104
Local traveling and accommodation - Board	-	21
Training - Board	-	0
Seminars - Board	-	0
Trustees insurance	-	1,011
	22,683	34,712

c. Employees

The Fund provides qualifying employees with car and housing loans on terms more favourable than available in the market. The benefits obtained by staff are subjected to income tax as required under the Kenya Income Tax Act.

Tenant Purchase Staff Loans	Kes.'000	Kes.'000
	1,397,315	1,451,214
	1,397,315	1,451,214

NOTES TO THE FINANCIAL STATEMENTS (Continued)

41. Capital Commitments (Major Contracts)

The main projects which were in progress during the year were as follows:

- i. Project works at Nyayo Estate Embakasi, Phase VI are ongoing at an expected cost of Kes.2.1 billion. A substantial amount is expected to be paid during 2015/2016 financial year.
- ii. Construction of up-market apartments at the NSSF Milimani property at a cost of Kes.1, 490,836,240.36 is ongoing and is due for completion in January 2017.
- iii. Construction of Hazina Trade Centre at cost Kes.6, 715,218,188.00 is in progress.

42. Contingent Assets and Liabilities

a) Contingent Assets

In the financial year 2012/2013, The Board of Trustees approved exclusion of impaired assets from the Financial Statements. The cases to recover the assets are being pursued in courts of law and the current status of the cases is as follows:

i. Properties in Gazetted Areas

The Fund acquired investment properties in gazetted areas in New Muthaiga L.R. No.209/12274 measuring 18.41 hectares (located within Sigiria Block which is part of the Karura Forest Reserve), Ngong Road L.R.Nos.20840 and 20841 lying next to Lenana School (part of Ngong Forest).

New Muthaiga

The Fund filed a case under (formerly 147 of 2004) NSSF Board of Trustees VS- Kitisuru Limited and Geoffrey Chege Kirundi, Mike Maina Kamau, Commissioner of Lands and Attorney General. The case is ongoing and is at hearing stage. EACC is currently investigating the matter.

Ngong Road Plot LR. Nos.20840 &20841

The Fund filed a case in court under Milimani HCCC NO. 162 of 2005 NSSF vs Kerios Farm Ltd. The case is ongoing .On 15 July 2014 EACC wrote to the Fund informing it that it is investigating the matter. The title to the property was revoked vide a Kenya Gazette Notice No.3640 dated 1 April 2010. As per the Gazette Notice revoking the title, the parcel of the land had been reserved for public purposes and the allocation was therefore illegal and unconstitutional. The Fund was not given a hearing or any formal notification of the revocation of title.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Fund is engaging the Chairman, National Land Commission and the Commissioner of Lands seeking for the reinstatement of the title of L.R. No.209/11642 and no positive reply has been received to date. As at 30 June 2015, the valuation of the land stood at Kes.115 million.

ii. **The amount of Kes.251,516,000.00 invested in Euro Bank**

An amount of Kes.251, 516,000.00 invested in Euro Bank and expected to have matured on 28 February 2002 had not been redeemed, as the Bank was placed under receivership in 2003.

The Fund initially won the case against Shah Munge & Partners and was awarded Kes.258,133,333.00. In 2013, the Fund identified 5,250,000 NSE shares valued at 250,000,000.00 belonging to Shah Munge, but another company by the name Southern Bell Ltd went to court claiming ownership of the shares. The company lost the case blocking the Fund from selling the 5,250,000.00 shares for Euro Bank valued at Kes.250,000,000.00 and has given a notice of intended appeal.

iii. **Rental income**

Rental income amounting to Kes.30, 681,000 collected from tenants in Bruce House, Hazina, Viewpark Towers and Nyayo Estate by various property agents had not been remitted to the Fund as at 30 June 2016. Efforts to implement a court decree in favour of the Fund entered by consent vide HCCC No.859 of 1997 have not been successful and on 14th July 2014 the matter was picked by the EACC for investigation. The Fund lawyers are trying to trace the assets of the company.

iv. **Discount Securities Ltd**

The amount of Kes.1,201,143,000 in respect of shares purchased through Discount Securities Limited.

The matter is before the Anti-Corruption Court - Milimani - Discount Securities Case File No.141/267/2010, Court File No. ACC 15 of 2010 (Republic-vs-Francis Moturi Zuriels & Others), Fund witnesses are giving evidence. Recovery of the amount is still being pursued through the Court Case ACC 15 OF 2010 filed by EACC against the suspected culprits. The case is ongoing.

v. **Cash Losses Westlands Branch Fraud (cash losses)**

The amount of Kes.7, 243,030 was lost through fraud at the Branch. The matter is before a court of law for determination though fully provided for in the Financial Statements for 30 June 2015. The case is ongoing.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

vi. **Kenya College of Medicine**

This tenant at both Hazina and View Park Towers presented fake cash deposit slips for receipting that were subsequently discovered. The case is before a court of law and the amount of Kes.9, 327,627 in question has been provided for as contingent.

b) **Contingent Liabilities**

The major cases that may give rise to contingent liabilities during the year are as follows:

(i) **Sololo Outlets Limited Vs NSSF**

As at 30 June, 2003 NSSF had a contingent liability of Kes.4.95 billion relating to a claim made by Sololo Outlets Limited in High Court Civil Case No.804 of 2002 for an alleged breach of contract in the development of Hazina Estate in South B. NSSF filed its defence and counter claim of Kes.3.1 billion. An out of court settlement was reached and consent was filed in court on 20 December 2011, fully and finally settling the matter at Kes.490,850,090. The plaintiff filed a notice of motion application to vary the terms of the settlement claiming that the rate and quantum of interest payable had not been finalized. The application HCCC ELC NO.364 of 2011 was dismissed with costs in June 2014.

(ii) **Nyayo Estate Embakasi Phase Six**

Nyayo Embakasi Residents Association (NERA) instituted legal proceedings in the High Court of Kenya at Nairobi Environment and Land Division ELC NO.1170 of 2014 seeking to stop construction of the project because of environmental concerns.

This has resulted in delay in completion of the works and this has led to the expiry of the Bank guarantee and the mobilization fee of Kes.215,540,774.00 is at risk.

(iii) **Nyayo Estate, Embakasi (Mugoya Construction)**

Mugoya Construction Company Limited has sued the Fund claiming Kes.7.058 billion against a counter claim by NSSF of Kes.9.873 billion. Included in project costs for Nyayo Estate, Embakasi and the counter-claim are questionable payments of Kes.324.356 million made to Mugoya Construction Company Limited without security. The Fund is of the opinion that the possibility of Mugoya Construction Company Limited succeeding is remote.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

These and other matters relating to dealings with Mugoya Construction Company Limited are under arbitration for determination. However, full provision of Kes.324.356 million was made in the 2008/2009 Financial Statements. To date, the arbitration process is still ongoing.

iv) **Construction of Hazina Trade Centre**

M/s China Jiangx International Kenya Ltd was awarded contract No.21/2012-2013 to construct Hazina Trade Centre at a cost of Kes.6, 715,218,188.00. A total of Kes.1, 912,043,004.00 has been paid to date.

Nakumatt Ltd, the main Tenant in Hazina Trade Centre, has raised legal concerns and instituted a claim of Kes.1, 630,323,151.00 which has led to delay in project completion.

43. **Compliance with Retirement Benefits ACT**

The NSSF Act No 45 of 2013 provides that NSSF shall be subject to all the provisions of the Retirement Benefits Act. Rule 28 (2) of the occupational rules for a retirement benefit scheme requires the Fund to maintain an account under which all transactions should be recorded.

NSSF maintains employer contribution clearing accounts where total contributions are posted from employers to the credit of member accounts for benefits payment upon qualification as per the Act. During the year the contributions in transit balance changed marginally from **Kes. 748 Million** in 2014/2015 to **Kes.764 Million** as at 30 June 2016.

44. **Financial Risk Management Policies**

The Board of Trustees has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board of Trustees has established various Board committees, which are responsible for developing and monitoring the Fund's risk management policies in their specific areas.

All Board committees report regularly to the Board of Trustees on their activities. The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Fund, through its training and management policies and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Audit & Risk Committee is responsible for monitoring compliance with the Fund's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Fund. The Committee is assisted in these functions by Audit & Risk department which undertake reviews of risk management controls and procedures, the results of which are reported to the Audit & Risk Committee.

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

a) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in **note 1** to the Financial Statements.

b) Financial Risk Factors

The Fund's overall risk management programme seeks to maximize the returns derived from the level of risk to which the Fund is exposed and seeks to minimize potential adverse effects on the Fund's performance.

The management of these risks is carried out by the Management and Fund Managers under investment policies approved by the Board of Trustees.

c) Foreign Currency Risk

The Fund does not hold any of its bank balances in foreign currency. The fluctuations in currency exchange rates therefore do not expose the Fund to foreign currency risk.

IFRS 7 considers the foreign exposure relating to non-monetary assets and liabilities to be a component of market price risk not foreign currency risk. However, Management monitors the exposure on all foreign currency denominated assets and liabilities.

d) Liquidity Risk Management

The Fund is exposed to daily operational payments and payment to claims payable balances. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Fund sets limits on the minimum proportions of maturing funds available to meet such calls and unexpected levels of demand.

Ultimate responsibility for liquidity risk management rests with the Management, who have built an appropriate liquidity risk management framework. The Fund manages liquidity risk by maintaining enough funds for its operations through continuous monitoring of forecast and actual cash flows. In order to manage the Fund's overall liquidity, the Management monitors the Fund's liquidity position on a daily basis. The contractual maturities of financial liabilities are shown below:-

As at 30 June, 2016	Less than 12 Months Kes.000	Over 12 Months Kes.000	Total Kes.000
Assets:			
Investments at quoted market values	2,445,758	112,312,904	114,758,662
Investments at estimated fair	32,502,035		32,502,035
			0
Other assets:			
Inventory	0	31,691	31,691
Receivables and Prepayments	2,386,449	0	2,386,449
Taxation	0	0	0
Accrued Income	2,382,682	0	2,382,682
Long Term Deposits	0	430,232	430,232
Short Term Deposits	13,640,550	0	13,640,550
	20,855,439	145,276,862	166,132,301
Liabilities:			
Accounts Payable	(1,376,998)	(295,118)	(1,672,116)
Total	19,478,441	144,981,744	164,460,185

45. Currency

The Financial Statements are presented in **Kenya shillings (Kes)**.