

REPUBLIC OF KENYA



Enhancing Accountability



THE NATIONAL ASSEMBLY PAPERS LAID	
REPORT	
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THE AUDITOR-GENERAL

ON

LOCAL AUTHORITIES PROVIDENT FUND

**FOR THE YEAR ENDED
30 JUNE, 2019**



ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING

JUNE 30, 2019

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

**Local Authorities Provident Fund (LAPFUND)
Annual Reports and Financial Statements
For the year ended June 30, 2019**



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I. Key Entity Information and Management

(a) Background information

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

(b) Principal Activities

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

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

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

(c) Key Management

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

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2019 and who had direct fiduciary responsibility were:

S/N	Name	Designation
1	Mr. David Koross	Chief Executive Officer
2	Mr. Bernard Mbogoh	Chief Manager-Finance and Investment
3	Mr. Galm Jaldesa	Chief Manager-Strategy and Business Development
4	Ms. Veronicah Leseya	Chief Manager-Admissions and Benefit Administration
5	Mr. Sylvester Mutie	Manager- Research, Strategy and Business Development
6	Mr. David Methu	Manager- Internal Audit and Risk
7	Ms. Jane Mmasi	Manager- Human Resource and Administration
8	Ms. Rhodah Chemashack	Manager- Finance
9	Mr. Daniel Kibet	Manager- Supply Chain
10	Ms. Golda Akolo	Manager- Admissions and Benefit Administration
11	Mr. Eliud Kiborek	Manager- Marketing and Member Recruitment
12	Mr. Martin Ayoo	Manager- Information, Communication and Technologies
13	Ms. Kellen Njue	Manager- Legal Services

(e) Fiduciary Oversight Arrangements

LAPFUND has put in place key fiduciary oversight arrangements covering:

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

(f) Head Quarters

P.O. Box 79592 - 00200
8th Floor, JKUAT Towers,
Kenyatta Avenue
Nairobi, KENYA

(g) Contacts

Telephone: +254 709 805 000, +254 709 805 100, +254 709 805 700
E-mail: info@lapfund.or.ke
Website: www.lapfund.or.ke

i. Branch Offices

Coast

2nd Floor, Imara Building
Dedan Kimathi Road

Mombasa

Telephone: +254 709 805 300
mombasaoffice@lapfund.or.ke

Western

2nd Floor, Almran Plaza
Oginga Odinga Street

Kisumu

Telephone: +254 709 805 600
kisumuoffice@lapfund.or.ke

South Rift

1st Floor, Polo Centre
Kenyatta Avenue

Nakuru

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nakuruoffice@lapfund.or.ke

Central

1st Floor, Fortress House
Kimathi Way

Nyeri

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Nyerioffice@lapfund.or.ke

Upper North Eastern

Desert Trail Building
Isiolo-Marsabit Main Road

Isiolo

Telephone: +254 709 805 000

isiolooffice@lapfund.or.ke

North Eastern

Lilac Centre, 1ST Floor
Off Kismayu Road

Garissa

Telephone: +254 709 805 000

garissaoffice@lapfund.or.ke

(h) Bankers

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

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

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

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

(i) Independent Auditors

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

Our Vision

The preferred savings and retirement benefits provider

Our Mission

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

Our Core Values

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

- i) Customer focus
- iii) Continuous improvement

- ii) Teamwork
- iv) Professionalism and integrity

II. The Board of Directors



Hon. Kabando Wa Kabando
Board Chairman

Hon. Kabando is a specialist in public policy. He holds a Bachelor's degree in Political Science from University of Nairobi, and a Master's Degree in Public Policy Management from State University of New York

He is a seasoned politician having served as a Member of Parliament for Mukurue-ini Constituency and Assistant Minister for Youth, Affairs and Sports.

Hon. Kabando is the pioneer Chairman of the Nairobi Water Company Limited



Mr. Simon Leboo Ole Morintat, OGW
Board Member

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

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

Mr. Leboo has been LAPFUND contributing member number 15194 for the last 28 years.



Hon. Fatuma Salim Nchizumo
Board Member

Hon. Nchizumo is a Business Lady and a seasoned politician with vast experience in public affairs

She served as a pioneer Member of County Assembly (MCA) of Kwale. Before then she served as a Councillor in the defunct County Council of Kwale.



Mr. Lawrence Gitonga Kaburu
Board Member

Mr. Gitonga is an accomplished ICT and Management professional with experience spanning over twenty-eight (28) years' in corporate world and entrepreneurial practice. He has proficiency in Leadership, Human Resource and Financial Management.

He holds an MBA in Strategic Management from University of Sunderland (UK), Post Graduate Diploma in Management Studies from Edexcel (UK), Bachelor's degree in Computer Information Systems from University of Scranton (USA) and a Diploma in Computer Systems Analysis and Design (ACP, UK).

He is a Fellow of British Computer Society (FBCS), a qualified Computer Systems Analyst and a Certified Information System Auditor (CISA).



Ms. Linda Khaemba
Board Member

Ms. Khaemba is an advocate of the High Court, with an extensive experience of over 10 years', specializing in Contract Law, and Alternative Dispute Resolution.

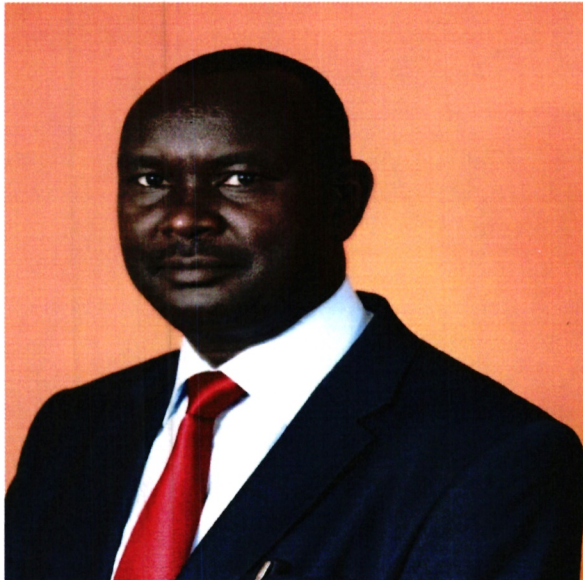
Ms. Linda holds LL. M (Master of Laws) in International & Comparative Law from the University of Pittsburgh School of Law USA, and an LLB (Bachelor of Laws), from Moi University



Mrs. Romana Yego
Board Member

Mrs. Yego is a management professional with over 15 years' experience in Business, Hospitality and Education sectors.

She holds a Bachelor's degree in Education, Home Science and Technology from Moi University. She is currently pursuing a Master of Science in Community Nutrition at the University of Eldoret



Hon Jackson Kipkorir Rop
Board Member

Hon. Rop has been a career civil servant with 19 years of experience.

He holds a Bachelor's degree in Commerce graduate of Barkatullah University, India and a Master's Degree in Business Administration from Moi University

Hon. Rop is the immediate former Member of Parliament for Kipkelion West Constituency



Hon. Hassan Aden Osman
Board Member

Hon. Osman holds a Bachelor of Arts degree in International Studies from the University of Nairobi

He is a businessman and a former Member of Parliament



Mrs. Wambugu is an Alternate Director to the Cabinet Secretary, The National Treasury and Planning, where she currently serves in the Department of Government Investment and Public Enterprise. She has over 12 years' experience having served in various Government Ministries and as a Project Accountant in World Bank and AFD donor funded projects in the Ministry of Energy.

She holds a Master's degree in Business Administration (Finance), Certified Public Accountant (CPA) and a member of the Institute of Public Accountant of Kenya (ICPAK) as well as the Institute of Certified Investment and Financial Analyst (ICIFA).



Mr. David Koross
Chief Executive Officer

Mr. Koross holds a Master Degree in Public Policy Management from Strathmore Business School and a Bachelor of Arts degree in Economics from University of Nairobi.

He has a wide area of expertise in Marketing, Financial/Investment Management and Reporting, Customer Management, Pension Schemes Regulation and Administration. Previously served as a Director of NG-CDF Board.

III. Management Team



Mr. David Koross
Chief Executive Officer
MBA (Public Policy Management), BA Economics



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



Mr. Galm Jaldesa
Chief Manager, Research, Planning
Strategy & Business Development
MBA, B Com Finance



Mrs. Veronicah Soila Leseya-Owende
Chief Manager, Admissions and Benefits Administration
Bachelor of Arts (Hons), AIIK, CPAM



Kellen Njue
Manager, Legal Services
LLB, LL.M, Dip (KSL), CPS (K)



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



Mr. Sylvester Mutie
Manager, Research, Planning, Strategy &
Business Development
MBA Finance, Bcom (Finance) CPA (K),
CIPS (M)



Ms. Chemashack Ndiwa
Manager, Finance
MSc (Finance), BCom (Accounting)
CPA(K)



Ms. Jane Mmasi
Manager Human Resource &
Administration
IHRM, BBM (HRM), HSC



Martin Ayoo
Manager, ICT
MSc (D.Comm), BSc (IT), Dip (IT)



Eliud Kiborek
Manager, Marketing & Member
Recruitment
BBM (Marketing)



Mr. Daniel Kibet
Manager, Supply Chain
BCom, MCIPS, MKISM



Ms. Golda Akolo
Manager, Admissions & Benefit
Administration
MSc (Actuarial Science),
BSc (Actuarial Science)

IV. Chairman's Statement



LAPFUND is for sure the preferred savings and retirement benefits provider among its peers in the public sector. Considering that the fund is able to surmount all hurdles to remain on a growth trajectory while at the same time meeting its members' needs and honoring its corporate responsibility. This is a noteworthy achievement.

A committed Board and dedicated management are driving the business of LAPFUND to a higher level. This level is being achieved through continuously seeking for opportunities to strategically invest in areas that ensure maximum returns for members.

In this process, the institution has adopted a result-oriented and risk-based approach in order to ensure a balance between appetite for good returns and risk exposure.

The business of LAPFUND is aligned to the major government policy directions issued from time to time in order to ensure support for the economy and the well-being of the Kenya people. As such, LAPFUND has aligned its business towards achievement of Kenya's Vision 2030 and currently to contribution to the housing limb of the 'Big Four Agenda' of government. This will be achieved by construction of affordable houses in collaboration with County Governments and housing sector players. Plans have commenced to see this initiative to fruition.

LAFUND thrives from the goodwill and immense support from its members (the reason for its existence) sponsors and other stakeholders. We greatly appreciate them and promise to keep our commitment to serve them even better going forward in line with our core values of customer focus and continuous improvement.

I would like to thank the management and staff of LAPFUND for the warm welcome of the newly appointed Board and for the performance of the financial year 2018/2019. I wish to

express my gratitude to the Board Members for a seamless transition into the organization and their contribution to the financial year 2018/2019.

Thank you and God Bless.



**Simon Leboo Ole Morentat, OGW
Board Member**

V. Report of the Chief Executive Officer

We have come to the end of financial year 2018/2019 and I am delighted to present the annual report and financial statements for the year ending 30th June 2019.

During the period, a lot of positive achievements were realised. The development of a new Strategic Plan that will form the general business growth guidelines for the scheme until the year 2024. This is as a result of the lapse of the organisations Strategic Plan 2014/15- 2018/2019 that set the tone of growth in Fund value and Membership.



The Key areas in the strategic plan will be Customer and Stakeholder focus, Prudent Financial Management, Enhanced business processes and reengineering and enhanced organisational capacity through development of a world-class trained human capital. This will enable the scheme to achieve its corporate objectives, vision and mission.

Performance Highlights

During the financial year;

- Member contributions increased by 11% from 5.53bn in last year to 6.14bn. The increase is attributed to increased membership and annual salary increment.
- Benefits paid during the period under review reduced by 37% from Kshs 5.38bn in FY 2017_18 to Kshs 3.42bn. There were huge payments of gratuity benefits to MCAs and County Executives in FY 2017_18 thus the reduction in the benefits paid out.
- Total investments income during the period under review increased by 22% from Kshs 1.2bn in FY 2017_18 to Kshs 1.4bn. This was due to the improved value of government bonds and appreciation in value of property investments
- Administrative costs increased by 24% from 0.86bn in Q4 FY2017_18 to 1.07bn in year under review. The increase in costs is attributed to increase in activities related to members recruitment and enhancement of the organizational capacity

**Local Authorities Provident Fund (LAPFUND)
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- Fund value increased by 11% from 31.68bn in Q4 FY2017_18 to 35bn in the year under review. The increase is attributed to the increased membership, appreciation in value of property investments and surplus.

During this same period, LAPFUND held its 11th Annual General Meeting on 4th May 2019 in Mombasa County in fulfilment of the regulatory and statutory requirement. The Board of trustees presented to the over 2,000 members the scheme's performance for the financial year 2017/2018.

In line with the Performance Contracting requirements for the financial year 2018/2019, LAPFUND carried out several Corporate Social Responsibility activities in social, human and environmental areas as outlined in LAPFUND'S Corporate Social Responsibility (CSR) Policy. The organisation has continuously been socially responsible to the society in many ways. In quarter four, LAPFUND identified and partnered with various stakeholders in giving back to society. Among the notable activities undertaken, include;

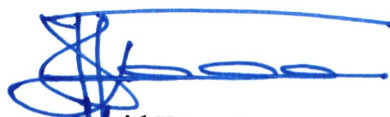
- Environmental Sustainability through tree planting in partnership with Murang'a Water and Sanitation Company and Nakuru Rural & Sanitation Company in Muranga and Nakuru Counties respectively.
- For Rural Development Project LAPFUND collaborated with County Government of Kakamega to provide Menstrual Hygiene Management in primary schools.

Conclusion

LAPFUND is strategically positioned as the preferred savings and retirement scheme. The end of this financial year will not only be celebrated as successful but also challenging to the entire scheme fraternity to focus on the identified key areas of growth and propel LAPFUND to the next level guided by the new Strategic Plan.

I convey my gratitude to the Board, management, staff and stakeholders for their continued commitment and support.

Thank you



David Koross
Chief Executive Officer

VI. Corporate Governance Statement

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

The Board continually reviews various policies and procedures used and the stewardship of LAPFUND's assets and resources with the objective of maintaining and enhancing stakeholder value in the context of LAPFUND's Vision, Mission and Values.

The Board of Directors

The Board comprises 8(eight) non-executive members and a secretary who is also the Chief Executive Officer of LAPFUND. The Board members were appointed on 19th December 2018 by the Cabinet Secretary, The National Treasury and Planning.

The Board ensures that proper standards of corporate governance are maintained and have oversight over the management of the LAPFUND, not only through the Board meetings but also through the various Board Committees.

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

In order to monitor performance, Board Members enters into a Performance Contract every financial year with the government to evaluate its Performance against set targets. The boards individual performance is also evaluated by the State Corporations Advisory Committee

The Committees of the Board

Section 9 of the State Corporations Act (CAP 446) allows the Board of Directors of LAPFUND to establish a number of Board Committees consisting of Board members to deal with specific issues as the Board deems fit. The Board MUST also give notice to the State Corporations Advisory Committee of such committee. The purpose of these working committees is to handle

comprehensively technical issues before presentation to the Board for approval. The following committees have been established:

a) Finance and Assets Committee

The purpose of the Finance and Assets Committee is to determine and advise on all matters relating to finance and assets. The Finance and Assets Committee is constituted by the Board and the responsibilities are summarized as follows:

- i. Review of LAPFUND's quarterly financial reports and other matters related to its continued solvency.
- ii. Advise the Board on all aspects of financial responsibility including financial risks, policies, controls and strategies; and review these periodically.
- iii. Recommending policies that maintain and improve the financial health and integrity of the organization.
- iv. Reviewing and recommending a long-range financial plan for the organization.
- v. Reviewing and recommending an annual operating budget and annual capital budget consistent with the long-range financial plan and financial policies.
- vi. Reviewing the financial aspects of major proposed transactions, new programs and services, as well as proposals to discontinue programs or services, and making action recommendations to the board.
- vii. Reviewing and recommending unbudgeted capital and operating expenditures.
- viii. Monitoring the financial performance of LAPFUND as whole and business lines against approved budgets, long-term trends, and industry benchmarks.
- ix. Review quarterly and annual performance contract reports from management
- x. Requiring and monitoring corrective actions to bring the organization into compliance with its budget and other financial targets.
- xi. Review the annual financial statements of LAPFUND and recommend them to the Board for approval.
- xii. Review financial policies and procedures of LAPFUND periodically and align the same to the requirements of the Public Finance Management Act 2012 and the Regulations thereon from time to time.
- xiii. Oversee the maintenance of organization wide assets, including prudent management of organizational investments.

- xiv. Considering significant asset acquisition and disposal and making recommendations to the Board as appropriate.
- xv. Reviewing and monitoring the management and utilization of buildings and grounds
- xvi. Monitoring program status against contractual arrangements.
- xvii. Reviewing and monitoring capital projects and works program of the LAPFUND.
- xviii. Monitoring insurance arrangements for LAPFUND assets.
- xix. Periodically reviewing the arrangements for insurance.

b) Strategy and Investment Committee

The purpose of the Strategy and Investment Committee is to determine and advise on all matters relating to the strategy and Investment. The Strategy and Investment Committee is constituted by the Board and the responsibilities are summarized as follows:

- i. Develop the Investment policy document.
- ii. Review the strategic asset allocation targets for the prudent investment of members contributions and investment incomes.
- iii. Conduct quarterly review of LAPFUND's investment structure and the asset allocations
- iv. Review Investment performance against set performance benchmarks spelt out in the Investment Policy and market performance
- v. Receive report on selection of Custodial and Investment Management services in line with the Retirement Benefits Act, 1997.
- vi. Monitor and keep under review new projects in which the Fund wishes to engage in.
- vii. Establish appropriate allowable ranges for the asset allocation targets in line with the RBA Regulations.
- viii. Monitoring the performance of investment pools including the performance against benchmarks relative to marked performance.
- ix. Receiving regular reports on changes in the management of investment portfolios.
- x. Review quarterly reports on membership, contributions received and due, and present to the Board for adoption before submission to RBA.

c) Human Resources and Governance Committee

The objectives of the Human Resources Committee is to oversee certain management assessment, succession and compensation matters in accordance with the Terms of Reference.

Terms of Reference

The primary functions of the Committee are to oversight, review, and recommend appropriate and effective human resource policies, strategies, processes and plans of the organization. Ensuring LAPFUND has an effective organizational structure and competitive human resource and compensation policies and practices. The Human Resource and Governance Committee is constituted by the Board and the responsibilities are summarized as follows:

- i. Review and recommend for approval overall employee compensation philosophy and policies, including all bonus plans and other short- and long-term compensation arrangements.
- ii. Review and significant human resource strategies, policies, processes and plans of the Corporation and recommend to the Board for approval.
- iii. Ensuring appropriate processes are in place for the selection, evaluation, compensation, and succession of senior management
- iv. Evaluating and determining compensation for the Chief Executive Officer
- v. Such other related initiatives as may be necessary or desirable to enhance human resource performance
- vi. Review and recommend for approval employee benefit plans, including medical/dental, life and disability benefits.
- vii. Submit to the Full Board for ratification, confirmation and approval, all such matters as the Committee may deem appropriate.
- viii. Review and recommend for approval overall employee compensation philosophy and policies, including all bonus plans and other short- and long-term compensation arrangements.

d) Audit Committee

The audit committees' roles and responsibility is as set in the Public Finance Management Act, regulation and the guidelines provided thereof and involve the following duties;

- i. Support the CEO in carrying out oversight responsibilities by monitoring and reviewing risk, control, performance and governance processes which have been established;
- ii. To oversee the internal audit function and the external audit and follow-up on the implementation of the recommendation of internal and external auditors;
- iii. Provide additional assurance regarding the quality and reliability of both the financial and operating information;
- iv. Take special interest in audit matters and therefore pay special attention to the work plans and activities of the internal audit function;
- v. Provide a channel of communication between management and the internal and external auditors and positive support of the internal audit function;
- vi. Influence the organizational status of internal audit unit and foster an independent climate for its operation.
- vii. Evaluate the adequacy and effectiveness of the management reporting and control systems used to monitor adherence to policies and guidelines and limits approved by the Board for management of risks;
- viii. Evaluate and prioritize risks identified by management and ensure that internal audit plans are aligned to the risk profile of the Fund.
- ix. Review the process implemented by Management in respect to risk management, control systems and fraud prevention and ensure that all fraud related incidents have been followed up appropriately;
- x. As part of the on-going monitoring process, the audit committee should review the management letter (or equivalent). The audit committee should review and monitor management's responsiveness to the external auditor's findings and recommendations.
- xi. Obtain feedback about the conduct of the audit from key people involved, for example the head of finance and accounts, and the head of internal audit;
- xii. Review and monitor the content of the external auditor's management letter, in order to assess whether it is based on a good understanding of the entity's business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon; and

xiii. Report to the board on the effectiveness of external audit process

Board Induction and Training

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

Attendance in the Board and Committee meetings

During the financial year, the attendance of individual Board members in the scheduled meetings is as shown below:

	Full Board	Finance & Asset Committee	Strategy & Investment	Audit	Human Resource and Governance	Joint S&I and F&I	Others	Total Meetings
Number of Scheduled Meetings	3	2	3	2	2	1	5	
Kabando wa Kabando	3	1	0	0	1	1	5	11
Hassan Osman	3	1	3	0	0	1	4	12
Lawrence Gitonga	3	1	3	0	0	1	5	13
Linda Khaemba	3	0	0	2	2	0	5	12
Fatuma Salim	3	0	3	2	1	1	4	14
Jackson Rop	3	0	0	2	2	0	5	12
Simon Leboo Morintat	2	2	0	0	1	0	1	6
Romana Yego	3	2	3	0	0	1	4	13
Jane Wanjiru Wambugu	1	1	3	1	1	0	4	11
James Wangombe	2	0	1	0	0	0	0	3

VII. Corporate Social Responsibility Statement

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

The CSR Committee prepared a work plan of all activities for the period ending 30th June 2019. The guiding principle for CSR activities is based on their sustainability and the impact they have on the scheme and society.

During the year under review, LAPFUND's engaged in the following CSR activities;

a) Environmental Sustainability

LAPFUND partnered with Murang'a Water & Sewerage Company and Nakuru Rural Water & Sanitation Company Limited for tree planting. LAPFUND sponsored the activities by purchasing tree seedlings. The exercise aimed at improving climatic conditions and the quality of water in the regions.



Nakuru Rural Water & Sanitation Company Limited with LAPFUND Nakuru staff during tree planting

a) Menstrual Hygiene Management in schools

LAPFUND collaborated with the County Government of Kakamega, in distribution of sanitary towels costing Kshs 500,000 in various schools in Kakamega County. The programme focuses on provision of sanitary towels and appropriate disposal, mentorship, nutrition and life skill development among others.



Beneficiaries of the Sanitary towels displaying their gift

VIII. Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of LAPFUND's affairs.

Principal activities

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

Results

The results for the year ended June 30, 2019 are set out on page 1

Directors

The members of the Board of Directors who served during the year are shown on page v. The tenure of the entire members of the Board started on 19th December 2018.

Dividends/Surplus Remission

LAPFUND being a Provident Fund, all the surplus is credited to member accounts and hence no remittance to the Consolidated Fund.

Auditors

The Auditor General is responsible for the statutory audit of LAPFUND in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 and continues in office

By Order of the Board



David Koross
Secretary to the Board and Chief Executive Officer

Date: 29/08/2019

IX. Statement of Directors' Responsibilities

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

The Directors are responsible for the preparation and presentation of the financial statements, which give a true and fair view of the state of affairs for and as at the end of the financial year ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the financial statements give a true and fair view of the transactions during the financial year ended June 30, 2019, and of the financial position as at that date. The Directors further confirm the completeness of the accounting records maintained, which have been relied upon in the preparation of the financial statements as well as the adequacy of the systems of internal financial control.


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

Approval of the financial statements

The financial statements were approved by the board on 29/08/2019 signed on its behalf by:



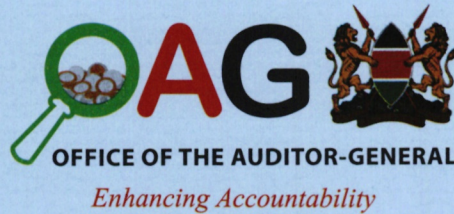
Chief Executive Officer



Director

REPUBLIC OF KENYA

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HEADQUARTERS
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON LOCAL AUTHORITIES PROVIDENT FUND FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Local Authorities Provident Fund set out on pages 1 to 29, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Local Authorities Provident Fund as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Local Authorities Provident Fund Act, (Cap 271) and the Retirement Benefits Authority Act, 1997.

Basis for Opinion

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

Emphasis of Matter

Long Term Receivables from Exchange Transactions

The statement of financial position reflects long term receivables from exchange transactions balance of Kshs.7,323,268,000; (2018: Kshs.7,275,398,000) as disclosed under Note 14 to the financial statements. Although adjustments have been made for the likely impairment for the long outstanding contributions by way of doubtful debts provisions, Management has not aggressively pursued the collection of the

receivables. This has occasioned an increase on the long overdue contributions by Kshs.47,870,000 during the year under review.

Key Audit Matters

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

Other Matter

1. Unresolved Prior Year Audit Matters

The following prior year audit matters remained unresolved as at 30 June, 2019;

1.1 Unrecovered Rent - Mariakani Estate Nairobi

As previously reported, the Local Authorities Provident Fund (LAPFUND) started collecting rent from tenants of Mariakani Estate-Nairobi during the financial year 2016/2017 following settlement of a court case. Prior to the court settlement, the County Government of Nairobi had collected rent amounting to Kshs.64,800,000 which has not been forwarded to LAPFUND.

1.2 Uncollected Rent - Makasembo Estate – Kisumu

As previously reported, the court case concerning the continued collection of rent by the National Housing Corporation (NHC) from tenants at Makasembo estate was yet to be concluded by 30 June, 2019. During the year under review, NHC collected rent estimated at Kshs.1,452,000 but did not remit to LAPFUND. This brings the total rent receivable from the Property from the time of its transfer by the defunct Kisumu Municipal Council to the Fund to approximately Kshs.11,979,000 as at 30 June, 2019. Available information also indicates that the defunct Kisumu Municipal Council failed to service undetermined debt arising from the construction of the Estate by NHC and thus the reason for the latter to move in to collect rent to recover the amount owed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that

govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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

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

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Fund monitors compliance with

relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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


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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

25 August, 2020

XI. Statement of Financial Performance for the Year ended 30th June 2019

		2018/2019 <u>'000'</u>	2017/2018 <u>'000'</u>
Revenue from non-exchange transactions			
Revenue attributable to members	3	2,724,519	2,512,077
Revenue from exchange transactions			
Finance income - external investments	4	597,530	838,687
Other income	5	4,495	3,132
Total Revenue		<u>3,326,544</u>	<u>3,353,896</u>
Expenses			
Employee costs	6	324,554	257,387
Board Costs	7	49,640	43,733
Depreciation and amortization costs	8	810,193	3,045,124
Repairs and maintenance	9	4,410	4,534
Contracted services	10	230,026	167,905
General expenses	11	465,163	390,768
Total expenses		<u>1,883,987</u>	<u>3,909,452</u>
Other gains/ (losses)			
Unrealized gain on fair value of investments	12	811,908	313,047
Total other gains/ (loses)		<u>811,908</u>	<u>313,047</u>
Administrative recharges	15	1,073,793	864,328
Surplus		<u>3,328,258</u>	<u>621,818</u>


The notes set out on pages 6 to 26 form an integral part of the Financial Statements.

XII. Statement of Financial Position as at 30th June 2019

		2018/2019 <u>'000'</u>	2017/2018 <u>'000'</u>
Assets			
Current assets			
Cash and cash equivalents	13	131,400	45,076
Receivables from exchange transactions	14	636,806	632,643
Receivables from non-exchange transactions	15	1,009,606	711,801
Current Investments	21	<u>4,513,899</u>	<u>1,840,040</u>
		6,291,711	3,229,559
Non-current assets			
Motor Vehicles, Plant & Equipment	16	16,180	67,370
Intangible assets	17	3,312	-
Non-current investments	21	20,452,880	20,384,610
Long term receivables from non-exchange transactions	15	1,005,673	833,892
Long term receivables from exchange transactions	14	<u>7,323,268</u>	<u>7,275,396</u>
		28,801,313	28,561,268
		35,093,025	31,790,828
Total assets			
Liabilities			
Current Liabilities			
Trade and other payables from exchange transactions	18	<u>88,982</u>	<u>115,044</u>
		88,982	115,044
Total Liabilities			
		35,004,042	31,675,783
Net Assets			
Reserves		57,550	57,550
Accumulated surplus		<u>34,946,492</u>	<u>31,618,233</u>
		35,004,042	31,675,783
		35,093,024	31,790,828
Total Net Assets and Liabilities			

The Financial Statements set out on pages 1 to 26 were signed on behalf of the Board of

Directors by:



David Koross
Chief Executive Officer



Simon Leboo Ole Morintat, OGW
Board Member

Date 29/08/2019

Date 29/08/2019

XIII. Statement of Changes in Net Assets for the Year Ended 30 June 2019

Attributable to members of LAPFUND	Reserve fund	Accumulated surplus	Total
	<u>'000'</u>	<u>'000'</u>	<u>'000'</u>
Balance as at 30 June 2017	57,550	30,996,415	31,053,965
Surplus/(deficit) for the period		621,818	621,818
Balance as at 30 June 2018	57,550	31,618,233	31,675,783
Surplus for the period		3,328,258	3,328,258
Balance as at 30 June 2019	57,550	34,946,492	35,004,042

XIV. Statement of Cash Flows for the Year Ended 30th June 2019

	Note	2018/2019 '000'	2017/2018 '000'
sh flows from Operating Activities:			
Operating Surplus / Net Income	1	3,328,258	621,818
Add back depreciation	7	75,068	74,280
Less: Non-cash items			
-Change in fair value of property investments	12	(991,455)	-
-Change in fair value of government bonds	12	(208,721)	(15,891)
-Change in fair value of quoted equities	12	388,557	(302,900)
Increase (Decrease) in receivables from exchange transactions	9	(52,035)	(1,353,505)
Increase (Decrease) in other receivables	9	(469,586)	(270,939)
Decrease (Increase) in payables	11	(26,062)	38,711
Net cash from operating activities		2,044,024	(1,208,425)
sh flows from Investing Activities:			
Purchase of Non - Current Assets			
Motor Vehicles	16	-	(24,594)
Computer and Equipment	16	(8,852)	(9,314)
Furniture and Fittings	16	(13,656)	(64,673)
Intangible assets - software	17	(4,681)	-
Purchase/Disposal of Investments			
Property	21	(24,843)	(2,343,875)
Government Bonds	21	(2,092,122)	1,191,882
Treasury Bills	21	180,344	1,617,583
Fixed deposits	21	(350,891)	528,378
Corporate and commercial paper	21	65,058	127,260
Quoted shares	21	291,943	178,023
Net Cash generated from (Used in) Investing		(1,957,700)	1,200,670
Increase (Decrease) in Cash & Cash Equivalents		86,324	(7,756)
Cash & Cash Equivalents at Beginning of Year		45,076	52,831
Cash & Cash Equivalents at End of Year		131,400	45,076

XV. Statement of Comparison of Budget and Actual Amounts

	Note	Original budget '000'	Final budget '000'	Adjustments '000'	Actual on comparable basis '000'	Performance difference '000'	% Variance
Income							
Net revenue attributable to members	1	6,834,214	3,811,339	(3,022,875)	2,724,519	(1,086,820)	(29)%
Investment Income	2	1,210,539	892,431	(318,109)	597,530	(294,901)	(33)%
Change in fair value of assets	3	-	(540,055)	(540,055)	811,908	1,351,963	(250)%
Other incomes	4	2,801	3,466	665	4,495	1,029	30 %
Total Income		8,047,555	4,167,181	(3,880,374)	4,138,452	(28,729)	(1)%
Expenses							
Employee costs	5	298,201	334,275	36,074	324,554	9,721	(3)%
Remuneration of board members	6	47,043	50,357	3,314	49,640	717	(1)%
Repairs and Maintenance	7	4,580	6,925	2,345	4,410	2,515	(36)%
Contracted Services	8	242,468	191,947	(50,520)	230,026	(38,078)	20 %
General Expenses	9	734,202	500,253	(233,949)	465,163	35,089	(7)%
Total expenses		1,326,494	1,083,757	(242,737)	1,073,793	9,963	(1)%
Surplus for the period		6,721,061	3,083,424	(3,637,637)	3,064,659	(38,693)	(1)%

Note	Description
1	The net revenue attributable to members was below the final budget by 29%. This was due to increase in value of benefits paid as a result of the accumulated interests than anticipated during the budget period.
2	Investment income was below the budget by 33% due to; i) high prices of government bonds due to the interest rate capping. ii) Writing off of accrued property rental income from Mariakani, Makasembo and Golf View Serviced Apartments whose recovery is doubtful
3	Change in fair value of assets has improved by over 100% due to; i) the gain in value of Equities and Government bonds ii) Appreciation in the fair value of property investments
4	Other incomes increased by 30% against the budget of Kshs. 3.47m. This was due to increased uptake of mortgages and car loans by employees than earlier anticipated. This had led to the increased interest earnings
7	Repairs and maintenance were Kshs. 4.4m against a budget of Kshs. 6.9m. The variance 36% was due to efficiently utilization of motor vehicles and computers resulting to minimized repairs
8	Contracted services was above the budget by 20% due the cost incurred in valuation of property investments than anticipated during the budget process

XVI. Notes to the financial statements for the year ended 30th June 2019

1. General information

Local Authorities Provident Fund (LAPFUND) is established and derives its authority and accountability from the laws of Kenya, The Local Authorities Provident Fund Act, CAP 272, of 5th of July 1960. LAPFUND is wholly owned by the Government of Kenya and is domiciled in Kenya.

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

The Act provides for the establishment of the Fund. The Fund shall be credited with:

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

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

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying LAPFUND's accounting policies. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the LAPFUND.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, Retirement Benefits Authority Act and Occupational Schemes Regulations and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. Adoption of new and revised standards

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

Standard	Impact
<p>IPSAS 40: Public Sector Combinations</p>	<p>Applicable: 1st January 2019</p> <p>The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only). Business combinations and combinations arising from non-exchange transactions are covered purely under Public Sector combinations as amalgamations.</p> <p><i>The Standard has no impact it does not affect the operations of LAPFUND.</i></p>

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019

<p>IPSAS 41: Financial Instruments</p>	<p>Applicable: 1st January 2022</p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset’s cash flows and the objective for which the asset is held;
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- Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and

- Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.

The Standard has no impact it does not affect the operations of LAPFUND.

IPSAS 42:
Social Benefits

Applicable: 1st January 2022

The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:

- (a) The nature of such social benefits provided by the entity;
- (b) The key features of the operation of those social benefit schemes; and
- (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.

The Standard has no impact it does not affect the operations of LAPFUND.

iii. Early adoption of standards

LAPFUND did not early – adopt any new or amended standards in year 2019.

4. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions – IPSAS 23

Member Contributions and fines

LAPFUND recognizes revenues from member contributions and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably

ii) Revenue from exchange transactions – IPSAS 9

Interest income

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

Rental income

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

iii) Benefit Payable.

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

b) Budget information – IPSAS 24

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

comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

c) Taxes – IAS 12

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

d) Investment property – IPSAS 16

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

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

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

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

e) Property, plant and equipment – IPSAS 17

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance are charged to the statement of changes in net assets during the financial period in which they are incurred

Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Land is not depreciated. Depreciation on other property, plant and equipment is recognized so as to write off the cost of assets less their residual values over their useful life using the straight-line method at the rate of 50%.

f) Intangible assets – IPSAS 31

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

g) Financial instruments – IPSAS 29

Financial assets

Initial recognition and measurement

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

Loans and receivables

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

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when LAPFUND has the positive intention

and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

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

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

Amortized Costs

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

h) Provisions – IPSAS 19

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

Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

LAPFUND makes provisions as follows;

i) Depreciation

Depreciation is provided for at a straight-line method at the following rates:

Motor Vehicles	50%	Office Equipment and Furniture	50%
Computers	50%	Fixture and Fittings	50%

Assets purchased in the first half of financial year are charged full year depreciation during the Financial Year while assets purchased in second half of financial year are depreciated in the subsequent Financial Year.

ii) Bad & Doubtful Debts

When due contributions are not remitted by 15th of the following month, a 3% compounded interest is charged. The management makes a provision for all the interest charged and still outstanding at the end of the financial year

Contingent liabilities

LAPFUND does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

LAPFUND does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

i) Nature and purpose of reserves

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

Reserves

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

j) Changes in accounting policies and estimates – IPSAS 3

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

k) Employee benefits – IPSAS 25

Retirement benefit plans

LAPFUND provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

l) Foreign currency transactions – IPSAS 4

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

m) Related parties Transactions – IPSAS 20

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

i	Loans due from related parties	Ksh '000'
	Loans advanced to management	111,771
	Loans to management carry 3% interest. Difference between interest charged by LAPFUND and the statutory rate as per Sec 27(1) b of Income Act of 2004 is compensated by taxed loan benefit received. The loans advanced to management are recovered through their salaries.	
	Contributions due from County Governments, Water companies and other companies	Ksh '000'
ii	County Governments	14,877,386
	Water Companies	1,160,009
	Other Companies	22,732
	Total	16,060,127
iii	Remuneration to Board members	49,640
	Receipts from related parties	Ksh '000'
iv	County Governments, water companies and other companies	5,884,370
	Staff repayment loans	7,992
	Total	5,892,362

Management personnel is described as those persons having authority and responsibility for planning, directing and controlling LAPFUND.

n) Service concession arrangements – IPSAS 32

LAPFUND analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, LAPFUND recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair

value. To the extent that an asset has been recognized, LAPFUND also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

o) Cash and cash equivalents

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

p) Comparative figures

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

q) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2019.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The judgements, estimates and assumptions made include;

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future

developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 8. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

LAPFUND makes provision for;

i) Depreciation

This is provided for on a straight-line method over two years as per the RBA act.

ii) Bad & Doubtful Debts

When due contributions are not remitted by 15th of the following month, a 3% compounded interest is charged. The management makes a provision for all the interest charged and still outstanding at the end of the financial year

Notes to the financial statements (continued)

	2018/2019 <u>'000'</u>	2017/2018 <u>'000'</u>
3 Revenue attributable to members		
Contributions from members	6,140,039	5,525,858
	<u>6,140,039</u>	<u>5,525,858</u>
Less: Benefits to members		
Terminal benefits	3,341,723	5,327,631
Group life benefits	73,797	58,984
	<u>3,415,520</u>	<u>5,386,615</u>
Net Contributions due	2,724,519	139,243
Levies on outstanding contributions	-	2,372,834
Revenue attributable to members	<u>2,724,519</u>	<u>2,512,077</u>
4 Finance income - external investments		
Fixed income		
Government Bonds	443,512	413,560
Treasury Bills	57,451	153,579
Fixed deposits	29,184	21,321
Corporate bonds	80,305	92,447
	<u>610,452</u>	<u>680,907</u>
Dividend income		
Investments in quoted equities	139,186	114,414
	<u>139,186</u>	<u>114,414</u>
Gain on sale of investments		
(Loss)/Gain on sale of quoted shares	(289)	5,744
	<u>(289)</u>	<u>5,744</u>
Property Income		
Rental incomes	(151,819)	36,392
	<u>(151,819)</u>	<u>36,392</u>
Total finance income – external investments	<u>597,530</u>	<u>837,457</u>
5 Other income		
Sale of tenders	-	-
Interest on loans to staff	3,936	3,131
Deposit Refunds & Adverts in the Fund Magazine	559	-
Total other income	<u>4,495</u>	<u>3,131</u>

Notes to the financial statements (continued)

	2018/2019 '000'	2017/2018 '000'
6 Employee costs		
Salaries and wages	187,914	145,328
Contributions to Pension	34,569	26,321
Contributions to medical aids	26,827	19,093
Commuter and other allowances	37,162	29,198
Gratuity	-	6,140
Housing benefits and allowances	38,083	31,307
Total employee costs	<u>324,554</u>	<u>257,388</u>
7 Board Costs		
Chairman Honoraria	170	-
Meeting costs	8,898	13,691
Medical aid contributions	1,110	1,214
Travel, conferences and other costs	39,463	28,829
Total board members' remuneration	<u>49,640</u>	<u>43,733</u>
8 Depreciation, amortization and provision costs		
Plant and equipment	73,697	73,241
Intangible assets	1,370	1,039
Total depreciation	<u>75,068</u>	<u>74,280</u>
Administrative recharges amortized	735,126	598,011
Provision for doubtful debts	-	2,372,834
Total amortization costs and provisions	<u>735,126</u>	<u>2,970,845</u>
Total depreciation, amortization and provisions	<u>810,193</u>	<u>3,045,124</u>
9 Repairs and maintenance		
Equipment	1,723	974
Vehicles	1,553	1,807
General Office Repairs	1,134	1,753
Total repairs and maintenance	<u>4,410</u>	<u>4,534</u>

Notes to the financial statements (continued)

	2018/2019 <u>'000'</u>	2017/2018 <u>'000'</u>
10 Contracted services		
Investment management fees	17,902	23,861
Custodial fees	10,745	11,196
Property valuations	46,459	-
Debt collection fees	72,822	38,332
Performance contracting costs	82,099	94,776
Total contracted services	230,026	168,166
11 General expenses		
Audit fees	850	850
Corporate and public relations	39,454	56,413
RBA Fees and levies	6,750	5,000
Investment procurement costs	18,126	3,119
Legal Expenses	7,846	3,609
Conventional Member Education & Recruitment Costs	183,620	153,411
Office running costs	78,446	81,046
Telecommunication	8,433	10,073
Employee development	111,853	72,994
ICT Costs	8,246	818
Bank Charges	1,540	1,942
Total general expenses	465,163	389,277
12 Unrealized gain/(loss) on fair value of investments		
Property investments	991,455	-
Government bonds investments	208,721	15,891
Quoted shares investments	(388,268)	297,156
Net unrealized loss	811,908	313,047

Notes to the financial statements (continued)

	2018/2019 '000'	2017/2018 '000'
13 Cash and cash equivalents		
Cash in Bank	130,366	44,952
Cash-on-hand	438	93
Cash on transit	597	31
Total cash and cash equivalents	131,400	45,076
13(a) Cash and cash equivalents		
a) Current Account		
Cash in Bank	Account Number	
Co operative Bank Operation	011 361 982 45400	1,230
Kenya Commercial Bank - Operations Account	114 921 2292	87,813
Co-operative Bank - Collection Account	011 361 982 45401	29,814
Kenya Commercial Bank - Collection Account	1114898767	3,053
National Bank of Kenya - Collection	0100200903700	1,397
NIC Bank	1002063316	6,730
AMAL Collection -KCB Sahal	1239065043	267
AMAL Collection - Gulf African Bank	0350006401	61
Sub- Total	130,366	44,952
b) Others		
Cash-on-hand		
Petty Cash Nairobi	200	18
Petty Cash Kisumu	35	12
Petty Cash Nyeri	40	11
Petty Cash Mombasa	22	13
Petty Cash Nakuru	38	7
Petty Cash Wajir	10	10
Petty Cash Isiolo	4	4
Petty Cash Garissa	20	6
Petty Cash Board	50	7
Petty Cash Mavoko	5	5
Sub- Total	438	93
Cash on transit		
Golfview Mpesa Pay bill	597	31
Sub- Total	597	31
Total cash and cash equivalents	131,400	45,076

Notes to the financial statements (continued)

	2018/2019 '000'	2017/2018 '000'
14 Receivables from exchange transactions		
Current receivables		
Contributions due	636,806	632,643
Total current receivables	636,806	632,643
Non-current receivables		
Contributions due	16,060,127	16,008,092
Less: impairment allowance	(8,100,053)	(8,100,053)
	7,960,074	7,908,039
Current portion transferred to current receivables	(636,806)	(632,643)
Total non-current receivables	7,323,268	7,275,396
Total receivables	7,960,074	7,908,039
15 Receivables from non-exchange contracts		
Current receivables		
Administrative re-charges due	1,073,793	864,328
Less: impairment allowance	(214,759)	(172,866)
Total current receivables	859,035	691,462
Staff loans	146,189	19,224
Other debtors	4,382	1,115
Total current receivables	1,009,606	711,801
Non-current receivables		
Administrative re-charges due	5,378,622	4,304,828
Less: impairment allowance	(3,609,292)	(2,874,167)
	1,769,329	1,430,661
Current portion transferred to current receivables	(859,035)	(691,462)
Total non-current receivables	910,295	739,199
Staff loans	95,379	94,693
Total non-current receivables	1,005,673	833,892
Total receivables	2,015,279	1,545,693

Notes to the financial statements (continued)

16 Property, plant and equipment

	Motor Vehicle	Computer and Equipment	Furniture and Fittings	Total
Cost	'000'	'000'	'000'	'000'
At 1 July 2017	50,633	118,305	138,845	307,783
Additions	24,594	9,314	64,673	98,581
Disposals	-	-	-	-
At 30 June 2018	75,227	127,619	203,518	406,364
Additions	-	8,852	13,656	22,508
Disposals	-	-	-	-
At 30 June 2019	75,227	136,471	217,174	428,872
Depreciation and impairment				
At 1 July 2017	25,879	109,461	130,414	265,754
Depreciation	24,674	10,206	38,362	73,241
Disposals	-	-	-	-
At 30 June 2018	50,553	119,667	168,775	338,995
Depreciation	23,920	7,621	42,157	73,697
Disposals	-	-	-	-
At 30 June 2019	74,473	127,287	210,932	412,692
Net book values				
At 30 June 2019	754	9,184	6,242	16,180
At 30 June 2018	24,674	7,953	34,743	67,369

17 Intangible assets - software

Cost	
At 1 July 2017	25,563
Additions	-
At 30 June 2018	25,563
Additions	4,681
At 30 June 2019	30,245
Amortization and impairment	
At 1 July 2017	24,525
Amortization	1,038
At 30 June 2018	25,563
Amortization	1,370
At 30 June 2019	26,933
Net book values	
At 30 June 2019	3,312
At 30 June 2018	(0)

Depreciation is provided for at a straight-line method at the following rates:

- Motor Vehicles	50%	- Computers	50%
- Office Equipment and Furniture	50%	- Fixture and Fittings	50%

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Asset purchased in the first half of Financial Year are charged full year depreciation during the year while Asset purchased in second half of Financial Year are depreciated in the subsequent Financial Year.

Notes to the financial statements (continued)

	2018/2019 '000'	2017/2018 '000'
18 Trade and other payables from exchange transactions		
Trade payables	49,340	39,818
Benefits payable	2,388	25,907
Other payables	37,254	49,320
Total trade and other payables	88,982	115,044

19. Employee benefit obligations

LAPFUND operates a defined contributions scheme for all full-time employees. The employee contributes 12% and employer 15% of the monthly gross salary. At the time of retirement, the employee is refunded the total contributions plus the interest earned less tax.

The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

20. Financial Risk Management

LAPFUND's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

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

i. Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for

doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

iii. Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies. There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

iv. Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

LAPFUND at the end of the period did not have any carrying amount of foreign currency denominated monetary assets and monetary liabilities

v. Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Capital Risk Management

The objective of the entity's capital risk management is to safeguard the Board's ability to continue as a going concern.

20. Related party balances

Nature of related party relationships

Entities and other parties related to the entity include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

	Key Management Remuneration	FY 2018/19	FY 2017/18
		Ksh '000'	Ksh '000'
	Directors emoluments	49,640	43,733
	Management remuneration	82,011	96,967
	Total	131,651	140,700

Notes to the financial statements (continued)

21 Investments

	Property	Government Bonds	Treasury Bills	Fixed deposits	Corporate and commercial paper	Q1
	'000'	'000'	'000'	'000'	'000'	
Fair value						
At 1 July 2017	11,920,778	4,253,687	2,318,823	1,057,941	778,062	
Additions	2,343,875	739,166	1,483,296	3,766,673	3,657	
Maturity/Disposals	-	(1,931,049)	(3,100,879)	(4,295,051)	(130,917)	
Change in fair value	-	15,891	-	-	-	
At 30 June 2018						
Total investments	14,264,653	3,077,696	701,240	529,563	650,802	
Total current investments	-	322,552	701,240	529,563	87,465	
Total non-current investments	14,264,653	2,755,144	-	-	563,337	
Additions	24,843	2,799,693	543,791	5,813,874	4,375	
Maturity/Disposals	-	(707,571)	(724,135)	(5,462,983)	(69,433)	
Change in fair value	991,455	208,721	-	-	-	
At 30 June 2019						
Total investments	15,280,950	5,378,539	520,896	880,453	585,744	
Total current investments	-	449,326	520,896	880,453	354,746	
Total non-current investments	15,280,950	4,929,213	-	-	230,998	


Property investments include an amount of Kshs 1,190,075,000 which comprises of development of Shopping Centre, Nursery School and 131 units Maisonettes (LAPFUND Gardens) in Mavoko Sub County, Machakos County which are on sale. The amount is net of costs, deposits and fully bought units.

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XVII. Progress on Follow up of Auditor Recommendations

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

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Time frame
Makasembo Estate Kisumu	The court case concerning the continued collection of rent by National Housing Corporation (NHC) from tenants of Makasembo is yet to be concluded/determined by the court by 30 th June 2018 and National Housing Corporation did not remit the collected rent for the year to LAPFUND amounting Kshs 1,452,000. The total accrued rent income from the property which had been earned but not received since the transfer of the property by the defunct Kisumu Municipal Council failed to service undermined debt arising from the construction of the Estate houses by National Housing Corporation and thus the reason National Housing Corporation moved to collect rent to recover the debt. However, management has explained that the tripartite negotiation between National Housing Corporation, County Government of Kisumu and Local Authorities Provident Fund has been initiated to resolve the dispute.	LAPFUND has taken a two approach to resolve the matter: i) Instituted a recovery measure of the rental income loss and control of the estate through the legal system. The matter is currently in Court waiting determination. ii) Initiated a tripartite negotiation between National Housing Corporation, County Council of Kisumu and ourselves to resolve the dispute. The results of the negotiations are yet to be concretized.	Bernard Mbogoh Chief Manager - Finance and Investments	Not resolved	30 June 2020
Mariakani Estate Nairobi	Local Authority Provident Fund started collecting rent from tenants of Mariakani Estate Nairobi during the financial year 2016/2017 after the court case settled. However, the recovery of the accrued rent arrears of Kshs 64,800,000 that had been collected by the County Government of Nairobi has not been successful	The case that was pending in court, case No. 76 of 2015 Republic vs. County Government of Nairobi, Registrar of Titles, Local Authorities Provident Fund, Roba Duba & Others ex-parte Mariakani Welfare Association was settled in court and immediately thereafter, we made arrangement to start remitting the rental income to our bank account. From the month of October 2016, we have received Kshs 4,223,600 from the some who are remitting the monthly rentals to us. We are now in partnership with Nairobi City County Government pursuing measures to ensure all tenants are paying rents as it falls due.	Bernard Mbogoh Chief Manager - Finance and Investments	Not resolved	30 June 2020


Chief Executive Officer

Date: 29/08/2019


Board Member

Date: 29/08/2019

PARLIAMENT OF KENYA
THE NATIONAL ASSEMBLY
THE HANSARD

Tuesday, 22nd September 2020

PAPERS LAID

Hon. Amos Kimunya (Kipipiri, JP): Majority Party or the Whip of the Majority Party

1. Legal Notice No.172 on the exemption from the provisions of Stamp Duty Act on instruments executed for the transfer of LR. No. 209/3869 and the Explanatory Memorandum from the National Treasury
2. Agreement between the Kingdom of Denmark and the Republic of Kenya on Defence Cooperation and the Explanatory Memorandum from the Ministry of Defence
3. Annual Report and Financial Statements of the National Police Service Commission for the Financial Year 2018/2019
4. Reports of the Auditor-General and Financial Statements in respect of the following Institutions for the year ended 30th June, 2019 and the certificates therein: -
 - (i) National Safety Net Programme for Results - Project No.P131305 (State Department for Social Protection); and,
 - (ii) Kenya Youth Employment and Opportunities Project - Credit No. 58120-KE (State Department for Labour).

Hon. Tom Mboya Odege, (Nyatike, ODM):

1. Report of the Departmental Committee on Transport, Public Works and Housing on its Inquiry into the use of the Standard Gauge Railway