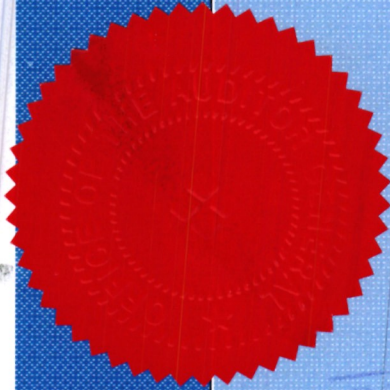


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



THE NATIONAL ASSEMBLY	
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THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
NATIONAL SOCIAL SECURITY FUND (NSSF)

FOR THE YEAR
ENDED 30 JUNE 2018





NATIONAL SOCIAL SECURITY FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING
30 JUNE 2018

**Prepared in accordance with the Accrual Basis of Accounting Method under the International
Financial Reporting Standards (IFRS)**

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PART I: ANNUAL REPORT

I. KEY CORPORATE INFORMATION

1. Background and Branch Network

National Social Security Fund (NSSF) draws its mandate from the NSSF Act No. 45 of 2013, which came into effect on 10th January 2014. The Fund is domiciled in Nairobi, Kenya with a national branch network and Huduma centres as shown on the map and table of branch network below:



Branch Network and Contact Information

Western & Nyanza Region:

Regional Office Al Imran Plaza, 3 rd Floor Oginga Odinga Street P.O. Box 1037 - 40100 Kisumu. Tel: +254732680019	Kakamega Branch 1 st Floor, Ambwere Furaha Centre, Sudi Road, P.O. Box 833 -50100, Kakamega. Tel: +254737409418	Bungoma Branch Catholic Building, 1 st Floor, Mumias Road P.O. Box 572 - 50200 Bungoma. Tel: +254737409456	Vihiga Sub Branch 1 st Floor, Cherry House P.O. Box 1446 - 50300, Maragoli, Tel: 056 02031110	Kisumu Branch Al Imran Plaza, 3 rd Floor Oginga Odinga Street P.O. Box 1037 - 40100 Kisumu. Tel: +254737409447	Homabay Branch Luore Plaza, 1 st Floor, Bank Road P.O. Box 167—40300. Homabay. Tel: +254737409446
Busia Branch Rasto-Park Plaza, Ground Floor Off Kisumu -Busia Road P. O. Box 109-50400, Busia. Tel. +254737409441	Migori Branch Pesoda Plaza, 1 st Migori CBD, Along Migori-Isibania Highway P.O. Box 513- 40400 Migori. Tel. +254786222323	Kisii Branch 1 st Floor, Magsons Plaza, Hospital Road P.O.Box 898-40200 Kisii. Tel. 05820-30206 / +254737409394	Siaya Branch Mwalimu Plaza, 1 st Floor P.O. Box 1169-40600 Siaya. Tel: 057 5321747/ +254737409 390	Nyamira Sub-Branch Happyline Centre, 2 nd Floor P.O. Box 249- 40500 Nyamira. Tel: 0586144000 / & +254780525249	
Rift Valley Region Regional Office AFC Building, 1 st Floor Kijabe Row, P. O. Box 1510-20100 Nakuru. Tel: +254 051-2216449	Sotik Branch Patnas (Bureti) Sacco Building, opposite Sotik Police Station, P.O. Box 947 Sotik. Tel: +254737409413	Kitale Branch Ambwere Plaza, Ground Floor, P.O. Box 49 – 30200 Kitale. Tel: +254 054 30861/ +254737409463	Eldoret Branch Uganda Road Kiptagich House, 6 th Floor P.O. Box 1120-30100 Eldoret. Tel: +254 0532062284/ 0532061476	Narok Branch Oltale Mall – 1 st Floor - Narok - Mai-Mahiu Rd P.O. Box 443-20500, Narok. Tel: +254 050-2222062/ +254737409439	Lodwar Branch Northlands Blding, Next To Doctor's Mini-Plaza. P.O. Box 106 -30500 Lodwar. Tel. +254735 888877
Elegeyo Markwet/ Kapsowar Sub-Branch Marakwet Teachers Housing Sacco P.O. Box 266- 30705 Kapsowar Tel. +254737090120 & +254722647216	West Pokot Sub-Branch Paves Vetagro Building, 1 st Floor Behind Suntech Supermarket Kitale- Kapenguria Road P.O. Box 494—30600 Kapenguria Tel. +254732206035	Kabarnet Branch Mart Properties Plaza Kabarnet / Nakuru Junction. P.O. Box 14-30400 Kabarnet. Tel: +254 05322162	Molo Sub Branch Maziwa House, 1 st Floor, Next To Post Bank Opposite Riva Petrol Station Molo Town. P.O. Box 214-20106 Molo. Tel. +254771889439	Kapsabet Branch AFC Building 1 st Floor P.O. Box 1122- 30300 Kapsabet. Tel: +254 053-5252113 / +254735888887	Nakuru Branch Polo Centre 1 st Floor P.O. Box 1510 - 20100, Nakuru. Tel: +254 051- 2210952/3

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For the year ended June 30, 2018



<p>Naivasha Branch Wagi House, Kenyatta Avenue P. O. Box 361 - 20117, Naivasha. Tel: +254737409437</p>	<p>Kericho Branch Sinendet Towers, 2nd Floor Ksm-Nbi Highway P. O. Box 586 - 00200 Kericho. Tel. +254737 409 470</p>	<p>Nandi Hills Branch Post Office Building – Opp. Nandi Police Stn. P. O Box 207, Nandi-Hills Tel. +254737 408 423</p>			
Nairobi Region					
<p>Regional Office Bruce House, 5th Floor P. O Box 50397- 00200 Nairobi Mobile +254737409453</p>	<p>Industrial Area Branch Simco Plaza, 3rd Floor P. O Box 30451—00100 Nairobi Tel. +254737409457</p>	<p>Ongata Rongai Branch Maasai Mall 2 Floor P. O Box 665-00511 Ongata Rongai Tel. +254445-3123112 / +254731-032 088</p>	<p>Eastleigh Branch Eastleigh Mall, 1st Floor, General Wariunge Street P. O Box 7800-00610, Nairobi. Tel: +254739102003</p>	<p>Kiambu Branch Mapa House, 2nd Flr, Biashara Street P O Box 713 – 00900, Kiambu Tel. +254737 633 914</p>	<p>Machakos Branch Nijrang Building, 1st Floor Bolumalu Rd. P. O Box 525- 90100, Machakos Tel. +254737409412</p>
<p>City Centre Branch Bruce House, 5th Floor, Standard Street P. O Box 50397—00200 Nairobi Tel. +254 020 2228068 /+254020 2228276</p>	<p>Westlands Branch Woodvale Centre, Woodvale Grove P. O Box 66575-00800 Nairobi Tel. +254737409416</p>	<p>Hill Branch Social Security House, Block C, P. O. Box 45969 - 00100, Nairobi Tel. 0202713844/46/48/51 /0737090169</p>	<p>Donholm Branch The Point-Buruburu Along Rabai Road Opp. Kenol Petrol Station P. O Box 1387-00515, Buruburu Tel: +254773780210</p>	<p>Kitengela Branch Ground And First Floor, Africa House, P. O. Box 529 – 00242, Kitengela Tel. +254739102009</p>	
Central & Eastern Region					
<p>Regional Office Sohan Plaza - 2nd Floor Kimathi Way P. O. Box 308 – 10100, Nyeri Tel: 061 – 2031140</p>	<p>Nyeri Branch Sohan Plaza - 2nd Floor P. O. Box 308—10100, Nyeri. Tel: (061) 2032103/ +254737409455</p>	<p>Thika Branch Thika House Ground Floor On Kwame Nkurumah Street P.O Box 844-01000, Thika Tel. - 067-2222279 /+254737409391</p>	<p>Mwingi Branch P. O Box: 432-90400 LDP Building Along Mwingi-Garissa Highway, Ground Floor. Tel. 044-822339/822340 /+254737409465</p>	<p>Kitui Branch: Muli Mall, Ground Floor, Mukuti Street. P. O. Box 641-90200, Kitui. Tel 044-4422239, +254737 409 417</p>	<p>Kerugoya Branch Bingwa Saaco Building, 1st Flo P. O. Box 600-10300, Kerugoya Tel. +254737 409471</p>

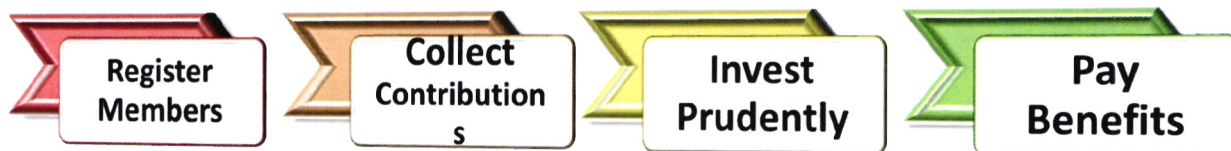
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<p>Nyahururu Branch Barclays Bank House, Sharp Road P O Box 148- 20300, Nyahururu Tel- 065-2032943 / 037409459</p>	<p>Muranga Branch Pala Plaza, Ground Floor Kenyatta Avenue P.O Box 168 -10200, Muranga Tel: 060-2030313 / +254737409473</p>	<p>Marsabit Branch Ngamia Mall, Opposite Shell Petrol Station, P.O Box 88-60500 Marsabit Tel. 0702 463901</p>	<p>Tharaka Nithi Sub Branch New Mutegi Murango Building, Chuka Town, P.O Box 320 - 60400, Chuka, Kenya Tel: +254731883332</p>	<p>Isiolo Sub Branch Saada Arcade Ground Floor Behind Shamz Hotel P.O. Box 730-60300, Isiolo Tel: +254702463888</p>	<p>Meru Branch Ncheege Plaza 1st Flr. Kirikuri Street. P.O. Box 1228-60200, Meru Tel: No 064 3132912 Mobile: 0737 409 474</p>
<p>Embu Branch Eastern Emporium Bldg. Kenyatta Highway P.O Box 316- 60100, Embu Tel; +254734317315 /0737409460</p>	<p>Maua Sub- Branch Nyambene Synod Plaza Ground Floor Meru Maua Road P.O Box 3-60600, Maua Tel: +254731883362</p>	<p>Maralal Branch Saidia Building, Opp County Treasury Offices. P. O. Box 258-20600, Maralal. Tel. 065-5062047 / 0737409433</p>	<p>Nanyuki Branch Silver Plaza, Ground Floor Along Kenyatta Highway P.O Box 226-10400, Nanyuki Tel: +254737409444</p>		
Coast & North Eastern Region					
<p>Regional Office Social Security House, Nkrumah Road, P. O. Box 90490-80100, Mombasa Tel.: 041- 2223426/19</p>	<p>Lamu Sub-Branch Majid Swaleh Hemed Building P.O Box 389- 80500, Lamu Tel: 254737409410</p>	<p>Voi Branch Haji Plaza, Ground Floor, Biashara Street. P.O. Box 127-80300, Voi Telephone: 043-2030129 Mobile: +254737409398</p>	<p>Wajir Branch Juba Building, Orahey- Works Road, Ground Floor P.O Box 326 -70200, Wajir Tel.: +254737409411</p>	<p>Malindi Branch 1st Floor Al- Noor Plaza- Jomo Kenyatta Road P. O. Box 290- 80200, Malindi. Telephone :(254) 42 2130003 Fax :(254) 42 2120819 Tel.: +254737409449</p>	
<p>Mombasa Branch Ground Floor, social Security House, Nkurumah Road, P.O. Box 90490-80100, Mombasa Tel: 041- 2223426/19</p>	<p>Tana River Sub- Branch Said Omar House P. O. Box 204 -70101, Hola Tel:+254780002200 +2547738110858</p>	<p>Ukunda Branch Tiosgima Plaza, Beach Road, P.O. Box 1076-80400 Ukunda. Tel: +254737 409434</p>	<p>Garissa Branch 1st Floor, Lilac Centre, Kismayu Road, P.O Box 378-70100, Garissa, Tel: +254737409468</p>	<p>Mtwapa Branch; Mtwapa Mall, 1st Floor Mombasa-Malindi Road P.O Box 733 – 80109 Mtwapa Tel. +254786222322</p>	

2. Principal Activity of the Fund

NSSF mandate as stipulated under Section 4 of the NSSF Act 2013 is to register members, receive their contributions, invest the funds prudently, process and ultimately pay out benefits to eligible members or their dependants.



3. Board of Trustees

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



From left: A. Munyiri, D. Muhika, M. Kilaka, J. Mugo, F. Atwoli, T. Maina, J.M. Obuya, K. Kassachoon, A. Omerikwa

During the year 2017/2018 the members of the Board of Trustees were as follows:-

	Name of Trustee	Date Appointed	Date Exited	Position
1	Gen. (Rtd) Dr. Julius W. Karangi, EGH CBS DCO LOM 'ndc' 'psc' (K)	06.06.2018	-	Chairman
2	Dr. Kamau Thugge, CBS	14.10.2015	-	Trustee
3	Mr. Mutua Kilaka. CBS, SS	14.10.2015	-	Alternate Trustee - National Treasury
4	Mrs. Jacqueline Mugo, OGW, MBS	16.09.2015	-	Trustee
5	Mr. Francis Atwoli, NOM, EBS, MBS, (DZA)	16.09.2015	-	Trustee
6	Ms. Damaris Wanjiru Muhika	02.02.2015	-	Trustee
7	Mr. Mark J. Obuya	20.02.2017	-	Trustee
8	Prof Marion Mutugi	06.06.2018	-	Trustee
9	Hon. Josepph Lekuton	06.08.2018	-	Trustee
10	Dr. Anthony O. Omerikwa			Ag. Managing Trustee/CEO (Ex-Officio and Secretary)
11	Hon. Gideon M. Ndambuki, EGH	31.05.2016	06.06.2018	Chairman(Former)
12	Mr. Anthony M. Munyiri	20.02.2017	06.06.2018	Trustee (Former)
13	Dr. Khadija Kassachoon	25.05.2016	06.06.2018-	Trustee (Former)
13	Ms. Teresa Maina	31.09.2015	06.06.2018	Trustee (Former)

4. Secretary to The Board of Trustees

- Dr. Anthony Omerikwa
- P.O Box 30599 - 00100 Nairobi

5. Registered Office / Corporate Headquarters

- National Social Security Fund,
Social Security House, Bishops Road
- Nairobi

6. Corporate Contacts

- P.O Box 30599 - 00100 Nairobi
- Tel: +2542729911
Email:info@nssfkenya.co.ke
- Website: www.nssf.or.ke

7. Main Lawyers

Wetangula, Adan & Co
Advocates,
12th Floor Bruce House,
P.O Box 10741 – 00100
Nairobi
Cootow & Associates
Advocates,
NSSF House, 11th Floor, Pent
House, Nkrumah Road,
P. O. Box 16858 – 80100,
Mombasa
Tripple OK Law Advocates,
ACK Garden House, 5th Floor
Block C, 1st Ngong Avenue,
P.O. Box: 43170-00100,
Nairobi

8. Independent Auditors

Auditor General,
Office of Auditor General
Anniversary Towers, University way
P.O. Box 30084-00100
Nairobi.
Tel: 254-20-342330/2227383
Oag@Oagkenya.go.ke

9. Main Bankers

KCB Bank Kenya Limited,
Moi Avenue,
P.O. Box 48400, 00100
Nairobi

National Bank of Kenya.
Hill Branch, NHIF Building,
P. O. Box 45151 – 00100,
Nairobi.

Cooperative Bank of Kenya
limited
Hill Branch, NHIF Building,
P. O. Box 45151 – 00100,
Nairobi

10. Fund Managers

ICEA Lion Asset Management Ltd,
 Icea Lion Centre, Riverside Park, Chiromo Road,
 Westlands,
 P.O. Box 46143-00100,
Nairobi.

Old Mutual Asset Management (K) Ltd,
 Old Mutual Building,
 Mara/Hospital Road,
 P.O. Box 11589-00400,
Nairobi.

GenAfrica Investment Management Ltd,
 14 Riverside Business Park, 1st Floor,
 P.O. Box 79127-00200,
Nairobi.

Britam Asset Management (K) Ltd,
 Britam Centre,
 Mara/Ragati Road Junction, Upperhill
 P.O. Box 30375-00100,
Nairobi.

STANLIB Kenya Limited,
 CFC House, Nyerere Road,
 P.O. Box 30550-00100,
Nairobi.

11. Custodians

Standard Chartered Securities Services
Kenya, 48 Westlands Road,
 P.O. Box 40984-00100,
Nairobi.

Kenya Commercial Bank Custody
Services,
 P.O. Box 30664-00100,
Nairobi.

14. Actuary

Zamara (Formerly Alexander Forbes Financial Services),
 Landmark Plaza
 Argwings Kodhek Road
 P.O. Box 52439-00200,
Nairobi.

Investment Partners as Per The RBA Act

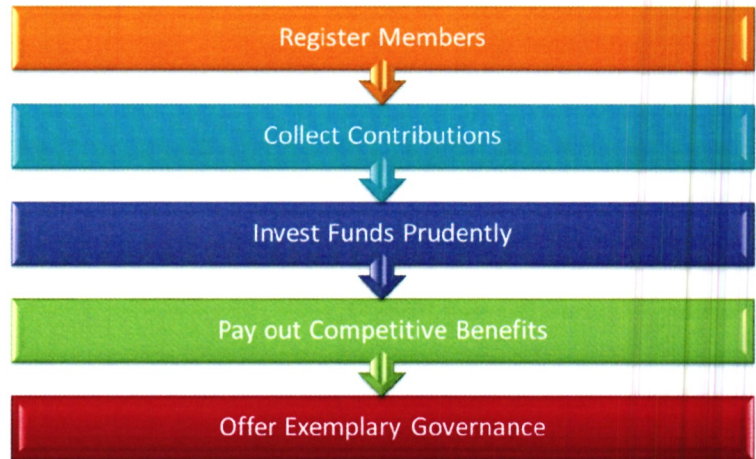


13. Our vision

To be a trusted centre of excellence in the provision of Social Security

14. Our mission

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



15. Our core values

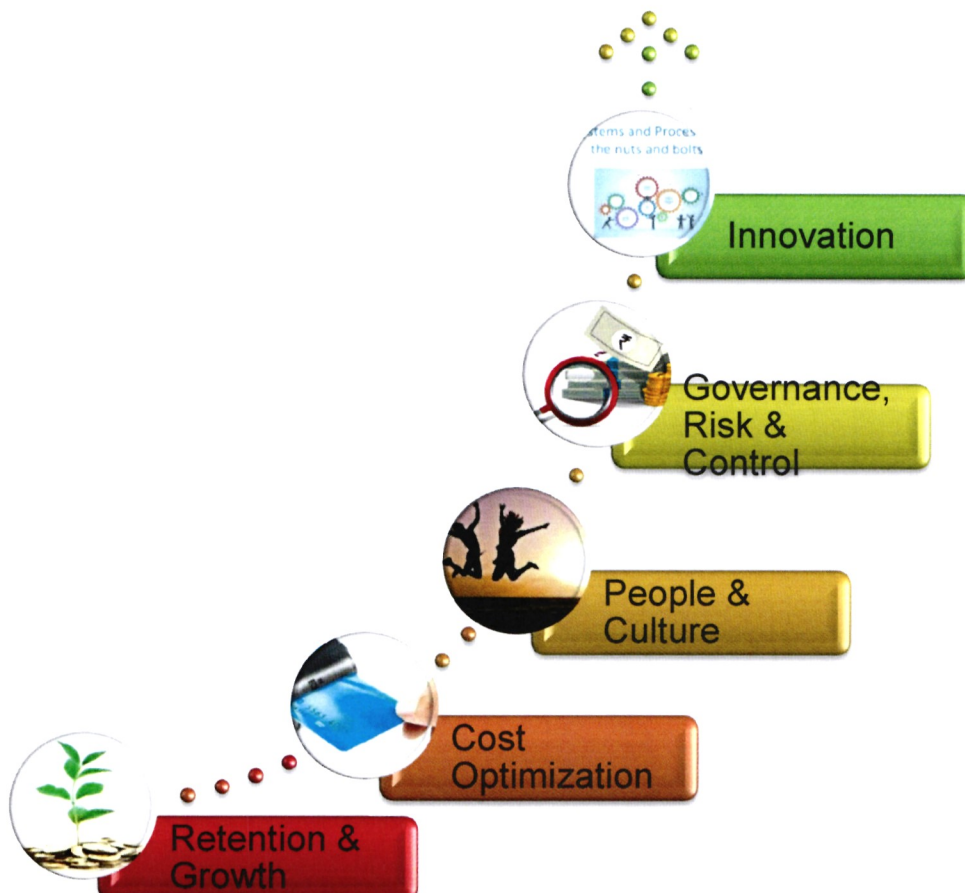


16. Corporate behaviour





NSSF's vision, anchored on excellence in performance, has influenced corporate behaviour by setting a high performance culture among the Board Members, Management, Staff, and service providers, through monitoring of performance against targets, measuring and rewarding high performance. In an effort to maintain the strategic direction of the Fund, adherence to the core values enhances our corporate behaviour. NSSF attained ISO 9001:2015 Certification in order to enhance service delivery to our esteemed customers. We have implemented various strategies in line with the Strategic Plan 2014-2019 geared towards inculcating high performance behavioural culture at all levels. All managers sign balance scorecard while all other staff sign a performance planning form at the beginning of each year. All employees are appraised at the end of each year and rewarded / sanctioned accordingly. This has led to competitiveness in achieving targets.

Strategic Themes

The Fund approaches its quest for high performance through a set of strategic themes shown below:



II BOARD OF TRUSTEES

S/N	Name	Profile
1	 Gen. (Rtd) Dr. Julius W. Karangi (EGH CBS DCO LOM 'ndc' 'psc' (K))	<p>Appointed Chairman on 06/06/2018. Gen. (Dr) Karangi holds a Masters of Science (MSc) Degree in Security and Risk Management from the University of Leicester (UK), an Honorary Doctorate on Humane Letters (Honoris Causa) from Kenyatta University, Kenya and is also a recipient of the United States of America Award of Degree of Commander, The Legion of Merit. He also holds National Honours and Awards of Elder of the Order of the Golden Heart (EGH), Chief of the Order of the Burning Spear (CBS) and Distinguished Conduct Order (DCO). He is the former Chairman of Kenya Airports Authority.</p>
2	 Dr. Kamau Thugge	<p>Dr. Kamau Thugge is the Principal Secretary at the National Treasury. He has previously worked in the Ministry of Finance as head of Fiscal and Monetary Affairs Department, Economic Secretary and as Senior Economic Advisor. Before then, he worked with the International Monetary Fund (IMF) as Economist, Senior Economist and Deputy Division Chief.</p> <p>Dr. Thugge is widely published and holds a Bachelor of Arts (Economics) degree from Colorado College, USA; Master's degree in Economics from John Hopkins University, USA; and a Doctor of Philosophy (PhD) degree in Economics also from John Hopkins University.</p>
3	 Hon. Joseph L. Lekuton (OGW)	<p>Appointed Trustee on 06/06/2018, he holds Masters of International Education policy (Harvard University) and Master of Administration (St. Lawrence University). Additionally, he holds a Bachelor of Economics in Economic Development and a Bachelor of Government in International Relations.</p> <p>A celebrated award winning author and public speaker, has held various public assignments including being a member of parliament representing Laisamis constituency.</p>
4	 Prof. Marion W. Mutugi (EBS)	<p>Born in 1959, Prof. Mutugi was appointed on 06/06/2018. She holds a PhD in Genetics and Molecular Biology (Edinburgh University), MSc in Botany (University of Nairobi), an Executive MBA (JKUAT), and a BSc in Biology (Philipine Union College).</p> <p>A scholar with many publications, Prof. Mutugi is a member of the Institute of Directors of Kenya and member of the Kenya Institute of Management.</p>

5



Ms. Damaris Wanjiru Muhika

Appointed trustee on 02/02/2015 and reappointed on 06/06/2018. Was born in 1977. Holds an MBA (Africa Nazarene university); Bachelor of commerce (Africa Nazarene university); CPA. Experienced in labour matters, currently serving as programs coordinator Central Organization of Trade Union. She is also involved in Lecturing and Accounting. She is currently pursuing a PhD in finance and business administration at Jomo Kenyatta University of Agriculture & Technology.

6



Dr. Khadijah Kassachoon, CBS

She was the Principal Secretary for Labour in the Ministry of East African Community, Labour and Social Protection. Born in November 1969. She is currently undertaking a PhD in Business Management from the University of Nairobi. She holds a Masters of Business Administration – Majoring in International Business. She also holds a Bachelor of Veterinary Medicine from the University of Nairobi. She has also served as a Principal Secretary in the State Department of Livestock and State Department of Health. She also has private sector experience gained at KENAS and UNIDO. She exited the Board on 06/06/2018.

7



Mrs. Jacqueline Mugo, OGW, MBS

Born in 1957 appointed Trustee (representing Federation Kenya Employers), on 16/9/2015. Has vast experience in labour matters between employers and employees and currently serving as Executive director of the Federation of Kenya employers.

8



Mr. Francis Atwoli, EBS, MBS,
(NOM DZA)

Born in 1949 and appointed Trustee on 16/09/2015, he has extensive training in labour movement history. He was trained in Turin college of International Labour Organisation in advanced industrial relations practices / labour economics / collective bargaining techniques / international labour laws / trade union organisation. Has vast experience in labour relations gained in Central Organization of Trade Unions where he is currently serving as Secretary General and from other labour related institutions including The International Labour Organization, KPAWU and The Pan African Labour organisation of Africa trade union unity.

9



Mr. Mutua Kilaka, CBS, SS

Born in 1952 He is the Alternate Trustee representing the National Treasury. Experienced in the Public Sector having served the Provincial administration and National Government as Financial Secretary. He is currently the Principal Administrative Secretary at the National Treasury.

10



Ms. Teresa Maina

Born in 1966, appointed trustee on 31/05/2016, and exited on 06/06/2018. Holds an MBA (University of Nairobi); MA-International Relations; BA (University of Nairobi); HND in Human Resource (Institute of Human Resource Management). Experienced in Human Resource management gained from Human Capital Resource Centre, Consolidated Bank,-Kenya Aerotech and East Africa Portland. She exited the Board on 06/06/2018.

11



Mr. Anthony M. Muniyiri

Born in 1971, appointed Trustee on 20/2/2017, and exited on 06/06/2018. Holds an MBA (St. Mary's University of Minnesota, USA), MA in International Management (Hamline Graduate School of Management, St. Paul, USA), and a BA from Panjab University, India). He has a combined experience of over 20 years in retirement administration, Investments, and Securities Industry, particularly in Fixed Income and Equities trading. He is the Chief Executive of Securities Africa Kenya Limited, a stock brokerage company licenced by the Capital Markets Authority. He is also a member of the Institute of Certified Investment and Financial Analysts, and the Institute of Directors (Kenya). He exited the Board 06/06/2018.

12



Mr. Mark J. Obuya

Born in 1957 and appointed Trustee on 20th February 2017. He holds a Master of Laws degree in Law, Science and Technology from the University of Nairobi, LLB (Hon) University of Nairobi, and Diploma in Law from the Kenya School of Law. He is an Advocate of the High Court of Kenya. He is an Associate of the Chartered Insurance Institute (ACII) London, a Certified Environmental Impact/Risk Auditor and a Patent Agent (KIPI). He is a seasoned and highly experienced professional with a solid knowledge of the law, insurance, finance, investments and social security. He is currently the National President of the Federation of Kenya Employers and the Chief Executive Officer of Corporate Insurance Company Limited.





13



Dr. Anthony Omerikwa
Ag. CEO / Managing Trustee

Born in 1977 and appointed Chief Executive Officer / Managing Trustee in acting capacity on 16/04/2015. He holds a PhD; Ed.S; MSc HRD; BA Economics; and Dip Management Information Systems. Experienced in the Public Sector having worked in various Government Agencies.

II. SENIOR MANAGEMENT TEAM

S/N	Name	Profile
1	 Dr. Anthony Omerikwa Ag. CEO/Managing Trustee	Born in 1977, he holds a PhD; Ed.S; MSc HRD; BA Economics; and a Diploma in Management Information Systems. As the accounting officer of the Fund, he is In charge of all staff in the Fund and responsible for: strategic leadership; Strategy formulation; implementation of Fund's mandate and Board decisions; corporate policies; and advising the Board from time to time.
2	 Mr. Joseph Kimote General Manager (Strategy, Research & Development)	Born in 1971, he holds an MBA in Strategic Management, Project Management; and a BA (Economics). He is responsible for strategy formulation and implementation; research; Monitoring and Evaluation; Performance contracting; business process improvement; organizational development; quality management system and business continuity development
3	 Mr. Moses Cheseto Ag. General Manager (Finance & Investments)	Born in 1974. Holds an MA in Planning; a BA in Land Economics. He is responsible for the identification & implementation of Finance & Investment strategic objectives/ policies; Management Finance & Investment portfolio; Formulation of strategies to maximize return on members' funds; and development and review Financial/ Investment policies. He is a member of the Institute of Certified Financial Analyst (CFA), Registered real estate valuer and full member of Institute of Surveyors of Kenya Lead expert in Environmental Impact and Assessment Audit (EIA).
4	 Ms. Nancy Mwangi Ag. General Manager (Social Security)	Born in 1958. She holds an Executive MBA, Bachelor of Commerce (Accounting) and CPA II. She was responsible for formulating policies and strategies to increase member coverage, market penetration and efficient benefits processing and payment. Retired on 30/06/2018

5



Mr Austin Ouko
 Ag. General Manager Corporate
 Affairs

Born in 1981. He holds a Master of Laws (LLM); a Bachelor of Laws (LL.B); a Postgraduate Diploma (KSL); an Advanced Diploma in Business Administration; and a Diploma in Management Information Systems. He is charged with carrying out the Trustees' instructions; Help ensure that the Fund complies with the law and its own constitutional rules; Prepare and maintain the associated Fund's documents; and formulation of the Fund's Corporate strategy and operating plans.

NSSF Products



Comparative Analysis of Contribution to National Pension Schemes

Country	% Contribution by Employer	% contribution by Employee	Total (Employee and Employer (%))
United Kingdom	13.8	12.0	25.8
India	12.0	12.0	24.0
Uganda	10.0	5.0	15.0
Tanzania	10.0	10.0	20.0
Brazil	26.8	8.0	34.8
Ethiopia	9.0	7.0	16.0
Ghana	13.0	5.5	18.5
Kenya	6.0	6.0	12.0

VI. CHAIRMAN'S STATEMENT



It is my pleasure to report another year of good performance. The year ending 30 June 2018 was beset with uncertainties due to prolonged electioneering period and the effect of drought.

Operating Environment

Our customers – employers and employees – are spread across both geographic and economic breadth of Kenya. We invest contributions received from these customers in various investment options that are influenced by global and local economic factors. It is for this reason that I give the summary of economic activities during the year before I present the actual financial performance.

Global Economy

The end of this financial year marks a decade after the emergence of global financial crisis that upset the financial system around the world. Interestingly, this period also heralds tariff threats that may result into trade war between China and the US – the largest global economies. Barriers to access such markets can have multiplier effects on business models across the globe as players seek alternative markets.

Kenyan Economy

Kenya's economy is estimated to have expanded by 5.7 per cent in 2018 compared to a revised growth of 4.9 per cent in 2017. The expansion is attributable to the waning effects of uncertainty associated with a prolonged electioneering period coupled with adverse effects of weather conditions.

The economy is expected to accelerate further due to increased investment and a continued expansion in the agricultural sector. The government has unveiled a record-high budget for the year 2018/2019 along with an income tax bill that seeks to repeal the interest rate cap on commercial bank loans. The budget is aimed at substantial fiscal tightening, while seeking to lift growth under the "Big Four" agenda.

Equity Market

The Nairobi Securities Exchange (NSE) 20 share index decreased from 3,333 points in May 2018 to 3,286 points in June 2018, while the total number of shares traded dropped from 677 million shares to 453 million shares during the same period. The total value of NSE shares traded decreased from Kes 18.38 billion in May 2018 to Kes 13.69 billion in June 2018.

These changes had a direct impact on the Fund's substantial investment in quoted equity of Kes. 65.4 billion, even though, there was an increase of Kes 11.8 billion during the year from Kes 53.6 billion. The changes in the equity market also affect the performance of firms where the Fund has invested and thus the dividend receivable after the performance period.

Bond Market

Kenya Government Bond 10 year decreased 0.8 percent or 5.67% to 13.30 on 31 December from 14.10 in the previous trading session. Historically, the Kenya Government Bond 10 year reached an all-time high of 17.35 in October of 2011 and a record low of -0.35 in May of 2016. During the year, the Fund's investment in treasury bonds reached Kes.81.03 billion as compared to Kes.64.15 billion in 2016/2017. The Fund's investment in corporate bonds dropped to Kes 7.68 billion from Kes 9.22 in 2016/2017.

Interest Rates

The average yield rate for the 91-day Treasury bills, which is the benchmark for the general trend of interest rates, decreased slightly from 7.96 per cent in May 2018 to 7.23 per cent in June 2018, while the inter-bank rate rose from 4.93 per cent in May 2018 to 5.03 per cent in June 2018. The central bank of Kenya moved the benchmark interest rate from 10 percent to 9.5 percent towards the end of this financial year. The introduction of interest rates cap in September 2016 has had a serious impact on interest income. At the end of this year the Fund held deposits worth Kes 5.6 billion and Treasury bills of Kes 8 billion, which were affected by changes in interest rates.

Inflation

Consumer prices in Kenya reduced 2.74% percent year-on-year in June of 2018, following a 0.11 percent decrease in the previous month. It was the highest decrease in inflation rate for the whole year.

Financial Performance

I am therefore pleased to announce the financial performance of our great Fund. In the just ended financial year, we recorded a surplus of Kes 25.75 billion as compared to Kes 23.89 billion in the previous year. Our Fund value grew from Kes. 196.57 billion to Kes.221.73 billion, an equivalent of 13% increase. This growth is attributable to prudent investments.

Outlook

The economy is projected to grow at 5.7% in 2019, according to the World Bank and the International Monetary Fund (IMF).

Conclusion

The Board of Trustees is committed in delivering high value to members at minimal cost, taking into account the environmental operating dynamics. This will be enhanced by good corporate governance structures, which have been implemented at all levels. In order to enhance good governance practices, the board has implemented the code of Governance for state corporations issued in January 2015 and we are in the process of implementing the Stewardship Code for Institutional Investors 2017, issued by capital markets authority.


Gen. (Rtd) Dr. Julius W. Karangi, EGH CBS DCO LOM 'ndc' 'psc' (K)
CHAIRMAN, BOARD OF TRUSTEES

Date: 22/12/19.....



- **The Board of Trustees is committed to delivering high value to our members**

- **222 billion**

V. CHIEF EXECUTIVE / MANAGING TRUSTEE'S REPORT



I am delighted to present the Fund's performance highlights for the year ended 30 June 2018. The performance stands on the Fund's corporate strategic plan – 2014/2019, and the year 2017/2018 performance contract signed with the Board of Trustees and cascaded to all levels of Fund operations. The strategic path set by the Board of Trustees continued to yield intended results. Member contributions and return on investment showed marked growth in the year 2017/2018 as compared to the previous financial year ended 30 June 2017.

This growth is a reflection of effort by the Board of Trustees and the management of the Fund in modernising and professionalizing the operations of the Fund. The Fund continued to contribute to the achievement of vision 2030, set by the government, through provision of sustainable retirement benefits to all members. The summary of the Fund's performance is as stated below:

Financial Results

During the year, member contributions grew by 3.7 % from **Kes.13.55 billion** in 2017 to **Kes.14.04 billion** in 2018. Benefits paid to members increased by 3.5% from **Kes. 3.67 billion** paid in 2017 to **Kes. 3.79 billion** paid in 2018. Similar to the previous year, the net return on investment increased from **Kes. 20.41 billion** in 2017 to **Kes. 20.66 billion** in 2018. Total operating costs were maintained at **Kes. 6.40 billion** in 2018 same as the previous year. A net increase in Scheme Funds of **Kes 25.76 billion** was achieved in 2018 compared to **Kes. 23.89 billion** in 2017. As a result, the Fund's net assets increased by **13%** to **Kes. 221.73 billion**.

Efficient Management of Resources

The management continues to embrace the board of Trustees' theme of maximum return at minimal cost. This theme remains the key driver of all the activities of the Fund. Consequently the growth of operational costs has been curtailed.

Investment activities

The Fund's investment is spread across various sectors of the economy. Objective evaluation is done on investment options available by five Fund managers on a regular basis to ensure quality investment. The activities of the Fund managers are monitored by the Board of Trustees through the management, custodians and the Actuary.

The current investment mix, which has taken into account the risk profile, is 43% in Government securities, 32% stocks in the Nairobi Securities Exchange (NSE), 3% in deposits and 22% in other investment options. As a result, the Fund has achieved an efficient investment portfolio that will maximise the return on investment for our members. The

Technology

The Fund implemented e-service platform in 2017/2018 to drive efficiency, and offer better customer service in Employer / Member registration and contribution systems. This has enabled members and Employers to access their account information online through mobile applications and integrated networks through the internet. The processing speed of benefits payment has also been enhanced through the use of technology.

Customer Focus

The objective is to deliver best service to our members and other stakeholders. To achieve this objective the Fund has implemented fully integrated systems both at the front and back office to enhance service delivery. Our services have also been brought closer to our members through all Huduma centres countrywide and our branch networks in all parts of the country.

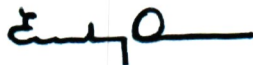
In our effort to serve all members and other stakeholders efficiently, the management has embraced the best management practices by applying performance planning and appraisal systems, regular performance reviews, implementing systems and other management processes to facilitate good governance, and regular ISO surveillance audits. The Balanced Score Card performance management system is fully entrenched in our performance monitoring and measurement.

Saving for Retirement

The members can enhance their savings through voluntary contribution of any amount according to their ability in addition to the formal contribution as required by law. It is for this reason that I urge our members and other stakeholders to join hands in mobilising Kenyans to save more towards their retirement, with an objective of stabilizing their income after their working lives.

Conclusion

The impressive performance recorded during the year was as a result of the concerted effort by the Board of Trustees, management and the staff of the Fund. Additionally, the cooperation from our members and stakeholders has made us achieve the good results. It is imperative that members make reasonable contributions to the Fund.



Dr. Anthony Omerikwa, MBS
AG. MANAGING TRUSTEE / CEO

VI. CORPORATE GOVERNANCE STATEMENT

The Board of Trustees implemented various corporate governance strategies geared towards ensuring that good governance practice are carried out by both the Board of Trustees and management. Implementation of the code of governance for state corporations, ISO 9001:2015, reliable systems, various guiding policies and a raft of other strategies are geared towards enhancing corporate governance. The Fund will ensure compliance with the Stewardship Code for Institutional Investors (2017) and the code of corporate governance practices for issuers of security to the Public 2015.

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

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

Board of Trustees

The Board of Trustees comprises nine Trustees' and the CEO / Managing Trustee as the ex-officio member of the board, each of whom brings a wide range of skills, knowledge, experience, and independent judgement to the board's deliberations. The membership of the Board of Trustee is as follows:-

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

Board Meetings Attendance & Trustees Remuneration

The Board of Trustees holds meetings on regular basis as per the Board's annual work plan. Special meetings are called when deemed necessary. The role of the Board and Board committees is as per the Board Charter. The Cabinet Secretary responsible for Labour and Social Services approved the current Trustees' remuneration. The allowances comply with The State Corporations Advisory Agency (SCAC) guidelines. The disclosure is in line with Mwongozo.

Board Meeting Attendance and Trustees Remuneration

Name (Member)	Date of Appointment	No. of Sittings	*Board Allowance	Other Payment	Total
			Kes.	Kes	Kes
Hon. G. Ndambuki	31.05.2016	1	50,000.00	0.00	50,000.00
Eng. E. Mwangera	13.01.2014	0	0.00	0.00	0.00
Dr. K. Kassachoon	25.05.2016	15	750,000.00	1,000,000.00	1,750,000.00
Mr. M. Kilaka	14.10.2015	16	800,000.00	500,000.00	1,300,000.00
Mr. P. Ogola	16.09.2015	0	0.00		0.00
Mrs. J. Mugo	16.09.2015	16	800,000.00	250,000.00	1,050,000.00
Mr. F. Atwoli	16.09.2015	14	700,000.00	150,000.00	850,000.00
Ms. D. Muhika	02.02.2015	10	500,000.00	350,000.00	850,000.00
Ms. T. Maina	31.09.2015	16	800,000.00	450,000.00	1,250,000.00
Mr. J. Obuya	20.02.2017	25	1,250,000.00	550,000.00	1,800,000.00
Mr. A. Munyiri	20.02.2017	22	1,100,000.00	1,000,000.00	2,100,000.00
Dr J Karangi	6.6.2018	2	100,000.00	0.00	100,000.00
Mr J Lekuton	6.6.2018	2	100,000.00	0.00	100,000.00
M/s J Marion	6.6.2018	2	100,000.00	0.00	100,000.00
Total Remuneration		141	7,050,000.00	4,250,000.00	11,300,000.00

*Board Allowances include sitting allowances for committee meetings. Other payments include amounts paid to board members while attending official NSSF functions.

Committees Attendance & Allowance for the year ended 30/06/2018

Committee	Finance, investment and Social Security		Human Resources, Legal and strategy		Audit and Risk		Total
	Sittings	Allowance	Sittings	Allowance	Sittings	Allowance	
		Kes.		Kes.		Kes.	Kes.
Hon. G. Ndambuki	1	50,000	0	0	-	0	50,000
Eng. E. Mwangera	0	0	0	0	-	0	0
Dr. K. Kassachoon	4	200,000	2	100,000	4	200,000	500,000
Mr. M. Kilaka	5	250,000	0	0	4	200,000	450,000
Mr. F. Atwoli	2	150,000	2	100,000	-	0	250,000
Mr. P. O. Ogola	0	0	0	0	-	0	0
Ms. T. Maina	1	50,000	6	300,000	4	200,000	550,000
Mrs. J. Mugo	0	0	6	300,000	3	150,000	450,000
Ms. D. Muhika	1	50,000	0	0	6	300,000	350,000
Mr. J. Obuya	4	200,000	8	400,000	0	0	600,000
Mr. A. Munyiri	5	250,000	7	350,000		0	600,000
Total	23	1,200,000	31	1,550,000	21	1,050,000	3,800,000

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

Committees of the Board

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

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

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

Finance, Investments and Social Security Committee members

1. Hon. Joseph Lekuton - Chairman
2. Mr. Francis Atwoli
3. Mr. Mark J. Obuya
4. Mr. Mutua Kilaka
5. Dr. Ibrahim Mohamed, CBS

Responsibilities

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

Human Resource, Legal and Strategy Committee members

1. **Prof. Marion Mutugi-- Chairperson**
2. Mr. Francis Atwoli
3. Mr. Mark J. Obuya
4. Hon. Joseph Lekuton
5. Mrs Jacqueline Mugo
6. Mr Anthony Munyiri (exited 06/06/2018)

Audit and Risk Committee members

1. Prof. Marion Mutugi- Chairman
2. Mr. Mutua Kilaka
3. Mrs. Jacqueline Mugo
4. Dr. Ibrahim Mohamed, CBS
5. Dr. Khadija Kassachoon (exited 30//06/2018)
6. Mr Anthony Munyiri (exited 06-06-2018)

Responsibilities

As per Mwongozo 2015 and the National Treasury circular No. 16/2005, the Audit Committee is the only mandatory committee of the board. The committee is entrusted with the responsibility of ensuring overall compliance, governance and risk management. Specific roles include reviewing and approving the board charter, internal and external audit

findings and preventive measure, systems and internal controls. The committee may also initiate specific special / investigation of any allegations on corruption and accountability.

Annual General Meetings

The Fund held its fourth Annual General Meeting (AGM) on 24th November 2017, the period ended 30th June 2015 and 30th June 2016, as part of its corporate governance practice and to comply with the law and regulations as set up by the Retirement Benefits Authority (RBA).

Accountability and Audit

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

Capacity Building for Board of Trustees

During the year, Trustees were trained on the Code of Governance for State Corporations (Mwongozo) and induction was done for new trustees.

Internal Controls

The Board of Trustees has put in place adequate internal controls to ensure there is no loss or pilferage of Fund's resources / Assets. Risk mitigation strategies are incorporated into the control structures that include a functional internal audit department.

Quality Policy Statement

The National Social Security Fund is committed to provide quality and sustainable social security to Kenyans, through enhanced coverage, efficient registration and collections, prudent fund management, competitive benefits and exemplary governance. The Fund shall do this by:

- i. Establishing quality objectives at the beginning of every Financial year, based on the corporate strategic plan, which shall be monitored and reviewed on a quarterly and annual basis;
- ii. Seeking to understand and satisfy the needs and expectation of customers and interested parties;
- iii. Continually measuring, analysing and evaluating the effectiveness and efficiency of the quality management system for continual improvement;
- iv. Having committed Trustees and staff performing their roles and responsibilities with integrity and accountably;
- v. Embracing best practice, innovation and appropriate technology in all operation; and
- vi. Ensuring that all activities are aligned to NSSF Act No. 45 of 2013

Enterprise Risk Management

An effective risk enterprise management framework is essential to tame the risks associated with growing incidences of poverty upon retirement. The Board of Trustees and Management is cognisant of the fact that all risks cannot be eliminated completely. However, the Fund endeavours as much as possible, within the available resources, to manage risks to acceptable levels in all its activities. The Fund is committed to embedding risk management principles and practices into strategic and operational plans; decision making process; all levels of the Fund; on major projects undertaken major transactions entered into with third Parties.

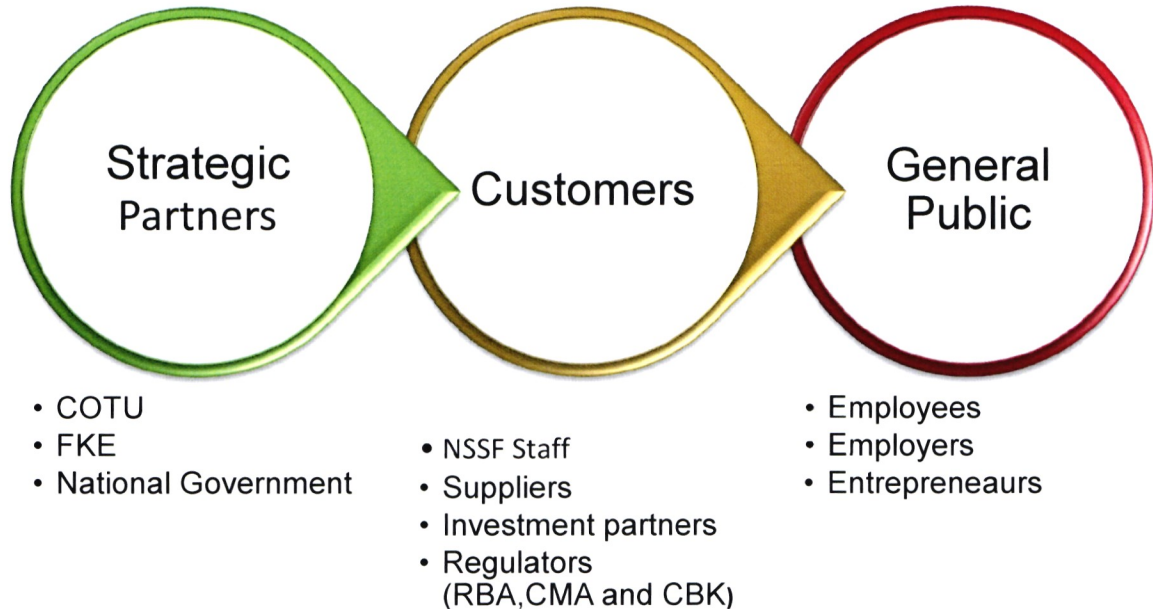


Board Evaluation Results

Board evaluation was not done during the year.

Key Stakeholders

The key stakeholders are members of the Fund and their employers. The members contribute monthly prescribed amount to the Provident Fund and the Pension Scheme in accordance with the NSSF Act No 45 2013 through various employers and through their voluntary initiatives. The members expect various benefits from the Fund depending on the amount contributed in compliance with predetermined terms. All members have the same influence on the sustainability of the Fund.



Senior Management Emoluments and Commitments

During the year, the senior management were paid personal emoluments of Kes 111,739,252 as at 30 June 2018, they had outstanding staff loans amounting to Kes 70,223,493.52. Among the top management team, 4 of them were in acting capacity.

VII. Management discussion and analysis

The Funds operational and financial performance were based on 2014-2019 strategic plan, Budget for 2017/2018 and the set targets as per 2017/2018 Performance contract signed by the Board of Trustees and cascaded to all staff.

The Funds Operational and Financial Performance

Overall Performance

A net surplus in Scheme Funds increased to **Kes 25.76 billion** from **Kes 23.89 billion** in 2017. The Fund's net assets, therefore, increased by **13%** to **Kes 221.73 billion** as compared to **Kes 196.57 billion** in 2017.



Key Performance Ratios

A summary of key performance ratios for the year as shown here below:

DETAILS	Actual	Actual	Actual	Actual	Actual
	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
	%	%	%	%	%
	<u>Ratios:</u>				
Staff costs to Operating Costs	70.53%	53.92%	62.09%	60.69%	73.80%
Admin cost to Operating Costs	26.80%	21.38%	29.91%	27.82%	26.05%
Operating Costs to Investment income	28.22%	57.58%	535.99%	31.35%	29.30%
Operating Costs to Contributions	53.41%	52.51%	42.79%	47.24%	36.84%
Return on investments to Net Assets	10.40%	6.47%	0.60%	10.38%	9.32%
Total Operating Costs to Net Assets	2.93%	3.73%	3.20%	3.26%	2.33%

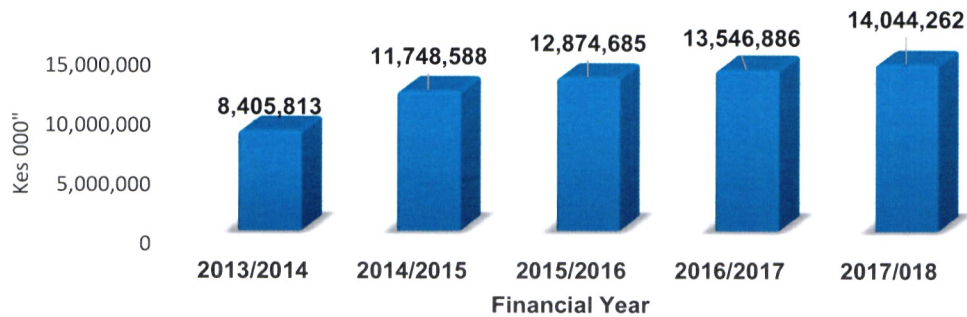
Major Factors that affected the Financial Performance

- The court cases challenging implementation of the NSSF Act 2013 impacted on the amount of contribution receivable and the adequacy of benefit payable;
- Stability of the Nairobi Securities Exchange (NSE);
- The capping of interest rates in the banking sector leading to credit squeeze in the financial sector and;
- The drive to implement the Fund's mandate of providing social security to all workers and wide coverage directly affecting cost levels.

Contributions Collected in the last 5 years

Financial Year	2013/2014	2014/2015	2015/2016	2016/2017	2017/018
	Kes 000	Kes 000	Kes 000	Kes 000	Kes 000
Contributions	8,405,813	11,748,588	12,874,685	13,546,886	14,044,262

Contributions Last 5 years

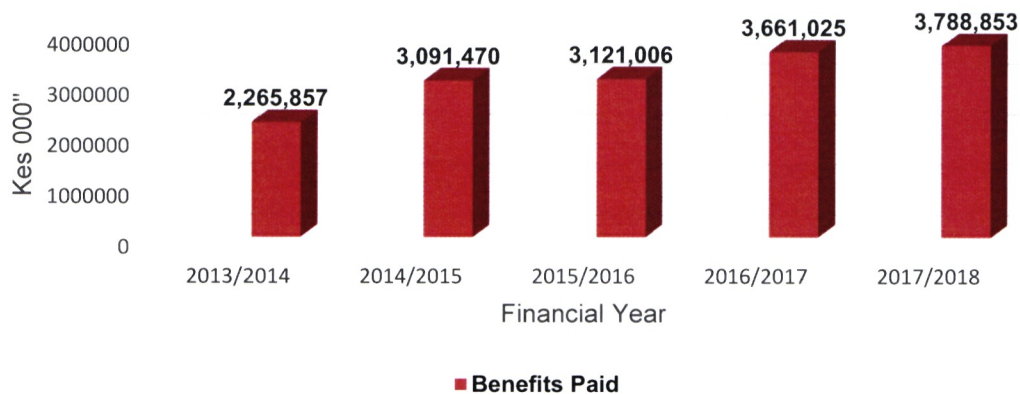


The graph above shows the trend of contributions for the last 5 years. The Fund collected an annual contribution **average of Kes 12.12 billion** over the last 5 financial years. The steady increase in total contributions collected has been boosted by an increase in voluntary contributions.

Benefits paid in the last 5 Years

Financial Year	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
	Kes.000	Kes.000	Kes.000	Kes.000	Kes.000
Benefits Paid	2,265,857	3,091,470	3,121,006	3,661,025	3,788,853

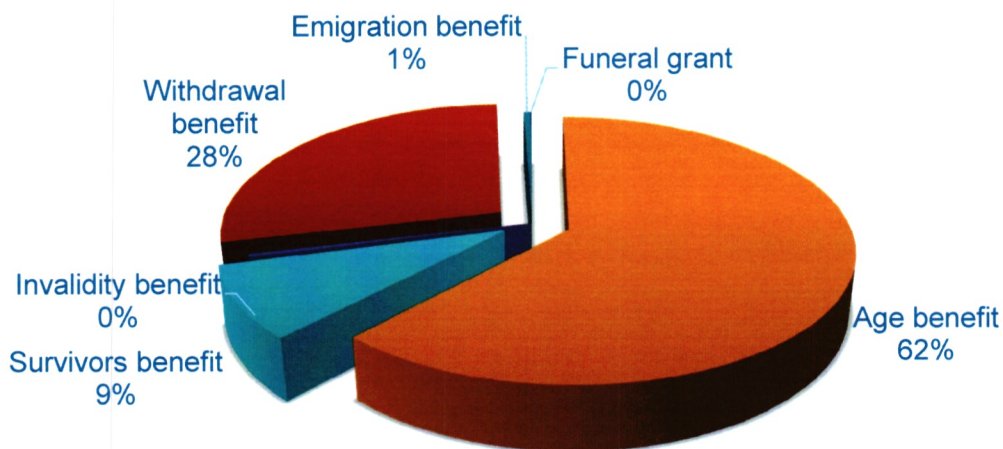
Benefits Paid Last 5 Years



The Fund continues to pay higher amounts of benefits to its members. In 2017/2018 financial year, Kes 3.79 billion was paid to beneficiaries.

Proportion of Benefits Paid By Type

Proportion of benefits paid



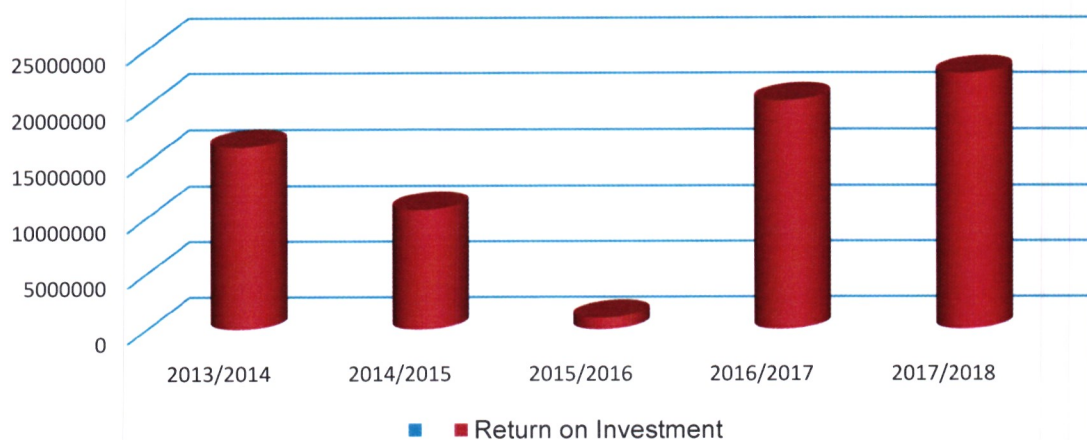
■ Age benefit ■ Survivors benefit ■ Invalidation benefit ■ Withdrawal benefit ■ Emigration benefit ■ Funeral grant

Out of the total benefits paid for the year, 62% were paid to members who had reached the mandatory retirement age of 60 years, while 28% was paid to members who were eligible under the withdrawal benefit.

Investment Income growth for the last 5 years

Financial Year	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
	Kes.000	Kes.000	Kes.000	Kes.000	Kes.000
Return on Investment	16,307,114	10,714,450	1,027,875	20,410,090	20,665,069

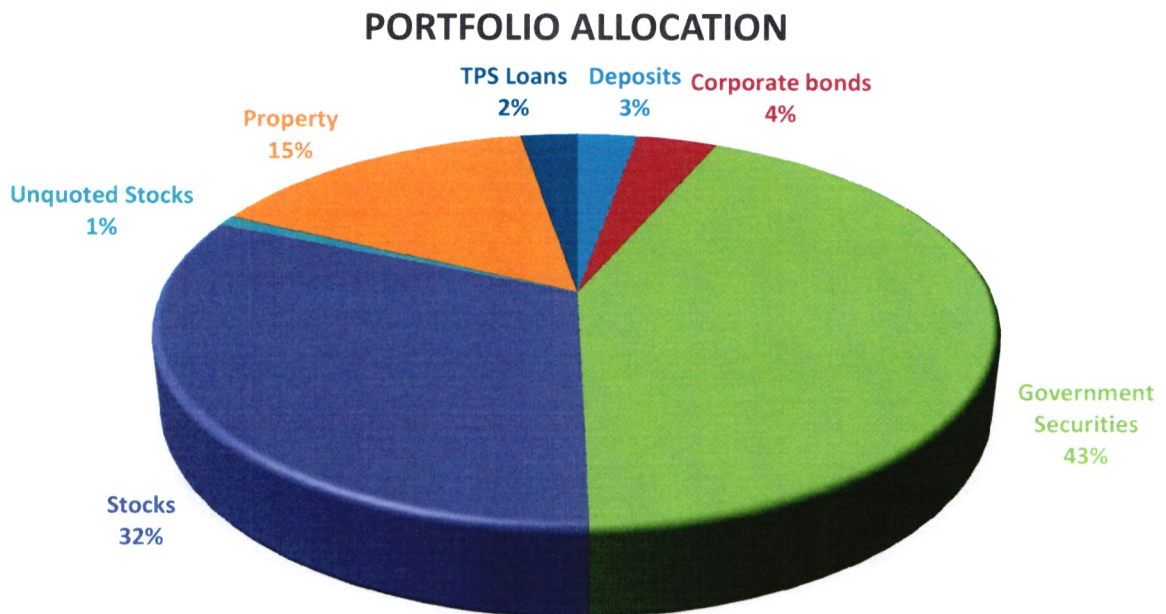
Return on Investments last 5 years



As shown above, the profitability of the Fund improved drastically in the last two years.

Asset classes as at 30 June 2018	Kes
Deposits	5,637,577,681
Corporate bonds	7,677,218,892
Government Securities	89,044,783,931
Stocks	65,392,544,087
Property	31,559,795,787
TPS Loans	5,391,563,938
Unquoted Stocks	1,676,393,760
Total	206,379,878,076

Portfolio Allocation



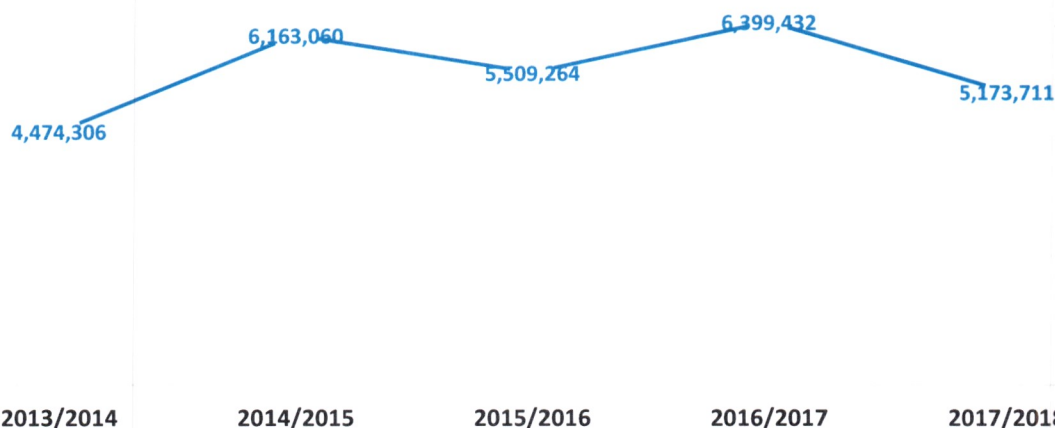
Portfolio Distribution

Asset Class	Ratio	RBA Limit	Excess Capacity
Cash and Call Deposits	2%	5%	3%
Deposits	1%	30%	29%
Corporate Bonds	4%	15%	11%
Treasury Bills / Bonds	42%	90%	48%
Stocks	31%	70%	39%
Property	17%	30%	13%
TPS	3%	10%	7%
Unquoted Stocks	1%	5%	4%
Offshore	-	15%	0%

Operating Costs for the last 5 years

Financial Year	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
	Kes.	Kes.	Kes.	Kes.	Kes.
	000	000	000	000	000
Operating Cost	4,474,306	6,163,060	5,509,264	6,399,432	5,173,711

OPERATING COST LAST 5 YEARS



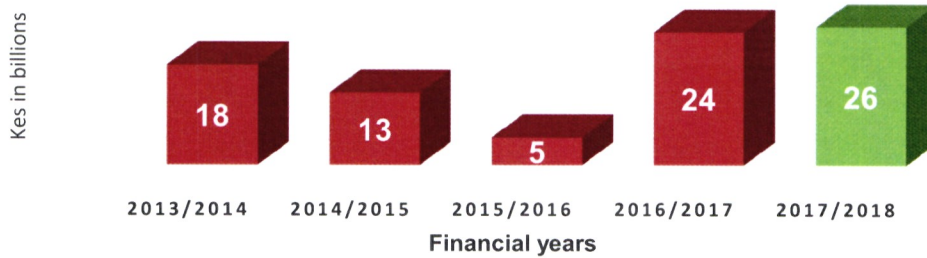
With wider mandate to cover all workers, conferred upon the Fund by the NSSF Act No. 45 of 2013, the Fund is expected to cover every Kenyan, a process that calls for more costly operational structure and outlay. Despite this, the Fund has made efforts to manage costs in line with legal requirements and invest more funds.

Surplus for the year for the last 5 years

Financial Year	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
	Kes Billion	Kes Billion	Kes Billion	Kes Billion	Kes Billion
Net Surplus	18	13	5	24	26

Net Surplus

Net surplus last 5 years



As shown above, the Fund achieved the highest net surplus in the financial year 2017/2018 of Kes 24.5 billion and the lowest performance was experienced in 2015/2016 due to poor performance of the Nairobi Securities Exchange (NSE) where the Fund has a sizeable investments.

Growth in Fund Value for the last 5 years

Year	Actual 2013/14	Actual 2014/15	Actual 2015/16	Actual 2016/17	Actual 2017/18
	Kes 000	Kes 000	Kes 000	Kes 000	Kes 000
Net Assets	153,028,834	165,580,760	172,086,297	196,574,470	221,729,634

Fund value Last 5 years



The assets of the Fund are growing at a steady rate.

Growth Strategy

The Fund has continued to implement the best management practices by applying performance planning and appraisal systems, regular performance reviews, and ISO surveillance audits. The Balanced Score Card performance management system is fully entrenched in our performance monitoring and measurement. The Fund has further

enhanced its customer focus by being among the first countries in Africa to achieve ISO 9001:2015 certification.

Challenges and opportunities

The challenges experienced during the year were mainly influenced by the following factors:

- a) The uncertainty involving the implementation of the NSSF Act No 45 2013 impacted on the amount of contribution receivable and the adequacy of benefit payable;
- b) The instability in the Nairobi Securities Exchange and frequent changes in the financial sector; and
- c) The drive to implement the Fund's mandate of providing social security to all Kenyans directly impacting on cost levels.

However, despite the challenges the Fund has a lot of opportunities in voluntary contribution, wide coverage to all parts of the country, and development of the available land for investment income generation.

Procurement Policy Statement

The Fund procures goods, works and services as per the provisions of the Public Procurement and Asset Disposal Act 2015, other relevant laws and Government guidelines with the objective of optimal use of the Fund's resources.

All procurement complies with the relevant budget and the procurement plan.

Key Projects and investment decisions implemented

a) Projects

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

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

- i. Project works at Nyayo Estate, Embakasi, and Phase VI at an expected cost of Kes.2.1 billion halted due to litigation.
- ii. Construction of up-market apartments at the NSSF Milimani property at a cost of Kes.1, 490,836,240.36 is nearing completion.
- iii. Construction of Hazina Trade Centre at cost Kes.6, 715,218,188.00 is in progress.

Some of our development projects: Milimani Executive Apartments below.



MAJOR TENDERS ADJUDICATED DURING THE YEAR

NO.	Tender No.	Nature Of Item / Contract	Date Awarded	Firm Awarded	Amount (Inclusive of V.A.T)
1.	01/2017-2018	Direct Procurement of Re-valuation Assets	31.08.2017	a). Crystal Valuers Limited b). Value Zone Limited c). Ebony Estates	7,000,000.00 4,000,000.00 2,800,000.00
2.	02/2017-2018	Direct procurement of Two Booster Pumps for Nyayo Estate, Embakasi	26.09.2017	Davis & Shirtliff	2,700,811.00
3.	03/2017-2018	Direct Procurement of Consultancy Services for SSPAS Support and Maintenance	01.02.2018	Verve KO – Intrasoft International Consortium	USD 2,490,958.29
4.	05/2017-2018	Direct procurement of Maintenance of IBM Servers	25.05.2018	Trans Business Machines (TBM)	USD 289,536.00
5.	01/2017-2018	Provision of Management & Letting Services of Social Security House, Mombasa	21.09.2017	Crystal Valuers Limited	2.9%
6.	02/2017 -2018	Proposed Partitioning Works of Kiambu Branch Office	10.10.2017	Resjos Enterprises Limited	5,787,348.00
7.	04/2016-2017	Supply, Installation, Testing & Commissioning of Generators for various Branch Offices	19.12.2017	Contrailinks Solutions & Services Limited	13,650,162.00
8.	05/2017 -2018	Supply, Delivery, Installation, Testing & Commissioning of Assorted ICT Security Hardware Appliances, Software & Services	15.02.2018	KONVERGENZ SOLUTIONS LIMITED	132,043,039.97
9.	06/2017 -2018	Provision of Fund Management Services	13.12.2017	Britam Assets Managers Stanlib Kenya Limited African Alliance Asset Management GenAfrican Asset Managers	Option 1 0.1682% 0.1682% 0.1682% 0.1682%
				Stanlib Kenya Limited GenAfrican Asset Managers Britam Assets Managers	Option 2 0.25% 0.25% 0.25%
				Britam Assets Managers Stanlib Kenya Limited GenAfrican Asset Managers	Option 3 0.50% 0.50% 0.50%
10.	08/2017 -2018	Supply, Installation, Testing & Commissioning of a Transformer at Social Security House, Nairobi	19.12.2017	Riscan Enterprises Limited	8,593,160.00

MAJOR TENDERS ADJUDICATED DURING THE YEAR (Continued...)

NO	Tender No.	Nature Of Item / Contract	Date Awarded	Firm Awarded	Amount (Inclusive of V.A.T)
11.	09/2017 -2018	Supply, Delivery, Installation, Testing & Commissioning of a Lift at NSSF Parking Silo	19.12.2017	Rentstate Limited	11,100,000.00
12.	10/2017 -2018	Provision of Security Services to Various Funds Properties		Hatari Security Group Category B Properties Category C Properties Category D (Nairobi Region) Total Security Surveillance Ltd Category D (Rift Valley Region) Category D (Western/Nyanza Region) Category D (Central/Eastern Region) Category D (Coast/North Eastern Region) Serve Kenya Limited	77,520,000.00 4,488,000.00 4,896,000.00 5,758,200.00 4,606,560.00 6,142,080.00 4,222,680.00 19,118,850.00
13.	11/2017 - 2018	Proposed External Painting & Window Cleaning of Hazina Towers	19.12.2017	Serve Kenya Limited	19,118,850.00
14.	12/2017-2018	Installation, Testing, Training & Commissioning of Additional SAP Module	03.05.2018	EIM Solutions	242,982,795.41
15.	13/2017-2018	Provision of Cleaning, Sanitary, Fumigation and Garbage Collection Services	30.05.2018	A) Cleaning Services; 1. Saharry Logistics Limited - SSH Nairobi Block A - Hazina Towers 2. Jepco Services & Renovators Limited - SSH Nairobi Block B & C - Bruce House - View Park Towers 3. Top Image Cleaning Services	 674,900.00 241,500.00 431,776.00 245,507.00 280,734.00

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N O.	Tender No.	Nature Of Item / Contract	Date Awarded	Firm Awarded	Amount (Inclusive of V.A.T)
16.	14/2017-2018	Selection of a consultant to carry out employee satisfaction and work environment	09.07.2018	Image horizon enterprises	1,044,009.28
17.	15/2017-2018	Selection of a consultant to carry out customer satisfaction survey	25.07.2018	Image horizon enterprises	1,379,008.00
18.	16/2017/2018	Provision of security services to classes 'a' properties	10.07.2018	Hatari security guards	39,282,240.00
19.	20/2017-2018	Supply, delivery, installation and commissioning of servers storage and associated softwares	19.07.2018	Konvergenz solutions limited	48,361,740.54
20.	21/2017-2018	Provision of window cleaning and cradle maintenance services	13.07.2018	Tamia limited	3,618,040.00
21.	22/2017-2018	Provision of maintenance services for firefighting equipment	13.07.2018	Knight tech fire & security appliances	1,654,030.04
22.	23/2017-2018	Provision of maintenance services for air conditioners, generators, ups and domestic water pumps	25.07.2018	Qoolmax enterprises Contralinks solutions & services limited	2,541,200.00 5,387,000.00

Going Concern

The Fund implemented Actuate Birth Balance Score Card Performance Management System in June 2012. It facilitates the evaluation of performance of the Fund through four perspectives namely: Financial, internal process, customer, and people & culture perspectives. This is in line with the requirement of Mwongozo that the going concern of an organisation be measured using the Triple Bottom Line concept which focuses not only on profit, but also on people and the planet.

The implementation of the balance scorecard has facilitated the inculcation of performance oriented culture among staff and based on various surveys carried out by external consultants, the trend of Fund repositioning positively is on the increase. During the year, performance reports have been generated using the birth balance score card performance management system.

Code of Ethics and Conduct and Whistle-Blowing policy

The Board of Trustees and staff are committed to enhancing ethics and integrity in the Fund in accordance with Chapters 6 and Article 232 of the Constitution of Kenya on Leadership and Integrity and Values and Principles of Public Service respectively.

The commitment is demonstrated by formulation of the Leadership & Integrity Code and Whistle Blower Policy. The two policies have been posted in the NSSF website for all stakeholders to familiarise themselves with them. The aim of posting is to enlist support from the stakeholders in enhancing ethics and integrity in the Fund.

In addition, all employees are required to sign an Acknowledgement Form confirming that they have read, understood and will abide by the Code.

Compliance with statutory Requirements

The Fund is fully compliant with statutory requirements

Compliance with Retirement Benefits ACT

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

Key Exposure Risks

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

- a) Corporate Governance risk due to frequent changes in the Board of Trustees and the office of the Chief Executive.
- b) General economic downturn leading to low numbers of new business, downsizing, increase in closure of business.
- c) Market risks caused by:
 - i) Price risks due to decline in stock market prices, and volatility in the exchange rates.

- ii) Interest rate volatility affected by shifts in market forces, Government policies, and intervention in the money market.
- d) Court cases affecting business especially the petition on the Fund to collect contribution as per the NSSF Act 2013.

Material Arrears in Statutory and Other Financial Obligations

The Board of Trustees confirm that the Fund does not have any material pending bills, outstanding taxes, outstanding staff & pension obligations. The Fund does not have any actuarial deficit on its pension scheme obligation. The Fund operates under three schemes i.e. the Old provident Fund, New provident Fund and the Pension Fund as provided in NSSF Act No. 45 of 2013. However full implementation of the Act has been contested in court especially section 18, 19 and 20.

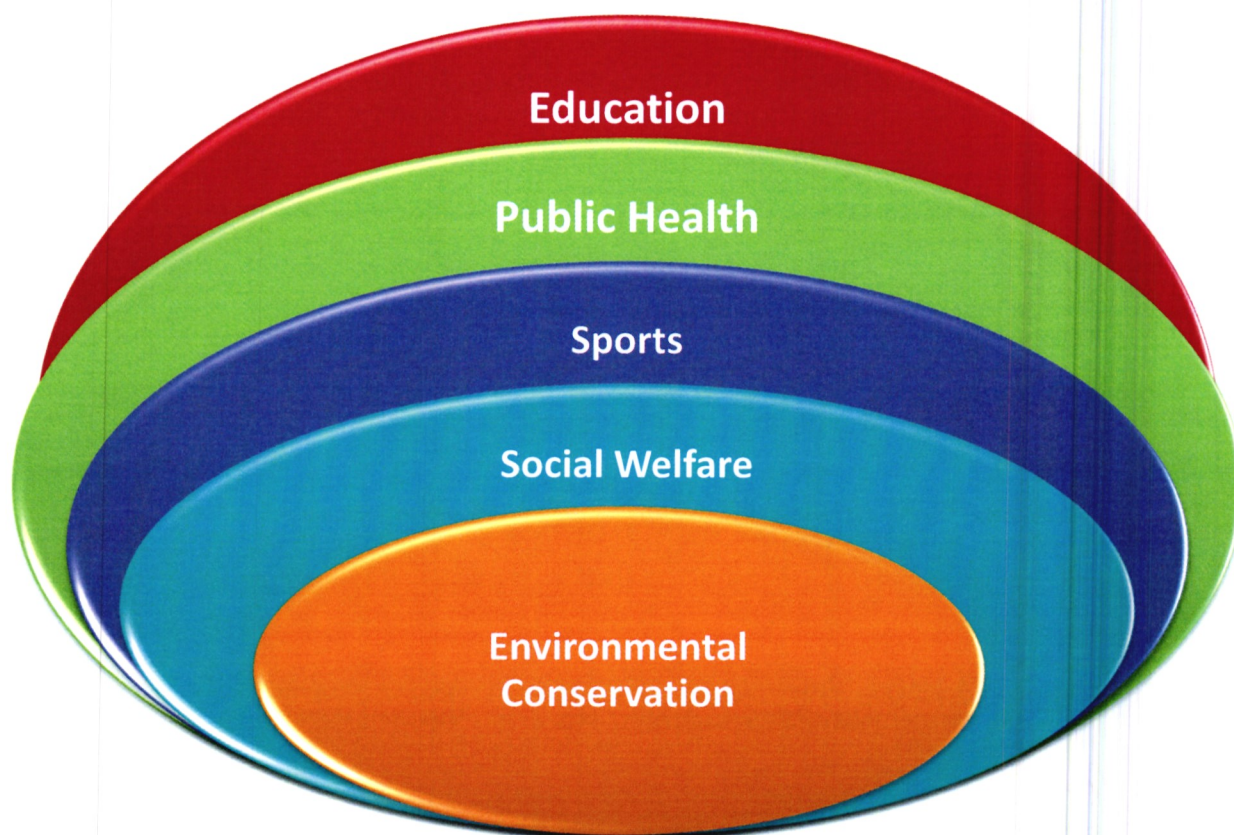
VIII. STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY

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

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

'The five key focus areas within the CSR Policy are Education, Public Health, Sports, Social Welfare and Environmental Conservation among the youth and supporting the elderly'

The five key focus areas:



Overview of CSR Activities during the year ended 30th June 2018

As a caring corporate, the Fund supported various CSR activities during the year. They are as follows:

Focus Area	Activity	Amount Kes
Health	Anti-jigger campaign in partnership with Ahadi Kenya Trust Shoe distribution ,Msambweni	1,600,000
Education	Opening of classroom at Kotetni primary school in Kisumu	850,000
Social Welfare	Sanitary towels distribution	1,600,000
Environmental Sustainability	Tree planting	10,000
Sports	Annual SOYA awards 2017	1,500,000

1. Annual SOYA awards 2017

The SOYA awards has been a highlight of Kenya’s sports calendar for close to a decade. The annual ceremony that was launched in 2004 is geared towards celebrating outstanding achievements while growing each year to become a premier sports event in Kenya. With the theme ‘Passing on the Baton’, the event recognizes, rewards and motivated the more established athletes to empower the younger leadership in sports, paving way for their success. The Fund sponsored Kes. 1,600,000. The event took place on 18th January 2018.

Impact: SOYA has been instrumental to the Fund as it consistently showcased the sporting community in Kenya by promoting a platform that promotes a nation with solid and sustainable social security.



2. Opening of classrooms at Kotetni Primary in Kisumu

Crumbling infrastructure and poor school conditions present an impact to students physically and psychologically thereby impacting learning and performance. For this reason, the Fund took the initiative to construct classrooms for pupils of Kotetni Primary School in Kisumu County. The school has expanded, with students numbers growing while infrastructure remains the same. NSSF believes in better education for the overall development and improvement of a community therefore building such a classroom for these children goes a long way towards this goal.

Impact: The building of new classrooms has resulted in enthusiasm, high morale, cooperation for the students and increased job satisfaction for the teachers.



3. Anti-Jigger Campaign in partnership with Ahadi Kenya Trust

The anti-jigger campaign by Ahadi Kenya Trust is an effort to help families with severe jigger infestation. NSSF's visit to Kisumu and Msambweni County respectively gave the team a chance to fumigate homesteads while assisting with medication for treatment and shoes. The Fund also encouraged the residents to join community development forums in their area as it would help them in engaging in income generating activities.

Impact: The jigger menace has negatively affected education standards and caused an increase in school dropout rates. This visit saw many residents and children treated and educated on ways of managing and eradicating the jigger menace. It also created awareness leading to support from area leaders and other Kenyans towards curbing the issue.





4. Tree planting

Tree planting is an initiative that is very dear to the Fund's corporate social responsibility. Not only do trees act as a natural air conditioner, they help improve the overall surrounding, reduce air pollution while increasing the appearance of our surrounding. The staff at NSSF Kitengela in conjunction with the Government of Kenya Kitengela prison to plant trees around Kitengela area, with Mwingi staff also holding one in their County as shown below.

Impact: The NSSF team led in environmental conservation which ensures community pride.



5. Shoe Distribution at Msambweni County

Shoes play a major role in prevention to jigger infestations. NSSF in partnership with Ahadi Kenya Trust distributed 3000 pairs of shoes to pupils of Kilole and Zigira primary schools where every student from ECDE to class eight benefitted.

Impact: The shoes will help the students better their school performance as they can now walk to school easily and without strain due to the harsh weather conditions in the

area. It will also improve the children's self-esteem which in return improves the performance of co-curricular activities as they can comfortably play with each other.



6. Sanitary Towels Distribution

It is well known that the girl child's performance is highly affected by the school days they miss when they are on their menses. It has been noted that a girl misses school at least 3-5 days thus losing an average of 72-120 lessons a term. Most of these girls come from very poor backgrounds where parents are unable to afford to purchase sanitary pads on a monthly basis.

Our team learnt that some of the girls handled menses in the most unhygienic manner, practices that result in serious infections and reproductive health complications which can be very expensive to treat. Unfortunately, this also leads to low self-esteem which affects their school performance and social life.

Impact: It is important for the entire community to understand the importance of hygiene and the dangers associated with unhygienic practices. Effects on reproductive health

can be long term as they are very expensive to treat. The girls were happy to receive the sanitary towels as it will see them have a comfortable term in school.



IX. REPORT OF THE TRUSTEES FOR THE YEAR ENDED 30 JUNE 2018

Principal activities

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

Results for the Year

The Trustees hereby submit their report together with the unaudited Financial Statements for the year ended 30 June 2018, which shows the state of the Fund's affairs. The results of the Fund for the year ended 30 June 2018 are set out on pages 53-98.

Interest to Members

Section 2 of the NSSF Act 2013 requires that investment income be credited to the accounts of individual members, at such rates as the Board may, in consultation with the Actuary or such other qualified person, determine and approve at least annually, having regard to the income on the Fund's assets. In the year ended 30 June 2017, the Board of Trustees approved interest of 7.0 % after actuarial valuation of the Fund by Alexander Forbes Financial Services. Interest declared and paid in the last five years is as follows:

Financial Year	Declared interest%
2013/2014	12.5
2014/2015	3.0
2015/2016	6.0
2016/2017	7.0
2017/2018	Awaiting audit of financial statements

The interest for the financial year ended 30 June 2018 will be declared after an actuarial valuation by, Zamara (formerly Alexander Forbes) before submission to the Board of Trustees for approval after which the distribution of interest will be done.

Trustees

The members of the Board of Trustees and changes during the year are shown on page 11-14.

Auditors

The Auditor General is responsible for the statutory audit of the Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 for the financial year ended June 30, 2018.

By Order of the Board.



Dr. Anthony Omerikwa, MBS
AG.CEO/SECRETARY, BOARD OF TRUSTEES

Date: 22/9/2019.....

X. STATEMENT OF TRUSTEES' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012, NSSF Act no. 45 of 2013, The Retirement Benefits Act No. 3 of 1997 and its regulations, as well as The State Corporations Act No. 446 require the Trustees to prepare financial statements in respect of the Fund, which give a true and fair view of the state of affairs of the Fund at the end of the financial year and the operating results of the Fund for that year. The Trustees are also required to ensure that the Fund keeps proper accounting records which disclose with reasonable accuracy the financial position of the Fund. The Trustees are also responsible for safeguarding the assets of the Fund.

As per section 10. (1) of the NSSF Act No. 45 the responsibilities of The Board shall include:

- (a) Acquire, control, and supervise the funds and assets of the Fund in such manner that best promotes the objects for which the Fund is established;
- (b) Impose levies, fees or charges for such services as the Fund may offer;
- (c) lay down such policies and guidelines as may be necessary for the proper operations and management of all the contributions and funds collected by the Fund and for any other matter concerning the Fund;
- (d) Receive grants, gifts, donations or endowments and make legitimate disbursements;
- (e) Approve contracts, undertakings, hiring of senior staff and other activities entered into by the Management or otherwise undertaken in the name of the Fund whose value requires Board approval;
- (f) Appoint any agent the Board may require or subcontract any person or firm of proven experience in the particular function for which appointment or subcontracting is necessary, to perform any of its functions under this Act;
- (g) Invest any funds of the Fund not immediately required for its purposes in the manner allowed by this Act;
- (h) Out of its own funds and together with funds it may require its employees and officers to contribute, establish and make contributions to pension, superannuation, provident or medical social security scheme for the benefit of its employees or officers and, grant pensions, gratuities or retirement allowances to its officers or employees from the funds established;
- (i) Open and operate an account in a bank, registered building society, and or any registered financial institutions.
- (j) Exercise such other powers as may be conferred upon the Board by this Act or any other written law.

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

National Social Security Fund
Annual Reports and Financial Statements
For the year ended June 30, 2018



The Trustees take responsibility for the annual Financial Statements which have been prepared using appropriate accounting policies, supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and in the manner required by the National Social Security Fund Act 2013 as well as the Retirement Benefits Act 1997, Section 34. The Trustees are of the opinion that the Financial Statements give a true and fair view of the state of the financial affairs of the Fund and of its operating results. The Trustees further take responsibility for keeping proper books of accounts. The Trustees hereby confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Funds Financial Statements as well as the adequacy of the systems of internal control in all operations of the Fund.

The Trustees certify that to the best of their knowledge and belief the information furnished to the Auditors for the purpose of the audit was correct and complete in every respect. Nothing has come to the attention of the Trustees to indicate that the Fund will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the Financial Statements

The Fund's Financial Statements were approved by the Board of Trustee's on ...
..... and signed on its behalf by:

.....
Gen. (Rtd) Dr. Julius W. Karangi,
(EGH CBS DCO LOM 'ndc' 'psc' (K)

CHAIRMAN, BOARD OF TRUSTEES

.....
Date

22/07/2019

.....
Dr. Anthony Omerikwa, MBS

AG. MANAGING TRUSTEE/CEO

.....
Date

22/07/2019



REPORT OF THE AUDITOR GENERAL

PART II: FINANCIAL STATEMENTS

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NATIONAL SOCIAL SECURITY FUND (NSSF) FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Social Security Fund (NSSF) set out on pages 53 to 97, which comprise the statement of net assets available for benefits as at 30 June 2018, and the statement of changes in net assets available for benefits, statement of changes in accumulated members' funds, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of National Social Security Fund (NSSF) as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the NSSF Act No.45 of 2013.

Basis for Qualified Opinion

1. Contributions Receivables

The financial statements under the statement of changes in net assets available for benefits for the year ended 30 June 2018 reflects a balance of Kshs.14,044,262,078 in respect of members contributions. A review of collection records and related documentations for the year under audit; disclosed variances as follows:

Type	Amount in reports generated from SSPAS Kshs.	Amount in Financial Statements Kshs.	Variance Kshs.
Monthly Collection Reports (Total all Branches)	14,016,684,188.61	14,044,262,078	27,577,889.39
Global Report	14,030,656,823.31	14,044,262,078	13,605,254.69

Report of the Auditor-General on the Financial Statements of National Social Security Fund (NSSF) for the year ended 30 June 2018

The differences between the global and monthly collection reports have been explained as due to the fact that branch reports do not include Mpesa payments, miscellaneous income and payments receipted through reconciliations. However, it was not clear why these receipts were not reflected in the branch reports since receipting under SSPAS is centralized. Further, a reconciliation between amounts in the global and branch reports was not availed for audit verification.

In consequence, the accuracy and completeness of the contributions receivable balance of Kshs.14,044,262,078 for the of the year ended 30 June 2018 could not be confirmed.

2. Unaccounted for Members Contributions

2.1 Unremitted Members Contributions

A review of the members contributions status from 183 branches across the 5 regions of the Fund showed that outstanding contribution and related penalties as at 30 June 2018 amounted to Kshs.1,764,512,137 and Kshs.4,585,005,445 respectively both totaling Kshs.6,349,517,582. This was contrary to Section 8(a) of the NSSF Act, 2013 which requires employers to deduct from their employees and remit the contributions to NSSF in full and on time.

Although management has indicated that recovery efforts through alternative dispute resolution, court action and Intergovernmental Relations Technical Committee for cases involving County Governments are in progress, as at the time of audit in March 2019 only Kshs.771,225,862 had been subsequently recovered from the defaulters leaving a balance of Kshs.5,578,291,720 outstanding.

In view of the foregoing, recoverability of the unremitted members contributions accumulated over the years amounting to Kshs.5,578,291,720 remains doubtful.

2.2 Contributions in Transit

The financial statements under statement of changes in net assets available for benefits for the year ended 30 June 2018 reflects a net surplus from dealings with members of Kshs.10,255,409,092. In compliance with Retirement Benefits Act, 1997, NSSF maintains employer contribution clearing accounts where total contributions are posted from employers to the credit of members' accounts for benefits payment upon qualification as per the Act. A review of Note 41 to the financial statements showed that in the year under review, the contributions in transit representing contributions which had not been posted to individual members' accounts reduced by Kshs.99 Million from Kshs.762 million as at 30 June 2017 to Kshs.663 million as at 30 June 2018. However, no reasons have been provided for failure to reconcile and post the remaining balance of Kshs.663 million which has accumulated over the years to the respective member's accounts.

Consequently, the Fund members may be unable to access their benefits especially those claiming in the intervening period.

3. Payables and Accrual Balances

Note 32 to the financial statements reflects a balance of Kshs.2,295,147,790 in respect of payables and accruals. However, the fund did not provide schedules to support the following balances:

3.1 Goods Receipts/Invoice Receipts (GR/IR) Clearing Account

Included in the payables due to vendors balance of Kshs.392,943,345 under Note 32 to the financial statements is Kshs.216,749,719.43 relating to various vendors GR/IR Clearing Account. However, the list availed in support of the balance was found to be incomplete whereby, details of majority of the vendors were missing hence it has not been possible to confirm the debits and credit entries against vendors' accounts dating back to January 2013.

3.2 Unidentified Net Salary Payable

Included in the statutory deductions payables balance of Kshs.34,512,649 is Kshs.34,411,397 in respect to net salary payable dating back to November 2012. No satisfactory reasons have been given for the long delay in investigating and identifying the beneficiaries.

3.3 Long Outstanding Creditors

A list of creditors generated from the Social Security Pension Administration System (SSPAS) revealed an amount of Kshs.34,206,467.45 for which age analysis showed that they have been outstanding since 2015/2016. Further, the respective invoices from the suppliers of goods and services rendered as well as supporting details for amounts owed to various NSSF staff were not made available for audit to validate the balances as payable.

The management has also not provided any explanation as to why the amounts have remained outstanding for more than two years without being settled and cleared from the system.

3.4 Returned Benefits to Members

The payables and accrual balance of Kshs.2,295,147,790 also includes an amount of Kshs.272,128,052.87 in respect of returned benefits payable to members as follows:

Item	Period	Amount as per the SSAP Schedule Kshs.
Returned Refunds	31/10/2012	751,095.40
Returned Age Benefit	01/11/2012	104,363,989.03
Returned Survivors Benefits	01/11/2012	-4,046,719.36
Returned Invalidity Benefits	31/10/2012	12,929,633.50
Returned Withdrawal Benefits	01/11/2012	149,506,489.55
Returned Emigration Benefits	31/10/2012	8,623,564.75
Total		272,128,052.87

It was not clear why the returned benefits have remained outstanding for a long period of time without being; investigated, beneficiaries identified, paid and cleared from the system.

4. Unreconciled Cash and Bank Balances

The statement of net assets available for benefits as at 30 June 2018 reflected a cash and cash equivalents balance of Kshs.1,271,066,588 in respect of both cash in hand and at bank while the general ledger reflects a balance of Kshs.756,823,113 resulting to a variance of Kshs.514,243,475 which has not been reconciled or explained.

Further, examination of the bank reconciliations statement as at 30 June 2018 revealed that out of its eighty-four (84) bank accounts, five (5) were facing systems reconciliation challenges as follows:

4.1 Receipts in Bank Statements not in Cashbooks

On 30 June 2018, bank reconciliation statements for all bank accounts of the Fund reflected receipts in the banks but not recorded in the cashbooks totalling Kshs.395,136,390 out of which Kshs.386,924,460 relates to the year under audit. No reasons have been given for the failure to record the receipts in the cashbooks.

Consequently, the contributions receivable balance of Kshs.14,044,262,078 as reflected in the statement of changes in net assets available for benefits for the year ended 30 June 2018 has been understated by Kshs.395,136,390.

4.2 Receipts in Cashbooks not in Bank Statements

The bank reconciliation statements for June 2018 further reflect receipts in the cashbook but not reflected in the bank statements totaling Kshs.1,186,515,978 dating back to 24 July 2014. No reasons have been provided for the failure to bank the long outstanding receipts.

4.3 Payments in Bank Statements not in Cashbooks

The bank reconciliation statements also reflect payments totaling Kshs.19,015,236 dating back to January 2018 in respect of inward unpaid cheques in the bank statement not yet reflected in the cashbook as at 30 June 2018. No reasons have been provided for the failure to investigate and reverse back into the cashbooks the inward unpaid cheques which have an effect of overstating the balance of benefits received from members.

In addition, bank reconciliations statements for the following accounts were not availed for audit review:

Account Name	Account Number/Source	Cashbook Amount Kshs.
Income	1107110270	-305,990,775.15
Branch Income	1200583299	- 447,161,382.01
KCB Eastleigh	Trial balance	900,000.00
Imprest Account		213,710.33

In the circumstances, it has not been possible to confirm the accuracy of cash and bank balance of Kshs.1,271,066,588 reflected in the statement of net assets available for benefits as at 30 June 2018.

5. Provision for Bad Debts

Note 23 to the financial statements reflects provision for bad debts totaling Kshs.67,129,942 as follows:

	Name/Description	Amount Kshs.
1	ECASSA Debtors	9,211,610
2	City Council of Nairobi	2,474,000
3	Mutula Kilonzo	5,015,000
4	Lloyd Masika	4,787,000
5	Bounced Cheques	45,642,332
	Total	67,129,942

The basis for this provision has not been given considering that some of the debtors are financially stable companies and individuals. Further, no efforts appear to have been made including legal action towards recovery of the same. In addition, details of the drawers of the bounced cheques totaling Kshs.45,642,332 included in the provision were not made available for audit verification.

In view of the foregoing, it has not been possible to confirm the validity and legality of the provision for bad debts of Kshs.67,129.942 which in effect understates receivables and prepayments balance in the financial statements.

6. Fixed Deposits (Held to Maturity)

Note 17(b) to the financial statements reflects a total of Kshs.3,009,277,681 in respect of fixed deposits (held to Maturity) as at 30 June 2018 which is net of a provision of Kshs.329,500,000 in respect of deposits held in Chase Bank and Imperial Bank amounting to Kshs.70,000,000 and Kshs.259,500,000 respectively. These amounts were invested between 8 September 2015 and 3 March 2016 and were to mature between December 2015 and May 2016. However, and as previously reported, Chase Bank and Imperial Bank were put under statutory management by Central Bank of Kenya (CBK) on 7 April, 2016 and 13 October 2015 respectively and only Kshs.26,682,488 has been recovered from Imperial Bank.

In the circumstances, recoverability of fixed deposits totaling Kshs.302,817,512 invested in the two banks under statutory management is in doubt.

7. Corporate Bonds

Note 20 to the financial statements reflects corporate bonds balance of Kshs.7,677,218,892 as at 30 June 2018 which is net of a provision of Kshs.666,900,000 in respect of Imperial Bank and Chase Bank bonds amounting to Kshs.132,200,000 and Kshs.534,700,000 respectively. The bonds were invested between 28 September 2015 and 6 October 2015 and were to mature between February 2022 and September 2022. As previously stated, the two banks were put under statutory management by Central Bank of Kenya(CBK) before maturity of the bonds.

Consequently, it has not been possible to confirm recoverability of the money invested in corporate bonds totaling Kshs.666,900,000 as at 30 June 2018.

8. Assets under construction

The statement of net assets available for benefits as at 30 June 2018 reflects a balance of Kshs.6,203,801,502 in respect of assets under construction which was an increase from Kshs.5,550,052,554 in 2016/2017 after revaluation carried out during the year under audit.

A review of the status of assets under construction in the year under audit revealed the following:

8.1 Hazina Trade Centre

Included in the assets under construction balance of Kshs.6,203,801,502 is an amount of Kshs.2,039,836,328 relating to Hazina Trade Centre construction project.

As previously reported, the construction of Hazina Trade Centre, Nairobi commenced on 17 June 2013 and was to be undertaken in 155 weeks with an expected completion date of July 2016. However, as at the time of the audit carried out in April 2019 the project was still not complete and only minimal activities were observed. According to the information given during the site visit, the building had been scaled down to reach 15 floors from the initial scope of 34 floors representing a 56% reduction while the contract sum reduced from Kshs.6,715,218,188 to Kshs.4,095,862,434 (variation order number 1) a reduction of Kshs.2,619,355,754 or 39%.

As at 30 June 2018 the contractor had been paid up to certificate No. 6 which cumulatively brings the total payments to Kshs.2,183,017,974 representing 53% of the revised contract sum against the State Department of Public Works valuation of Kshs.2,349,953,195.90.

Considering the minimal work mobilization at the site, it is not clear whether the construction works would be completed by the revised contract date of 30 June 2019 and within the revised contract sum of Kshs.4,095,862,434.

8.2 Milimani Executive Apartments – Nairobi (LR NO. 209/1796 & 5014)

Assets under construction balance of Kshs.6,203,801,502 also includes an amount of Kshs.2,564,664,264 in respect of Milimani flats project. The project comprises of 104 spacious apartments on Five Blocks A-E with initial estimated cost of Kshs.1.55 Billion. The contractor (Nanchang Foreign Engineering Company (Kenya) Limited) completed the project at a pre-measured works value of Kshs.1,692,262,919.38 and handed over the project on 9 April 2019 to the Fund.

Further, the Board approved the sales process to be categorized in two-fold, in that the 3-bedroomed unit with a DSQ was to be sold at Kshs.35 million each and a 3-bedroomed unit without a DSQ to be sold at Kshs.31 million each. The Fund expected total sales amounting to Kshs.3,600,000,000 by the time of handed-over. However, total sales realized amounted to Kshs.753,520,000 as at 9 April 2019 the date of handing over as follows:

Type	9. No. units	Initial Deposit of 10% Kshs.	Expected Amount Kshs.
House with DSQ	94	722,520,000	3,290,000,000
House W/O DSQ	10	31,000,000	310,000,000
Total	104	753,520,000	3,600,000,000

In order to achieve the intended benefits from the investment the Fund should expedite collection of the remaining balances totaling Kshs.2,846,480,000.

Unresolved Prior Year Matters

1. Irregular Disposal of Undeveloped Land - Mavoko

As previously reported, undeveloped land in Mavoko Municipality measuring 69.16 acres was subdivided into seven (7) plots of 9.88 acres and disposed-off at

Report of the Auditor-General on the Financial Statements of National Social Security Fund (NSSF) for the year ended 30 June 2018

Kshs.18,000,000 each. The plots were sold to AMS Properties Limited on the basis of an agreement dated 21 November, 2011 at a total cost of Kshs.126,000,000. However, only Kshs.12,600,000 or 10% was paid vide Miscellaneous Receipt M010022315 dated 23 August, 2011. The balance of Kshs.113,400,000 which was to be paid within 90 days from the date of execution of the agreement has not been settled to date.

The management has explained that the contract has not been terminated since the delay in completing the conveyancing process was caused by a dispute over physical location of the plots involving the Fund and other parties who claimed to have ownership documents to the land. However, it was not clear why it has taken this long to resolve the dispute on the plot and what legal action has been taken by the management.

2. Non – Beneficial Lease of Hazina Plaza Mombasa – LR. NO.MSA/BLK XX/328 & 329

As previously reported, Hazina Plaza formally known as Polana Hotel was acquired by the Fund at a cost of Kshs.450 Million in 1994. The Plaza comprised of a nine storey building which was leased and operated as a four-star hotel at an annual rent of Kshs.60 Million.

However, the hotel reportedly remained partially closed since 2001 due to failure by the then tenant to meet rent obligations. The building was later advertised for sale on 3 September 2009 at a reserved price of Kshs.300 million, however the bids received were below the reserve price.

On 25 May 2010, the premises were again leased to M/s Techno Holdings Ltd at a monthly rent of Kshs.2.25 million or 27 million annually net of all taxes with an escalation cost of 10% after every two (2) years.

By September 2016, only Kshs.66,500,000 had been realized for the lessee.

An audit inspection carried out on 16 May 2019, revealed that the lessees and tenants were on 18 March 2019 evicted from the building following a court ruling. Upon eviction the building was extensively vandalized by the then tenants since they claimed that they had installed most of the items.

In view of the foregoing, the Fund, has not realized any value for money from the investment of Kshs.450 million in Hazina Plaza Mombasa since 1994. As earlier stated, the unrealized benefit from the investment in Mombasa Plaza cast doubts on prudent financial management for the interest of contributors.

3. Unrecovered Investment Returns - Kisumu Milimani Upmarket Houses

As previously reported, land LR.KISUMU/MUN/8/258 measuring 0.7740 Ha. situated in Milimani Estate, Kisumu County was on 26 November 2012 swapped to offset a debt

of Kshs.150 million owed to the Fund by the then Municipal Council of Kisumu. The land is currently valued at Kshs.178,000,000. Within the land is a flat comprising of eight (8) two (2) bedrooms apartments and three separate maisonettes of three (3) bedrooms each with a servant quarter.

The houses have been rented out to NSSF officers at a monthly rate of Kshs.9,000 and Kshs.7,500 for apartments and maisonettes respectively, with a total of Kshs.900,000 realized from rent of the houses in the year under audit. Despite lack of commensurate rental income from these houses over the years, the Fund continued to provide security and other services. No reasons have so far been provided for the failure to review the rent payable since taking over the property in 2012. Review of the status in 2017/2018 revealed that no action has been taken to remedy this anomaly in the management of investment property.

Consequently, value for money has not been realized from the investment worth Kshs.178,000,000 over the last five (5) years up to 30 June 2018.

4. Refurbishment of Mombasa Social Security House

As previously reported, the Fund on 12 January 2012 entered into a contract with M/s EPCO Builders Ltd through Tender No. 27/2010-2011 after competitive bidding for the refurbishment and associated services of the Mombasa Social Security House at a cost of Kshs.217,530,427. The contract was to be executed within a period of forty (40) weeks after engagement. Information availed indicate that the project was completed and a certificate of practical completion issued by the project consultants on 7 November 2013 while a certificate of making good the defects was issued on 30 November 2015 and payments totalling to Kshs.226,218,458 made to the contractor. However, part of the main contract entailed the installation of Closed Circuit Television (CCTV) system at a cost of Kshs.48,666,664.

A physical inspection of House carried out on 16 May 2019 revealed that the CCTV system installed was still not functioning despite the fact that the contractor had been paid. In response to our enquiries, the management explained that the CCTV system was in proper working condition at the time of hand-over and worked effectively for the first two (2) years before developing technical issues due to lack of maintenance and a dispute on the amounts payable.

No reasons were provided for the failure to include a service maintenance clause in the contract signed or for the failure to resolve the dispute and have the system working.

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

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

On 18 April 2016, the National Land Commission wrote to NSSF confirming the allocation to Judiciary and reiterated that it was not possible to reinstate the land to NSSF. Subsequently, the Fund filed a suit Case number ELC No.153 of 2018 against the Chief Land Registrar and the private entity (Le-Kuna Company) for alleged and unlawful misrepresentation to the Fund and the matter is yet to be determined.

In the circumstances the Fund risks losing workers' pensions funds invested in the above property if the land is not reinstated to NSSF.

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

As previously reported, the construction of 324 units at Nyayo Embakasi at a total cost of Kshs.2,155,407,742 by M/s China Jiangxi International Kenya Limited had stalled. The construction works which according to the contract signed on 21 February 2013 were to take seventy eight (78) weeks from 2 June 2013 to 30 November 2014. As at 27 March 2018, only forty-four (44) units had been constructed. Although the inability to proceed with the construction was attributed to failure by the Nairobi City County to grant relevant approvals to enable construction of the remaining two hundred and eighty (280) units, no effort appears to have been made to ensure completion of the project.

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

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

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Social Security Fund (NSSF) in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Emphasis of Matter

Budget and Budgetary Performance

1. Revenue

The Fund's actual income amounted to Kshs.31,316,814,415 against the budgeted amount of Kshs.28,413,942,000 resulting to extra receipts of Kshs.2,902,872,415 or 10% as tabulated below:

Summarized Income Analysis:

Item	Budget Kshs.	Actual Kshs.	Excess/(Shortfall) Kshs.	Variance %
Contributions Receivable	17,014,452,000	14,044,262,078	(2,970,189,922)	17
Benefits Payable	(4,605,000,000)	(3,788,852,985)	816,147,015	18
Investment Income	13,978,235,000	17,659,476,325	3,681,241,325	26
Realized gain on sale of Investment	650,000,000	470,912,230	(179,087,770)	28
Unrealized gain on sale of Investment	1,348,855,000	2,864,581,640	1,515,726,640	112
Other Income	27,400,000	66,435,127	39,035,127	142
Total	28,413,942,000	31,316,814,415	2,902,872,415	10

The under collection in contributions receivable of Kshs.2,970,189,922 or 17% was attributed to numerous court cases which led to suspension of new rates of contributions provided in NSSF Act No. 45 of 2013. Further, the failure to pay budgeted benefits of Kshs.816,147,015 or 18% was attributed to lodged claims for benefits which were never applied for within the financial year.

2. Expenditure

The Fund had budgeted to spend Kshs.6,830,860,000 against the actual expenditure of Kshs.5,570,047,877 resulting to an under expenditure of Kshs.1,260,812,123 or 18% as follows:

Summarized Expenditure Analyses

Item	Budget Kshs.	Actual Kshs.	+Over/-Under Kshs.	Variance %
Staff Costs	4,096,459,000	3,818,034,559	-278,424,441	7
General Administrative Costs	1,954,401,000	1,347,662,131	-606,738,869	31
Investment management expenses	480,000,000	396,336,810	-83,663,190	17
Provisions	300,000,000	8,014,377	-291,985,623	97
Total	6,830,860,000	5,570,047,877	-1,260,812,123	18

The overall under expenditure of Kshs.1,260,812,123 was attributed to low legal expenses due to reduced legal claims attributable to slow resolution of project cases and related activities and postponement of some consultancy services.

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, except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

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

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, 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

1. Senior Management in Acting Appointments

As previously reported, among the top management team, a total of four (4) senior staff including the Chief Executive Officer/Managing Trustee have been serving the Fund in an acting capacity with some acting since the year 2013. The management has however indicated that the positions have since been advertised.

2. Weaknesses in Systems and Controls

2.1 Use of Suppliers Invoices and Delivery Notes as Payment Vouchers

Audit review of the payment system revealed that the Fund has no standardized payment vouchers. It was noted that postings and approvals were done online in the

SAP accounting software but the physical vouchers seen comprised of memos for internal payments as well as invoices and delivery notes that were stamped severally for various approvals. It was therefore difficult to determine the specific accounts charged in the absence of proper payment vouchers.

2.2 Weakness in the SAP Accounting Software and Social Security Pension Administration System (SSPAS)

The accounting software procured by the Fund failed to generate financial statements as expected of an end-to-end system. This has occasioned manual preparation of financial statements leading to numerous errors in the presented set of financial statements. Further, the expenditure schedules produced using SAP system excludes payee names and thus making it hard to relate the schedules generated against payment vouchers or files availed for audit verification. Further, review of the SAP system in relation to a cut off period feature on several and similar reports, generated on different days, gave conflicting results. SSPAS system too produced different figures for contributions collection for the same period at branch level compared to reports generated at the head office.

Consequently, the Fund may not have obtained value for money from amounts of Kshs.237,827,220.87 and Kshs.397,814,092.02 paid for acquisition of SAP and SSPAS systems respectively and from amount of Kshs.23,820,720(USD 235,848.72) paid as annual license fee for SAP as 30 June 2018.

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

Responsibilities of Management and Those Charged with Governance

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

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

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal

control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

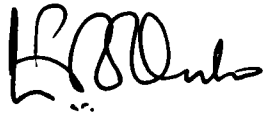
Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Fund's 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 or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the 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.



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

Nairobi

7 August 2019

**XI. STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
for the year ended 30 June 2018**

	Note	2018 Kes	2017 Kes
Dealings with Members			
Contributions Receivable	6	14,044,262,078	13,546,886,133
Benefits Payable	7	(3,788,852,985)	(3,661,025,306)
Net Surplus from dealings with members		10,255,409,092	9,885,860,827
RETURN ON INVESTMENTS			
Investment Income	8	17,659,476,325	14,288,382,965
Investment Management Expenses	9	(396,336,810)	(326,852,566)
Fair value gain on revaluation of Investments	10	2,864,581,640	5,982,386,547
Gain on realisation of investments	11	470,912,230	331,070,043
Other Income	12	66,435,127	135,103,327
Net returns on investments		20,665,068,513	20,410,090,317
Less: Operating Cost			
Staff cost	13	(3,818,034,559)	(3,883,534,618)
General administrative cost	14	(1,347,662,132)	(1,780,390,222)
Provisions	15	(8,014,377)	(735,507,409)
Total operating cost		(5,173,711,067)	(6,399,432,249)
Net Increase/(decrease) in net assets for the year		25,746,766,538	23,896,518,895
As previously reported		196,574,470,103	172,086,349,056
Prior year adjustment		(591,602,152)	591,602,152
As restated		195,982,867,951	172,677,951,208
Net Assets as at 30 June		221,729,634,489	196,574,470,103

**XII. STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
As at 30 June 2018**

	Note	2018 Kes	2017 Kes
ASSETS			
Cash and bank balances	16	1,271,066,588	72,797,873
Call and Fixed Deposits	17	5,637,577,681	11,506,207,953
Government Securities-(Treasury bills)	18	8,019,139,643	7,975,752,827
Government Securities-(Treasury bonds)	19	81,025,644,288	64,149,817,702
Corporate bonds	20	7,677,218,892	9,222,122,293
Accrued Income	21	4,895,881,467	2,356,502,164
Stores and Supplies	22	64,303,404	48,792,563
Receivables and Prepayments	23	3,632,430,126	3,877,278,325
TPS Loans	24	5,391,563,938	6,368,874,578
Long-term deposits	25	922,663,220	806,523,691
Quoted Stocks	26	65,392,554,087	53,572,123,661
Unquoted Stocks	27	1,676,393,760	1,672,681,264
Undeveloped investment property	28	10,478,128,051	10,215,428,051
Developed investment property	29	21,284,795,787	20,777,695,787
Assets under construction	30	6,203,801,502	5,550,052,554
Property, plant and equipment	31	451,619,842	364,399,241
Total Assets		224,024,782,277	198,537,050,527
LIABILITIES			
Payables and accruals	32	(2,295,147,790)	(1,962,580,424)
NET ASSETS		221,729,634,489	196,574,470,103
REPRESENTED BY:			
FUND BALANCE		221,729,634,489	196,574,470,103

The financial statements on pages 53 to 98 were approved and authorised by the Board of Trustees on 26 September 2018. Signed on their behalf by:



CPA Evans Moturi

AG. MANAGER, FINANCE

ICPAK 5964

22/07/2019

Date

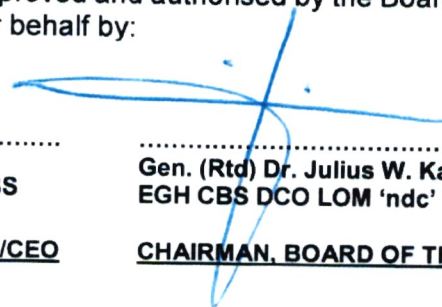


Dr. Anthony Omerikwa, MBS

AG. MANAGING TRUSTEE/CEO

22/07/2019

Date



Gen. (Rtd) Dr. Julius W. Karangi,
EGH CBS DCO LOM 'ndc' 'psc' (K)

CHAIRMAN, BOARD OF TRUSTEES

22/07/2019

Date

XIII. STATEMENT OF CHANGES IN ACCUMULATED MEMBERS' FUNDS
As at 30 June 2018

	Members' Funds Kes	Accumulated Reserves Kes	Total Kes
Balance as at 30 June 2015	151,018,599,000	14,562,164,000	165,580,763,000
Prior Year Adjustments	52,371	1,233,244,000	1,233,296,371
Net Increase/(Decrease) in Surplus	-	5,272,289,685	5,272,289,685
Balance as at 30 June 2016	151,018,651,371	21,067,697,685	172,086,349,056
Prior Year Adjustments	591,602,152	-	591,602,152
Net Increase/(Decrease) in Surplus	-	23,896,518,895	23,896,518,895
Balance as at 30 June 2017	151,610,253,523	44,964,216,580	196,574,470,103
Correction of Erroneous of Previous Year's Contribution Accrual	(591,602,152)	-	(591,602,152)
Net Increase/(Decrease) in Surplus		25,746,766,538	25,746,766,538
Balance as at 30 June 2018	151,018,651,371	70,710,983,118	221,729,634,489

XIV. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 Kes	2017 Kes
CASH FLOWS FROM OPERATING ACTIVITIES			
Net increase in assets		25,746,766,538	23,896,518,895
Adjustments:			
Depreciation on property, plant and equipment	31	129,083,923	212,566,420
Amortisation of intangible assets	31	-	173,705,388
Increase/(decrease) in provisions	15	(784,368,451)	294,456,021
Fair value gain/(loss) on revaluation	10	(2,864,581,640)	(5,982,386,547)
Operating surplus/(deficit) before working capital changes		22,226,900,369	18,594,860,177
Changes in Working Capital:			
Decrease/(increase) in inventories	22	(15,510,841)	(12,380,347)
Decrease/(increase) in debtors & prepayments	23	236,833,822	(253,736,779)
Decrease/(increase) in accrued income	21	(2,539,379,304)	884,053,305
increase/(decrease) in payables and accruals	32	(332,567,366)	1,115,613,788
		(2,650,623,689)	1,733,549,968
Net cash flows generated from operating activities		19,576,276,680	20,328,410,145
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase/sale of equities	26	(9,928,022,543)	(2,031,543,860)
Purchase/sale or redemption of treasury bonds	19	(15,921,917,858)	(8,564,449,136)
Purchase/sale or redemption of treasury bills	18	(52,811,204)	(4,516,370,366)
Purchase/sale or redemption of corporate bills	20	1,548,855,500	(605,644,500)
Placement of deposits with financial institutions	17	5,868,630,272	(3,412,517,953)
Development of land and buildings	30	(653,748,948)	(689,418,832)
Receipts from TPS scheme	24	977,310,640	(599,177,530)
Purchase/sale of property, plant and equipment	31	(216,303,824)	(171,056,103)
Net cash flows from investing activities		(18,378,007,965)	(20,590,178,280)
Net increase/(decrease) in cash and cash equivalents		1,198,268,715	(261,768,137)
Cash and cash equivalents as at 1 July		72,797,873	334,566,010
Cash and cash equivalents as at 30 June		1,271,066,588	72,797,873

XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2018

	Original budget		Adjustments		Final budget		Actual on comparable		Performance difference	%
	2017-2018	2018	2017-2018	2018	2017-2018	2018	2017-2018	2018		
	Kes		Kes		Kes		Kes		Kes	
Revenue:										
Contribution	17,014,452,000	-	-	-	17,014,452,000	-	14,044,262,078	(2,970,189,922)	(17)	
Benefits	(4,605,000,000)	-	-	-	(4,605,000,000)	-	(3,788,852,985)	816,147,015	(18)	
Net Dealings	12,409,452,000	-	-	-	12,409,452,000	-	10,255,409,092	(2,154,042,908)	(17)	
Dividend income	2,700,000,000	-	-	-	2,700,000,000	-	2,951,441,870	251,441,870	9	
Interest income	9,200,000,000	-	-	-	9,200,000,000	-	12,790,911,201	3,590,911,201	39	
Rent income	1,048,235,000	-	-	-	1,048,235,000	-	1,188,297,308	140,062,308	13	
TPS interest income	1,000,000,000	-	-	-	1,000,000,000	-	685,523,219	(314,476,781)	(31)	
Other investment income	30,000,000	-	-	-	30,000,000	-	43,302,727	13,302,727	44	
Unrealised gain on investments	1,348,855,000	-	-	-	1,348,855,000	-	2,864,581,640	1,515,726,640	112	
Realised gain on investments	650,000,000	-	-	-	650,000,000	-	470,912,230	(179,087,770)	(28)	
Other income	27,400,000	-	-	-	27,400,000	-	66,435,127	39,035,127	142	
Total Income	28,413,942,000	-	-	-	28,413,942,000	-	31,316,814,415	2,902,872,415	10	
Expenses:										
Management investment expense	480,000,000	-	-	-	480,000,000	-	396,336,810	83,663,190	17	
Compensation of employees	4,096,459,000	-	-	-	4,096,459,000	-	3,818,034,559	278,424,441	7	
Trustee' Emoluments	50,000,000	-	-	-	50,000,000	-	26,640,928	23,359,072	47	
Travelling Costs	155,000,000	-	-	-	155,000,000	-	154,483,515	516,485	0	
Transport Costs	89,145,000	-	-	-	89,145,000	-	39,700,654	49,444,346	55	
Rent Expense	273,085,000	(15,000,000)	-	-	258,085,000	-	257,186,229	898,771	0	
Printing, Stationery and Photocopying	55,515,000	-	-	-	55,515,000	-	51,079,599	4,435,401	8	

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Postage, Telephone and Internet Expenses	30,385,000	37,500,000	67,885,000	67,660,080	224,920	0
Electricity, Water, Security and Conservancy	89,860,000	-	89,860,000	71,513,081	18,346,919	20
Training Expenses	130,200,000	-	130,200,000	97,117,252	33,082,748	25
Repairs and Maintenance	86,140,000	8,000,000	94,140,000	93,260,648	879,352	1
Hospitality Material and services	8,250,000	-	8,250,000	1,441,165	6,808,835	83
Consultancy and Professional Expense	50,000,000	-	50,000,000	14,987,645	35,012,355	70
Legal Expense	100,000,000	(35,000,000)	65,000,000	17,141,162	47,858,838	74
Audit Fees	8,000,000	-	8,000,000	7,400,000	600,000	8
SS Policy Development	100,000,000	(86,000,000)	14,000,000	2,250,982	11,749,018	84
General Insurance	71,500,000	-	71,500,000	30,813,782	40,686,218	57
Advertising and Publicity	130,200,000	(90,000,000)	40,200,000	33,954,014	6,245,986	16
Corporate Social Responsibility	32,500,000	-	32,500,000	29,130,565	3,369,435	10
Finance Expense	10,000,000	7,000,000	17,000,000	15,245,006	1,754,994	10
Project Claims	300,000,000	(1,000,000)	299,000,000	28,655,370	270,344,630	90
Rationalization Expense	41,500,000	-	41,500,000	-	41,500,000	100
Other Administrative Expense	17,106,000	170,000,000	187,106,000	178,916,530	8,189,470	4
Depreciation	126,015,000	4,500,000	130,515,000	129,083,923	1,431,077	1
Provision	300,000,000	-	300,000,000	8,014,377	291,985,623	97
Total Expenditure	6,830,860,000	-	6,830,860,000	5,570,047,877	1,260,812,123	18
Surplus for the period	21,583,082,000	-	21,583,082,000	25,746,766,538	(4,163,684,538)	(19)

Notes to the statement of budget

1) Contributions receivable

Contributions collected fell short of budget by Kes. 2.9 billion. This was caused by inability of the Fund to fully implement the new rates of contributions as per the NSSF Act no. 45 of 2013 due to numerous court cases which have led to suspension of the new rates.

2) Benefits Payable

The shortfall on benefits payable of Kes. 816 million was caused by eligible members who expected to lodge claims for their benefits but failed to apply within the financial year.

3) Tenant purchase Schemes

Tenant purchase schemes recorded a negative variance of Kes. 314.00 million due to early redemption of loans.

4) Investment Income

During budgeting the political environment was unstable and unpredictable. As a result the budgeted figures were fairly pessimistic. However during the year the economy defied the previous economic trends which occur during electioneering and performed better against all expectations and outperformed expectations in the market.

5) Realized gain on sale of Investment

Due to the anticipated turbulence in the equity market, The Fund managers withheld trading for fear of crystallizing losses. This explains the under performance

6) Unrealized gain on sale of investment

During budgeting the political environment was unstable and unpredictable. As a result the budgeted figures were fairly pessimistic. However during the year the economy defied the previous economic trends during electioneering and performed better against all expectations e.g Safaricom shares outperformed expectations in the market.

7) Other Income

Miscellaneous income was boosted by miscellaneous interest earned on credit balances in our current bank accounts.

8) Staff Costs

Budget under absorption was attributed to delayed recruitment of top management positions held in acting capacity which was factored in the budget under basic pay. Gratuity which was provided for in the budget was not paid.

9) General Administrative Costs

Budget under absorption is attributed to low absorption of budget in Legal, Marketing, Software Maintenance and Consultancy expenses. Legal expenses were low due to reduced legal claims attributable to slow resolution of projects cases and related activities. Software expenses under absorption was due to revised costs of various software licenses downwards. Consultancy costs were low due to postponement of some consultancy services.

10) Investment management expenses

The Fund anticipated a higher growth in assets during budgeting. The fee is based on the asset value and since the Fund did not achieve its targeted value, this resulted in lower cost to the Fund than budgeted.

11) Provisions

The Fund provided for contingencies arising out of legal claims amounting to Kes. 400 million to cater for project claims on various stalled projects and court cases which did not crystalize during the year

XVI. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

1. GENERAL INFORMATION

NSSF is established by and derives its authority and accountability from the NSSF Act No. 45 of 2013. NSSF is domiciled in Kenya and its principal activity is provision of social security to all workers in Kenya.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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 Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed where applicable.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Fund.

The financial statements have been prepared in accordance with the Public Finance Management Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented. The principal accounting policies adopted are set out below: Adoption of new and revised International Financial Reporting Standards (IFRSs) and International Financial Reporting interpretations Committee (IFRIC), The National Treasury guidelines and the Code of Conduct for State Corporations (Mwongozo, 2015), Retirement Benefits Authority Act 1997 and the Retirement Benefits Authority Regulations 2000, both as amended and Income Tax (NSSF Exemption) Rules 2002.

3. ADOPTION OF NEW AND REVISED STANDARDS

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Standard/Amendment to a Standard	Effective Date	Impact
IFRS 14 Regulatory Deferral Accounts (issued in January 2014)	1 st Jan 2016	The new standard, effective for annual accounting periods beginning on or after 1 January 2016, defines a regulatory deferral account balance and allows entities to continue to apply their existing policy for regulatory deferral account balances, but requires certain disclosures. No major impact expected.
Amendments to IFRS 11 titled Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)	1 st Jan 2016	The amendments, require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3) to apply all of the business combinations accounting principles and disclosure in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured). No major impact is anticipated as the Fund does not currently have any joint ventures.
Amendments to IAS 16 and IAS 38 titled Clarification of Acceptable Methods of Depreciation and Amortization (issued in May 2014)	1 st Jan 2016	The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances. No impact to the Fund is expected, as the Funds

			policy has been to use useful life and not revenue streams for depreciation estimation.
Amendments to IAS 27 titled Equity Method in Separate Financial Statements (issued in August 2014)	1 st Jan 2016		The amendments reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. This standard will impact on the way the Fund accounts for its investment.
Amendment to IAS 19 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014)	1 st Jan 2016	Jan	The amendment, clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. The post-employment contributions are transferred to an autonomous Defined contributions staff pension scheme. The employers obligations end there hence there will be no impact.
Amendment to IFRS 5 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014)	1 st Jan 2016		The amendment adds specific guidance when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners, or vice versa, and for cases where held-for-distribution accounting is discontinued. No impact is expected from this change.
Amendment to IFRS 7 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014)	1 st Jan 2016		The amendment, applicable to annual periods beginning on or after 1 January 2016, adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset. No impact is expected from this change.
Amendments to IFRS 10, IFRS 12 and IAS 28 titled Investment Entities: Applying the Consolidation Exception (issued in December 2014)	1 st Jan 2016		The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. This will affect the way the Fund accounts for its investment in National Bank of Kenya.
Amendments to IAS 1 titled Disclosure Initiative (issued in December 2014)	1 st Jan 2016		The amendments, clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. No major change expected in the presentation of the financial statements.

Disclosure Initiative (Amendments to IAS 7: Statement of Cash flows)	1 st Jan 2017	The amendments' objective is that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. To achieve this objective, The International Accounting Standards Board (IASB) requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. There will be no material impact by applying this standard.
Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12 Disclosure of interests in other entities	1 st Jan 2017	Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The standard will not have any material impact since most investment assets are currently held at fair market value.

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

Standard	Effective Date	Impact
IFRS 15 Revenue from Contracts with Customers (issued in May 2014)	1 Jan 2018	The new standard, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance. There will be no major impact as most of the Fund's revenue is generated from contributions and investment income.
IFRS 9 Financial Instruments (issued in July 2014)	1 Jan 2018	This standard will replace IAS 39 (and all the previous versions of IFRS 9). It contains requirements for the classification and measurement of financial assets and financial

		<p>liabilities, impairment, hedge accounting and de-recognition:</p> <ul style="list-style-type: none"> • IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics. • For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch • For the impairment of financial assets, IFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised. • For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and nonfinancial risk exposures. • The de-recognition provisions are carried over almost unchanged from IAS 39. • The above changes will affect the measurement of investment income as this forms the bulk of the Fund’s assets and income
<p>IFRS 16: Leases (issued in January 2016)</p>	<p>1 Jan 2019</p>	<p>The new standard introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. This will affect reporting for long-term rental leases.</p>

The Trustees do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above,

they do not expect that there will be a significant impact on the Fund's financial statements.

Early adoption of standards

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

a. Revenue Recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Fund and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the Fund's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Fund's activities as described below.

i. Contributions from employers / employees

Contributions due from members are accounted for on accrual basis in the year.

ii. Benefit payments to members

Benefit payments to members are accounted for on accrual basis in the year due. Interest payable on members accumulated contributions (standard contributions plus interest) is accrued annually in accordance with section 19(2) and (3) of the National Social Security Fund Act No. 45, 2013.

iii. Dividend Income

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

iv. Interest Earned on Deposits with Financial Institutions (Finance Income)

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

v. Interest / Discounts on Treasury Bills and Treasury Bonds

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

vi. Coupon Interest on Government Securities

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

vii. Rental Income

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

viii. Other Income (Miscellaneous Income)

This is recognised as it accrues.

ix. Tenant Purchase Scheme and loan Advances

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

b. Property, Plant and Equipment (PPE)

i. Recognition and measurement

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

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

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

ii. Depreciation and impairment of property, plant and equipment Investment

Investment assets and capital work in progress are not depreciated. Asset under construction relates mainly to the cost of ongoing but incomplete works on building and ICT projects. Depreciation is recognised in the income statement on a straight-line basis to write down the cost of each asset or the revalued amount to its residual value over its estimated useful life.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Depreciation charge is recognised on prorata basis.

iii. Subsequent costs

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

iv. Intangible assets

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

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

v. Finance and operating leases

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

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

c. Investments

i. Quoted Equities

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

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

ii. Unquoted Equities

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

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

d. Investments Property (Land, Buildings and Plots)

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

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

e. Inventories

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

f. Trade and other Receivables

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

g. Taxation

Current Income Tax

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

Deferred tax

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

h. Cash and Cash Equivalents

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

i. Borrowings

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

j. Impairment and un-collectability of Financial Assets

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

k. Trade and other payables

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

l. Valuation of Assets

Valuation of Investments in land and buildings, and undeveloped land was done during the year by professional valuers and a report issued based on balances as at 30 June 2016. The professional valuers were Ms Crystal Valuers, Ebony and Value zone. The valuations were carried out in September 2018.

m. Retirement Benefits Obligations

Full time Fund employees are eligible for retirement benefits under a defined contribution plan. Contributions to the defined contributions plan are expensed through the statement of changes in net assets, as they are incurred. Any difference between the amount expensed and the annual contributions recorded to the statement of changes in net assets and the annual contributions paid is recorded in the Statement of Net Assets under other liabilities/assets.

The staff retirement pension scheme is administered independently by Eagle Africa. The rates of contributions are 8% staff and 16 % Employer.

The Fund staff also contribute to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme administered as per The National

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Social Security Act No. 45 of 2013. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at 16% of basic salary per employee per month.

n. Actuarial Valuation 30 June 2017

An actuarial valuation was carried out by Alexander Forbes Limited in 2017 and a report issued on balances as at 30 June 2017. The valuation was done on an attained Age method. The actuarial report indicates that the value of liabilities of the scheme as at 30 June 2017 was Kes. 155.75 billion compared to the value of assets amounting to Kes. 171.17 billion (Financial statements) giving rise to a surplus of Kes.15.41 billion resulting to a Funding level of 109.9%.

The valuation for the financial year ended 30 June 2018 will be undertaken by Zamara (formally) Alexander Forbes Financial Services.

o. Provision for Staff Leave Pay

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

p. Exchange Rate differences

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

q. Budget information

The original budget for FY 2017-2018 was approved by the Board of Trustees on 27 January 2017 and by The National Treasury on 25 June 2018. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Fund upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Fund recorded reallocation of Funds in the month of May 2018 on the 2017-2018 budget following the governing body's approval.

The Fund's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

r. Comparative Figures

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

s. Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the Financial Statements for the year ended 30 June 2018.

5. SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION OF UNCERTAINTIES

The preparation of the Fund's financial statements in conformity with IFRS 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.

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

i. 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 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.

ii. 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 assets
- Changes in the market in relation to the asset

NOTES TO THE FINANCIAL STATEMENTS (Continued)

iii. 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 15**.

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.

6. Contributions	2018	2017
	Kes	Kes
Pension Contribution	13,104,130,590	12,509,466,439
Old provident	118,462,249	160,262,714
New Provident	452,575,584	425,384,026
Fines and penalties	354,396,177	386,288,368
Contribution before adjustments	14,029,564,600	13,481,401,546
Adjustment for accruals:		
Add: Accruals at end of the year	671,784,216	657,086,739
Less: Accruals at start of the year	(657,086,739)	(591,602,152)
Net contributions reported for the year	14,044,262,078	13,546,886,133

Contributions of Kes 14.044 billion were collected in the year compared to Kes 13.547 billion in the previous year. This performance is higher by Kes 0.49 billion. The slow growth is mainly due to lower rate of contributions as tier 1 rates have not fully taken effect because of the court cases that bar full implementation of NSSF Act 2013.

7. Benefits		
Age benefit	2,353,552,354	2,164,213,691
Survivors benefit	337,113,129	359,918,867
Invalidity benefit	14,810,600	11,987,705
Withdrawal benefit	1,063,640,727	1,104,397,380
Emigration benefit	16,446,176	16,907,663
Funeral grant	3,290,000	3,600,000
Total benefits paid in the year	3,788,852,985	3,661,025,306

There was an overall increase of 3.5% compared to same period last year. The benefits paid depends on the qualifying applications received and processed. A detailed breakdown of the benefits paid in the year is shown in the schedule above

8. Investment income		
Interest Income (note 34)	12,790,911,201	9,243,599,126
Rent income (note 33)	1,188,297,308	1,169,509,330
Dividend Income (note 37)	2,951,441,870	3,010,157,102
Interest on TPS loans	685,523,219	822,989,025
Other investment income	43,302,727	42,128,382
Total investment income	17,659,476,325	14,288,382,965

NOTES TO THE FINANCIAL STATEMENTS (Continued)

- a. **Dividend income** recorded an 18% negative variance compared to the same period last year.
- b. **Rental income** recorded a 1.0% positive variance in performance compared to last year.
- c. **Interest and discounts** recorded a favorable variance of 28% increase compared to same period last year. This is due to tactical decisions by management to invest in counters with better returns.
- d. **Interest from TPS** recorded a negative variance of 20% compared to last year. This is due to early redemption of loans.
- e. **Other Investment Income.** This amount includes agency commissions and credit interest earned on investment transactions.

9. Investment management expense	2018	2017
Fund managers' fees	268,223,207	181,518,979
Custodian fees	57,686,088	50,568,964
Actuarial & investment management fees	30,089,075	31,514,369
Land rent & rates	26,538,440	41,355,577
Asset valuation expense	13,800,000	21,894,677
Total investment management expense	396,336,810	326,852,566

There was a 22% increment in investment management expense; this is due to the increased volume of activity during the year.

10. Fair value gain on revaluation		
Corporate bonds	3,952,099	154,624,691
Treasury bonds	953,908,728	2,849,407,961
Quoted equities	1,136,920,814	1,639,553,895
Undeveloped investment property	262,700,000	398,800,000
Developed investment property	507,100,000	940,000,000
Total gain of revaluations of investments	2,864,581,640	5,982,386,547

Net increase in market value of investment assets amounted to Kes 2.865 billion.

This overall good performance is mainly due to tactical investments by the Fund through the appointed Fund Managers.

11. Gain on realization of investments		
Corporate bonds	(30,199,613)	551,946
Treasury bonds	358,158,369	185,812,271
Quoted equities	142,953,473	144,705,826
Total gain on realization of investments	470,912,230	331,070,043

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. Other income	2018	2017
	Kes	Kes
Profit on sale of Property, Plant & Equipment	-	17,856,000
Sale of Tender forms	20,286,118	72,502,786
Interest on staff loans	27,392,424	35,825,915
Fines and penalties	7,033,854	7,151,829
Other miscellaneous receipts	912,847	1,766,797
Reduction in provision for leave pay expense	10,809,884	-
Total Other income	66,435,127	135,103,327

13. Staff cost		
Salaries and Allowances	3,142,382,905	3,203,475,461
Pension and Gratuity	362,021,870	345,742,387
Medical Expenses	252,663,176	258,752,207
Staff Welfare	33,227,860	37,802,503
Insurance	27,738,749	37,762,061
Total Staff cost	3,818,034,559	3,883,534,618

Staff expenses recorded a decrease of 2% compared to last year as a result of cost rationalisation strategies put in place.

14. General administrative cost		
Trustee' Emoluments	26,640,928	48,982,233
Travelling Costs	154,483,515	187,777,128
Transport Costs	39,700,654	42,592,429
Rent Expense	257,186,229	239,803,056
Printing, Stationery and Photocopying	51,079,599	42,987,336
Postage, Telephone and Internet Expenses	67,660,080	65,317,199
Electricity, Water, Security and Conservancy	71,513,081	49,884,397
Training Expenses	97,117,252	68,565,493
Repairs and Maintenance	93,260,648	122,968,510
Hospitality Material and services	1,441,165	1,040,414
Consultancy and Professional Expense	14,987,645	39,384,632
Legal Expense	17,141,162	31,339,656
Audit Fees	7,400,000	6,000,000
SS Policy Development	2,250,982	62,075,098
General Insurance	30,813,782	37,487,743
Advertising and Publicity	33,954,014	115,735,441
Corporate Social Responsibility	29,130,565	38,652,952
Finance Expense	15,245,006	25,977,508
Project Claims	28,655,370	-
Rationalization Expense	-	26,365,386
Other Administrative Expense	178,916,530	141,191,779
Depreciation	129,083,923	212,556,466
Amortisation	-	173,705,388
Total administrative expense	1,347,662,132	1,780,390,224

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Kes 1.347 billion was incurred on operating expenses during the year. This cost was lower than what was incurred the same period last year by 24%. The brought forward balance for general and administration expenses was initially overstated by Kes. 9,974 This was an asset that was treated as part of depreciation.

15. Provisions	2018	2017
	Kes	Kes
Corporate bond	-	534,700,000
Interest from Chase bank and Imperial Bank	-	127,956,743
Fixed Deposits	-	70,000,000
Bad and doubtful debts	8,014,377	2,850,666
Total provisions for the year	8,014,377	735,507,409

16. Cash and bank balances		
Cash balances	1,437,181	3,962,716
KCB Bank Kenya Limited	737,343,384	(45,135,881)
National Bank of Kenya	(178,785,165)	(25,717,783)
Standard Chartered Bank	492,478,201	65,772,450
Cooperative Bank	218,592,987	73,916,371
Total cash and bank balances	1,271,066,588	72,797,873

17. Deposits		
Call deposits (17a)	2,628,300,000	4,105,800,000
Fixed deposits (17b)	3,009,277,681	7,400,407,953
Total deposits	5,637,577,681	11,506,207,953

As at 30 June 2018, the Fund held Call Deposits amounting to Kes 2.63 billion from 4.11 billion placed by Fund Managers last year. Fixed deposits stood at Kes 3.01 billion, down from Kes 7.40 billion in the previous year.

17a. Call deposits (held to maturity)		
Commercial Bank of Africa	65,500,000	112,500,000
Stanbic bank	124,500,000	273,000,000
Cooperative bank	81,900,000	518,400,000
Diamond Trust bank	-	91,000,000
Equity bank	24,800,000	457,900,000
KCB Bank Kenya Ltd	100,000,000	360,700,000
I&M bank	-	292,300,000
National bank	2,000,000,000	2,000,000,000
NIC bank	201,600,000	-
HFC bank	30,000,000	
Total call deposits	2,628,300,000	4,105,800,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2018	2017
17b. Fixed deposits (Held to Maturity)	Kes	Kes
Commercial Bank of Kenya	59,971,496	1,582,064,689
Cooperative bank	857,000,000	1,767,938,262
Diamond Trust Bank	450,800,000	1,444,700,000
Equity bank	576,406,185	903,631,578
Housing Finance	100,000,000	600,000,000
Kenya Commercial Bank	502,000,000	365,000,000
NIC bank	438,600,000	434,173,425
Stanbic Bank	24,500,000	302,900,000
Chase bank	70,000,000	70,000,000
Imperial bank	259,500,000	259,500,000
Total fixed deposits	3,338,777,681	7,729,907,953
Less: Provision for doubtful deposits	(329,500,000)	(329,500,000)
Net fixed deposits	3,009,277,681	7,400,407,953

Provision relates to deposits held in Imperial Bank of Kes 259,500,000 and 70,000,000 in Chase Bank. These banks were put under statutory management by Central Bank of Kenya (CBK).

18. Treasury bills (held to maturity)		
Balance at the beginning of the year	7,975,752,827	3,459,382,460
Prior year adjustment	(9,424,387)	-
Additions	11,662,254,980	11,287,699,300
Proceeds on maturity/disposals	(11,609,443,777)	(6,771,328,934)
Balance at the end of the year	8,019,139,643	7,975,752,827

19. Treasury bonds (available for sale)		
Valuation at the beginning of the year	64,149,817,702	52,735,960,605
Additions	37,214,234,946	22,536,700,000
Proceeds from disposal/redemption	(21,292,317,088)	(13,972,250,864)
Add: Fair value gain/(loss)	953,908,728	2,849,407,961
Valuation at end of financial year	81,025,644,288	64,149,817,702

20. Corporate bonds		
Valuation at the beginning of the year	9,889,022,293	9,128,753,101
Additions	469,300,000	889,000,000
Proceeds from disposal / redemption	(2,018,155,500)	(283,355,500)
Add: Fair value gain/(loss)	3,952,099	154,624,691
Total Valuation before provisions	8,344,118,892	9,889,022,293
Less: Provision for doubtful bonds	(666,900,000)	(666,900,000)
Valuation at the end of financial year	7,677,218,892	9,222,122,293

Provision relates to Imperial bank bond. Imperial bank was put under statutory management by Central Bank of Kenya.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2018	2017
	Kes	Kes
21. Accrued income		
Accrued Dividend Income (21 a)	1,153,641,240	451,565,618
Interest (Note 21b)	3,742,240,228	1,904,936,545
Total accrued income	4,895,881,467	2,356,502,164

21a. Accrued dividend income		
Bamburi Cement	87,254,310	341,439,840
Kenya Commercial Bank	375,068,896	-
Jubilee Holdings Limited	3,639,816	310,058
Nairobi Securities Exchange	-	441,450
Nation Media Group	64,307,012	68,825,387
Standard Chartered Bank	5,704,940	5,704,940
UAP Holdings	-	1,806,313
KenolKobil Ltd	9,002,430	-
Safaricom Ltd	576,050,742	-
Stanbic Bank Uganda	-	331,110
Diamond Trust Bank	1,122,225	5,396,097
Kenya Re-insurance Corporation	17,479,119	17,479,119
TPS Eastern Africa Limited	-	678,825
CFC Stanbic Holdings	8,550,604	-
Umeme	1,960,446	6,268,680
Uchumi Supermarket	-	1,095,510
Scangroup	3,500,700	2,883,800
Total accrued dividend income	1,153,641,240	452,661,129
Less: Provision for Doubtful Income	-	(1,095,510)
Net accrued dividend	1,153,641,240	451,565,618

21b. ACCRUED INTEREST INCOME		
Treasury bonds	2,294,276,535	1,428,106,490
Corporate bonds	218,892,797	244,752,880
Treasury bills	390,327,187	189,602,876
Call and Fixed deposits	838,743,709	42,474,299
Total accrued interest income	3,742,240,228	1,904,936,545

22. STORES AND SUPPLIES		
General office stationery	52,088,124	38,991,857
Office and computer accessories	9,036,048	7,430,006
Tools and electrical accessories	908,053	788,921
Safety materials and clothing	83,737	82,653
Hospitality materials	2,187,442	1,499,126
Total Supplies and stores	64,303,404	48,792,563

Stores and supplies represent the value of items of stationery, consumables and other materials held in the stores as at 30 June 2018. A stock take to ascertain the value is carried at the end of every financial year and reconciliation carried out.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. RECEIVABLES AND PREPAYMENTS	2018	2017
	Kes	Kes
Rent debtors	344,234,064	165,209,052
TPS debtors	657,094,747	413,965,923
Sundry debtors (note 23a)	432,110,061	424,974,765
Deposits and advances	988,777,093	1,020,698,133
Prepayments	150,000	150,000
Staff debtors (note 23b)	339,336,349	331,347,755
Contributions debtors (Note 23c)	14,697,477	657,086,739
Tax receivables	923,160,277	922,961,523
	3,699,560,068	3,936,393,890
Less: Provision for bad debts (Note 23d)	(67,129,942)	(59,115,565)
Net debtors and prepayments	3,632,430,126	3,877,278,325

23a SUNDRY DEBTORS

Unpaid Cheques	45,642,332	37,627,955
ECASSA debtors	9,211,610	9,211,610
Mutula Kilonzo	5,015,000	5,015,000
Lloyd Masika Ltd	4,787,000	4,787,000
City Council of Nairobi	2,474,000	2,474,000
Staff pension debtor	4,587,969	4,587,969
Service Charge Debtors (Note 23e)	360,392,149	361,271,230
Total sundry debtors	432,110,061	424,974,764

23b. Staff debtors

Commuted pension	2,645,193	2,645,193
Staff mortgage loans	6,917,601	6,917,601
Other loans	2,938,718	2,426,170
Advances and imprest	20,368,922	17,936,339
Staff Car loans	306,465,915	301,422,453
Total staff debtors	339,336,349	331,347,755

Staff debtor's balances represent various loans, advances and imprest to members of staff outstanding as at 30 June 2018. Staff car loans are advanced at an interest rate of 4% for a maximum of six years. The interest earned in the period has been recognised as other miscellaneous income.

23c. Contribution debtors

Outstanding for less than 30 days	671,784,216	657,086,739
Outstanding for more than 30 days	(657,086,739)	-
	14,697,477	657,086,739

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23d. Provision for bad debts	2018	2017
	Kes	Kes
ECASSA debtors	9,211,610	9,211,610
City Council of Nairobi	2,474,000	2,474,000
Mutula Kilonzo	5,015,000	5,015,000
Lloyd Masika Ltd	4,787,000	4,787,000
Bounces cheques	45,642,332	37,627,955
Total provision	67,129,942	59,115,565

23e. Service charge debtors		
Opening	361,271,230	277,275,543
Increase during the year	-	83,995,687
Decrease during the year	(386,216)	-
Prior year adjustment	(492,865)	
Total service charge debtors	360,392,149	361,271,230

24. Tenant Purchase Scheme Loans		
TPS Loans-held by NSSF Employees	1,154,449,718	1,298,562,287
TPS Loans-held by Public	4,237,114,220	5,070,312,291
Total TPS loan asset	5,391,563,938	6,368,874,578

25. Long-term Deposits		
KCB (Mortgage Security deposit and Revolving Funds)	73,643,862	70,923,381
Housing Finance	491,629,852	428,210,804
National Bank of Kenya	357,389,506	307,389,506
Total long term deposits	922,663,220	806,523,691

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

26. Quoted Equities(Note 37)	2018	2017
	Kes	Kes
Balance at beginning of the year	53,572,123,661	49,901,025,906
Purchases	12,362,740,635	2,615,521,952
Bonus Shares	755,487,070	-
Sales	(2,434,715,786)	(583,978,092)
Less: Fair Value gain/(loss) on valuation	1,136,920,814	1,639,553,895
Balance at end of the year	65,392,554,087	53,572,123,661

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. Unquoted Equities	No. of units		
Consolidated Bank Ltd			
i. 4% Kes. 20 Cumulative preference shares	8,050,000	86,694,264	86,694,264
ii. Kes. 20 Ordinary shares	2,225,000	161,000,000	161,000,000
UAP Holdings Ltd		249,987,000	249,987,000
Fanisi Fund II	35,910.26	3,712,496	-
National Bank N/Cum preference shares	235,000,000	1,175,000,000	1,175,000,000
		1,676,393,760	1,672,681,264
28. Undeveloped Property			
Opening balance		10,375,428,051	9,976,628,051
Gain/(loss) on revaluation		262,700,000	398,800,000
		10,638,128,051	10,375,428,051
Less: Provision		(160,000,000)	(160,000,000)
Net valuation of undeveloped property		10,478,128,051	10,215,428,051
29. Developed Property			
Opening balance		20,777,695,787	19,908,755,787
Disposal Proceeds		-	(71,060,000)
Gain/(loss) on revaluation		507,100,000	940,000,000
Net valuation of developed property		21,284,795,787	20,777,695,787
30. Assets Under Construction			
Mavoko Project		1,805,621	1,805,621
Tassia Scheme		37,295,209	37,295,209
Parking Silo		764,813,945	764,812,886
Hazina Trade Centre		2,039,836,328	1,887,744,544
Kitisuru Roads		36,432,620	36,432,620
Milimani Flats		2,564,664,264	2,151,534,571
Field Office Refurbishment		91,090,759	71,274,299
SPSS Software		1,878,520	1,878,520
Nyayo Embakasi		276,651,628	253,693,803
SSH Mombasa Refurbishment		53,456,538	44,574,874
SSH Block C Refurbishment		75,824,042	75,824,042
SSPAS Reimplementation		149,897,557	149,897,557
Hazina Estate South B		3,685,200	1,792,800
Electronic Shelves		57,308,640	57,308,640
Viewpark Towers Roof Repairs		15,697,661	10,668,107
Hazina Towers Repairs		21,921,425	3,514,460
Bamburi Plot		197,000	-
Mavoko Plot		11,344,545	-
Total assets under construction		6,203,801,502	5,550,052,554

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31. PROPERTY PLANT & EQUIPMENT MOVEMENT SCHEDULE 2017-2018 FY

	Motor Vehicle		ICT		Furniture		Equipment		Fittings		Software		Total	
	Kes		Kes		Kes		Kes		Kes		Kes		Kes	
Cost/Valuation														
Opening carrying value	487,938,487		1,258,011,565		265,880,120		313,040,424		46,374,640		568,490,361		2,939,735,597	
Additions During the year	51,517,860		91,983,620		25,365,539		46,467,563		969,242		-		216,303,824	
Disposal	-		-		-		-		-		-		-	
Reclassification to Low asset value	-		-		-		-		-		-		-	
As at 30th June 2018	539,456,347		1,349,995,185		291,245,659		359,507,988		47,343,882		568,490,361		3,156,039,421	
Depreciation														
Opening Cumulated depreciation	334,569,013		1,202,521,917		172,890,161		254,647,859		42,216,946		568,490,361		2,575,336,257	
Disposal	-		-		-		-		-		-		-	
Charge for the year	55,054,515		40,196,721		17,128,929		14,983,283		1,719,475		-		129,083,923	
TOTAL (30th June 2018)	389,624,528		1,242,718,637		190,019,090		269,631,142		43,936,421		568,490,361		2,704,419,579	
NBV As at 30 June 2017	153,369,474		55,489,649		92,989,959		58,392,566		4,157,694		-		364,399,241	
NBV As at 30 June 2018	149,831,819		107,276,548		101,226,569		89,876,846		3,407,460		-		451,619,242	

The brought forward balance for general and administration expenses was initially overstated by Kes. 9,974 This was an asset that was treated as part of depreciation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. PAYABLES AND ACCRUALS	2018	2017
	Kes	Kes
Payables due to Vendors	392,943,345	459,239,919
House Purchase deposits	745,477,656	548,455,705
Tassia infrastructure deposits	464,931,585	343,807,935
Sundry creditors and accruals (note 32 a)	348,464,386	256,616,291
Statutory deductions	34,512,649	34,213,844
Returned benefits	272,128,053	272,746,731
Provisions for leave pay and gratuity (note 32 b)	36,690,116	47,500,000
Total payables and accruals	2,295,147,790	1,962,580,425

32a. Analysis of Sundry Creditors and Accruals		
Tax Payable	72,587,260	62,452,954
Plot Sale Deposit & Infrastructure	10,341,600	10,341,600
Rental Deposits	177,612,076	144,894,937
Provision for Audit Fees	7,400,000	6,000,000
Prepaid Rent	77,029,313	32,924,280
Accruals	2,520	2,520
TPS Sundry Creditors	3,491,617	-
Total sundry creditors and accruals	348,464,386	256,616,291

32b. Provision for leave pay and gratuity		
Balance at beginning of year	47,500,000	47,500,000
Reduction in provision during the year	(10,809,884)	-
Net provision for leave pay and gratuity	36,690,116	47,500,000

33. Rent Income		
SSH Nairobi Complex	549,618,712	522,648,458
SSH Mombasa	81,238,411	82,607,232
Bruce House	167,913,626	167,262,642
Viewpark Towers	151,168,806	154,715,624
Hazina Towers	71,639,548	72,376,459
Hazina Trade Centre	122,886,053	126,960,000
Hazina Shopping Complex	11,618,152	12,003,320
Kenyatta Avenue Plot	32,214,000	30,935,595
Total rent income	1,188,297,308	1,169,509,330

34. Interest Income		
Treasury Bonds	9,421,866,527	6,808,893,895
Corporate Bonds	1,149,755,233	830,892,835
Treasury Bills	952,280,535	688,183,928
Deposits	1,267,008,907	915,628,468
Total interest income	12,790,911,201	9,243,599,126

NOTES TO THE FINANCIAL STATEMENTS (Continued)

35. Dividend income	2018	2017
	Kes	Kes
Bamburi Cement Ltd Ord 5.00	231,080,910	682,879,680
Barclays Bank of Kenya Ltd Ord 0.50	159,865,725	160,642,197
British American Tobacco Kenya Ltd Ord 10.00	86,405,486	139,142,448
CFC Stanbic of Kenya Holdings Ltd ord.5.00	13,803,918	22,063,918
East African Breweries Ltd Ord 2.00	193,771,680	186,401,130
Equity Bank Ltd Ord 0.50	216,969,654	176,848,854
Housing Finance Co. Kenya Ltd Ord 5.00	9,096,385	14,622,409
I&M Holdings Ltd Ord 1.00	3,365,600	3,365,600
KenolKobil Ltd Ord 0.05	12,899,970	5,692,455
Kenya Commercial Bank Ltd Ord 1.00	550,872,744	743,196,910
Kenya Power & Lighting Co Ltd Ord 2.50	48,676,373	30,849,819
Kenya Power & Lighting Ltd 4% Pref 20.00	1,420	-
Kenya Power & Lighting Ltd 7% Pref 20.00	525	-
NIC Bank Ltd Ord 5.00	13,298,223	19,193,329
Safaricom Ltd Ord 0.05	950,797,490	453,921,340
The Co-operative Bank of Kenya Ltd Ord 1.00	110,115,167	43,695,773
British-American Investments Co.(K) Ltd Ord 0.10	80,697,472	34,872,902
Diamond Trust Bank Kenya Ltd Ord 4.00	17,022,902	13,808,005
Jubilee Holdings Ltd Ord 5.00	3,767,427	501,399
Kenya Re Insurance Corporation Ltd Ord 2.50	17,479,119	17,479,119
Nairobi Securities Exchange	-	585,450
Nation Media Group Ltd Ord. 2.50	85,788,932	93,471,887
Centum Investment Co Ltd Ord 0.50	8,419,560	6,291,718
Scangroup Ltd Ord 1.00	3,500,700	4,339,100
Stanbic Bank Uganda	-	561,743
Standard Chartered Bank Kenya Ltd Ord 5.00	106,722,343	124,414,550
UAP Holdings	-	1,806,313
Stanlib Fahari I-REIT	25,061,700	17,444,500
TPS Eastern Africa Limited	-	678,825
Umeme Ltd	1,960,446	11,385,732
Total dividend income	2,951,441,870	3,010,157,102

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36. Corporate bonds	2018	2017
	Kes	Kes
ABC Bank -Fixed medium term note	100,000,000	100,000,000
Centum- Floating Note	-	74,962,500
Centum- Fixed Note	-	229,010,175
EABL-FXD01/2015/3 T1	705,042,983	1,230,949,698
EABL-FXD 02/2017/005	791,975,044	305,062,355
Kengen-Infrastructure bond	172,567,039	285,999,355
Housing Finance-FXD 2010/7yr bond	-	1,015,000,000
Housing Finance-FXD 2012/7yr bond 2nd Tranche	259,354,953	257,288,546
Consolidated bank- FXD(SN)/2012/7Yr	384,874,105	384,871,025
Consolidated bank- FXD(SBN)/2012/7Yr	20,000,000	30,000,000
Shelter Afrique-FXD 1/13/05Yr	53,955,000	163,173,000
I&M-01/13/5.25	384,991,530	385,000,000
Britam-1/2014/5 (TRANCH 1)	313,089,146	308,782,790
UAP-1/2014/5YR	81,135,042	80,873,825
NIC bank-Medium term note	1,008,449,696	1,010,067,506
CIC Insurance Group Ltd-Medium term note	872,069,713	838,993,841
CBA Bank- Fixed mediam term note	1,175,216,478	1,172,415,592
FXDCHASE2015	534,700,000	534,700,000
CNTB.BD.08.06.20/13	105,147,165	105,147,165
Centum-Equity linked bond	156,419,200	156,419,200
CFC Stanbic-Multicurrency medium term note	639,178,286	616,033,799
RealPeople-5YR fixed bullet note	165,375,000	183,693,405
FM -FXD 5.5YR BOND	288,378,515	288,378,515
Imperial Bank- 5.25YR FXD BOND	132,200,000	132,200,000
Total corporate bonds before provisions	8,344,118,892	9,889,022,293
Less: Provision for Doubtful Investments	(666,900,000)	(666,900,000)
Net Corporate bonds	7,677,218,892	9,222,122,293

NOTES TO THE FINANCIAL STATEMENTS (Continued)

37. QUOTED STOCKS

Number of shares at 30.06.2017	Additions	Bonus	Disposals	Number of Shares 30.6.2018	Price	Description	Market value at 30.06.2017 Kes	Additions (Purchases) Kes	Bonus Kes	Disposal Proceeds Kes	Market gain/(loss) Kes	Market value at 30.06.2018 Kes
102,826,246	-	-	5,690,500	97,135,746	6.85	Kenya Power	817,468,656	-	-	46,615,980	(105,472,816)	665,379,860
3,550	-	-	-	3,550	5.00	Ordinary Shares	19,525	-	-	-	(1,775)	17,750
750	-	-	-	750	6.00	Cum Preference Shares	4,500	-	-	-	-	4,500
24,853,524	1,521,200	-	-	26,374,724	218.00	Cum Preference Shares	6,437,062,716	390,266,196	-	-	(1,077,639,080)	5,749,689,832
3,277,336	176,500	-	278,700	3,175,136	600.00	East African Breweries Ltd	2,775,903,592	142,009,808	-	188,184,071	(824,647,728)	1,905,081,600
261,444,655	112,823	-	8,112,823	253,444,655	6.95	British American Tobacco (K) Kengen Company Ltd	2,078,485,023	981,560	-	70,666,992	-	1,761,440,352
56,906,640	1,262,900	-	-	58,169,540	179.00	Bamburi Cement Co. Ltd	10,584,635,040	231,746,060	-	-	247,359,239	10,412,347,660
24,300,000	-	-	-	24,300,000	19.30	E. A. Portland Cement Ltd	747,225,000	-	-	-	(404,033,440)	468,990,000
177,240,067	19,644,282	-	9,349,901	187,534,448	46.25	Kenya Commercial Bank Ltd	6,690,812,529	900,191,140	-	395,709,027	(276,235,000)	8,673,468,220
29,244,817	-	2,598,967	3,255,145	28,588,639	8.50	Housing Finance Group	305,608,338	-	26,119,620	34,014,452	(54,710,072)	243,003,433
4,731,292	-	-	1,892,516	2,838,776	2.70	Sameer Africa Ltd	11,828,230	-	-	4,559,098	395,564	7,664,695
162,802,750	-	-	-	162,802,750	6.20	National Bank of Kenya Ltd	1,448,944,448	-	-	-	(439,567,398)	1,009,377,050
160,628,365	-	-	34,400,657	126,227,708	11.40	Barclays Bank of Kenya Ltd	1,598,252,073	-	-	399,783,981	240,527,780	1,438,995,871
6,220,731	-	-	1,156,713	5,064,018	198.00	Standard Chartered Bank Kenya	1,293,911,632	-	-	240,456,336	(50,779,732)	1,002,675,564
9,176,718	-	-	602,450	8,574,268	90.00	Nation Media Group Ltd	991,064,592	-	-	64,642,365	(154,738,107)	771,684,120
9,612,000	-	-	6,654,500	2,957,500	3.05	Athi River Mining Ltd	197,046,000	-	-	36,665,225	(151,360,400)	9,020,375
21,848,899	-	-	-	21,848,899	16.00	Kenya Re Insurance Corporation Ltd	453,364,654	-	-	-	103,782,270	349,582,384
116,243,005	114,321,200	-	-	230,564,205	14.60	Britam (K) Ltd	1,470,474,013	1,832,147,945	-	2,306	63,617,741	3,366,237,393
349,924,153	185,797,040	-	-	535,721,193	29.50	Safaricom Limited	7,960,774,481	5,323,726,216	-	-	2,519,274,496	15,803,775,194
56,441	398,536	4,134	-	459,111	505.00	Jubilee Holdings	24,834,040	206,828,815	2,087,670	-	(1,899,470)	231,851,055
4,202,651	-	-	2,065,000	2,137,651	91.50	Stanbic Bank	298,388,221	-	-	183,448,660	80,655,506	195,595,067
6,291,700	-	-	1,930,500	5,885,800	37.00	Centum Investment Co. Ltd	261,105,550	62,147,189	-	62,714,103	(17,556,387)	217,774,600
1,939,500	1,524,600	-	1,939,500	5,885,800	-	TPS Eastern Africa Ltd	43,153,875	-	-	72,070,333	19,560,228	-
5,767,600	-	-	3,957,000	1,810,600	15.50	Scangroup Ltd	116,793,900	-	-	-	(16,659,267)	28,064,300
62,419,716	64,029,200	12,483,944	-	138,932,860	17.50	The Cooperative Bank of Kenya	1,058,014,186	1,081,210,633	672,757,065	-	(380,656,834)	2,431,325,050
15,669,223	380,700	1,329,822	2,751,700	14,628,045	35.50	NIC Bank Ltd	524,918,971	13,989,500	54,522,714	99,360,450	25,214,873	519,295,608
90,561,627	36,936,242	-	7,384,200	120,113,669	46.25	Equity Bank Ltd	3,418,701,419	1,634,501,057	-	373,220,403	875,275,119	5,555,257,191
5,310,771	1,236,500	-	-	6,547,271	199.00	Diamond Trust Bank Kenya Ltd	849,723,200	242,322,404	-	-	210,861,325	1,302,906,929
9,840,200	-	-	-	9,840,200	7.82	Ememe Ltd-Uganda	120,984,549	-	-	-	(44,062,111)	76,922,438
17,940,581	1,000,000	-	-	18,940,581	8.40	Ememe Ltd-Kenya	225,154,292	13,219,599	-	-	(79,273,010)	159,100,880
34,889,000	-	-	2,510,500	32,378,500	11.30	Stanlib I-REIT	437,856,950	-	-	30,451,131	(41,528,769)	365,877,050
12,649,900	17,358,200	-	-	30,008,100	18.10	KenolKobil Ltd	177,098,600	287,442,514	-	-	78,605,496	543,146,610
961,600	-	-	-	961,600	115.00	I&M Holdings Ltd	99,044,800	-	-	-	11,539,200	110,584,000
2,140,000	-	-	2,180,000	-	7.09	Nairobi Securities Exchange	36,406,000	-	-	44,231,424	(1,170,025)	8,079,146
1,140,000	-	-	-	1,140,000	0.83	CRDB Bank PLC	9,249,171	-	-	-	527,415	8,338,310
10,000,000	-	-	-	10,000,000	-	Stanlib Uganda	7,810,895	-	-	-	-	-
1,803,106,008	445,699,923	16,416,868	96,112,305	2,169,110,494			53,572,123,661	12,362,740,635	755,487,070	2,434,718,092	1,136,920,814	65,392,554,087

NOTES TO THE FINANCIAL STATEMENTS (Continued)

38. Undeveloped investment property

	Fair value 30.06.2018 Kes'000	Additions Kes'000	Disposal Proceeds Kes'000	Gain/(loss) on disposal Kes'000	Fair value adjustments	Balance 30.06.2017 Kes'000
L.R. 209/12287-Kenyatta Avenue-Nairobi	2,350,000,000	-	-	-	50,000,000	2,300,000,000
L.R. 209/12220-Kenyatta Avenue-Nairobi	225,000,000	-	-	-	5,000,000	220,000,000
L.R. 209/12219-Kenyatta Avenue-Nairobi	205,000,000	-	-	-	5,000,000	200,000,000
L.R. 209/11331-Kenyatta Avenue-Nairobi	300,000,000	-	-	-	10,000,000	290,000,000
L.R. 209/11412-Kenyatta Avenue-Nairobi	875,000,000	-	-	-	20,000,000	855,000,000
L.R. 20694-Mavoko-Sabaki	65,000,000	-	-	-	5,700,000	59,300,000
L.R. 24575-Mavoko Municipality	125,000,000	-	-	-	7,600,000	117,400,000
L.R. 26472-Mavoko Municipality	205,000,000	-	-	-	7,300,000	197,700,000
L.R. 24574-Mavoko Municipality	195,000,000	-	-	-	6,800,000	188,200,000
L.R. 24577-Mavoko Municipality	155,000,000	-	-	-	5,000,000	150,000,000
L.R. 24578-Mavoko Municipality	1,850,000,000	-	-	-	31,800,000	1,818,200,000
L.R. 24579-Mavoko Municipality	520,000,000	-	-	-	10,900,000	509,100,000
L.R. 20355-Mavoko Municipality	505,000,000	-	-	-	11,600,000	493,400,000
L.R. 20305-Mavoko Municipality	540,000,000	-	-	-	10,000,000	530,000,000
L.R. 20589-Makutano Junction Forest Edge	420,000,000	-	-	-	26,000,000	394,000,000
L.R. 209/11642-Upperhill-Nairobi	160,000,000	-	-	-	-	160,000,000
L.R. MSA/MN/2535-Bamburi-Mombasa	115,000,000	-	-	-	-	115,000,000
L.R. MSA/MN/2537-Bamburi-Mombasa	750,000,000	-	-	-	20,000,000	730,000,000
L.R. MSA/MN/2538-Bamburi-Mombasa	90,000,000	-	-	-	5,000,000	85,000,000
L.R. MSA/MN/2539-Bamburi-Mombasa	90,000,000	-	-	-	5,000,000	85,000,000
L.R. MSA/MN/2540-Bamburi-Mombasa	90,000,000	-	-	-	5,000,000	85,000,000
L.R. MSA/MN/982-Mombasa Tassia Estate	630,000,000	-	-	-	10,000,000	620,000,000
Tassia Infrastructure	20,264,784	-	-	-	-	20,264,784
	67,863,267	-	-	-	-	67,863,267
Gross valuation of undeveloped property before provision	10,638,128,051	-	-	-	262,700,000	10,375,428,051
Less: Provision for impairment	(160,000,000)	-	-	-	-	(160,000,000)
Net valuation of undeveloped property	10,478,128,051	-	-	-	262,700,000	10,215,428,051

NOTES TO THE FINANCIAL STATEMENTS (Continued)

39. Developed investment property

	Fair value 30.06.2018 Kes	Additions Kes	Disposal Proceeds Kes	Gain / (loss) on disposal Kes	Fair value adjustments Kes	Balance 30.06.2017 Kes
L.R. 209/13920 -NSSF Complex-Nairobi	8,300,000,000	-	-	-	200,000,000	8,100,000,000
L.R. 209/13920 -NSSF Complex-Nairobi	8,470,000,000	-	-	-	170,000,000	8,300,000,000
L.R. MSA/Block XXV/123 -SSH Mombasa	1,500,000,000	-	-	-	30,000,000	1,470,000,000
L.R. 209/6776 -Bruce House- Nairobi	2,870,000,000	-	-	-	70,000,000	2,800,000,000
L.R. 209/6708 -Hazina Trade Centre-Nairobi	3,185,000,000	-	-	-	85,000,000	3,100,000,000
L.R. 209/8595 -View Park Towers-Nairobi	2,504,000,000	-	-	-	54,000,000	2,450,000,000
L.R. 209/1567 -Hazina Towers-Nairobi	1,537,000,000	-	-	-	37,000,000	1,500,000,000
L.R. Nairobi/block 93/1598 -Hazina Shopping Complex South B	206,400,000	-	-	-	6,400,000	200,000,000
L.R. Nairobi/Block 93/1599 -Hazina School South B	103,500,000	-	-	-	3,500,000	100,000,000
L.R. Nairobi/Block 96/1667 -Hazina Multi-Purpose Hall South B	41,200,000	-	-	-	1,200,000	40,000,000
L.R. MSA/Block XX/328&329-Hazina Plaza- Mombasa	520,000,000	-	-	-	20,000,000	500,000,000
L.R. Kisumu/Mum/Block 8/258-Kisumu Estate-Kisumu	220,000,000	-	-	-	30,000,000	190,000,000
Nyayo Estate Embakasi	127,695,787	-	-	-	-	127,695,787
Total valuation of investment property	21,284,795,787	-	-	-	507,100,000	20,777,695,787

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40. Taxation

According to Section 45 of the First schedule of Income Tax Act Cap 470 effective 18 June 1996, the Fund is exempted from taxation. According to Income Tax (National Social Security Fund (Exemption) Rules 2002, effective 1 July 2002 the Fund should comply with certain regulations for it to remain exempted.

In 2013/2014 financial year (and prior years), an amount of Kes.904, 903,717 had been recognised as a debt. The amount relates to taxes overpaid in years prior to the exemption together with any withholding tax on interest and dividends erroneously paid to KRA. NSSF demanded a refund which was disputed by KRA. The provision of Kes. 904,903,717 Million in 2014/2015 financial year will be recognised as income in the year it will be received from Kenya Revenue Authority.

The composition of KES 904,903,717 is as follows:

Year	Amount(Kes)	Comment
1996	493,257,328	Overpayment based on draft accounts
1997	411,646,389	Overpaid based on the Finance Bill 1996 which was different from Finance Act 1996. KRA is yet to refund in compliance to Section 90 (1)

41. Compliance with retirement benefits act

In compliance with Retirement Benefits Act, NSSF maintains employer contribution clearing accounts where total contributions are posted from employers to the credit of member accounts for benefits payment upon qualification as per the Act. During the year the contributions in transit balance reduced from **Kes.762 Million** as at 30 June 2017 to **Kes.663 Million** as at 30 June 2018.

42. Basis of non-consolidation of interest in associate

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

Had consolidated Financial Statements been prepared based on the latest audited Financial Statements of NBK as at 30 June 2018, NSSF's share in the operations of NBK would have been as follows:

Profit after taxation(48.05%*97,190,000)	42,5699,795	943,994,000
Accumulated Surplus/(Deficit) (48.05%*3,145,589,000)	-	735,415,000
	46,699,795	1,679,409,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

43. RELATED PARTY DISCLOSURES

a. Income Earned From Related Parties	2018	2017
	Kes '000	Kes '000
National Bank of Kenya Limited (NBK)	1,524	1,524
Kenya Commercial Bank – Dividend income	566,260	566,260
East African Portland Cement Company	-	-
NASSEFU Savings and Credit Society Limited – Rental income	6,593	6,593
	574,377	574,377

The related party income includes rent and dividend income earned during the year.

b. Board of Trustees Remuneration and Expenses		
Expenses – Board	26,640	48,982
	26,640	48,982

Employees			
c. Tenant Purchase Staff Loans		1,298,562	1,397,315

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

44. Contingent assets and liabilities

a) Contingent Assets

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

i. Properties in Gazetted Areas

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

New Muthaiga

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

Ngong Road Plot LR. Nos.20840 &20841

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

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

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

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

The Fund initially won the case against Shah Munge & Partners and was awarded Kes.258, 133,333.00. In 2013, the Fund identified 5,250,000 NSE shares valued at 250,000,000.00 belonging to Shah Munge, but another company by the name Southern Bell Ltd went to court claiming ownership of the shares. The company lost the case blocking the Fund from selling the 5,250,000.00 shares for Euro Bank valued at Kes.250, 000,000.00. The Fund sold the shares including a bonus of 17,500,000 shares for Kes. 92,681,284.40, out of which Kes. 23,523,743.30 was retained and paid out as legal fees and other costs.

iii. Rental income

Rental income amounting to Kes.30, 681,000 collected from tenants in Bruce House, Hazina, Viewpark Towers and Nyayo Estate by various property agents had not been remitted to the Fund as at 30 June 2018. Efforts to implement a court decree in favour of the Fund entered by consent vide HCCC No.859 of 1997 have not been successful and on 14th July 2014 the matter was picked by the EACC for investigation. The Fund lawyers are trying to trace the assets of the company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

iv. Discount Securities Ltd

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

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

v. Cash Losses Wetlands Branch Fraud (cash losses)

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

vi. Kenya College of Medicine

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

vii. Contribution Arrears and Penalties as at June 2018

The arrears in contributions and penalties outstanding as at 30th June 2018 stood at Kes. 1,764,512,137 and Kes. 4,585,005,445 respectively. The arrears in contributions is based on estimates made on employer and the outstanding penalty is estimated based on previous late payments. The Fund is involved in recovery efforts through alternative dispute resolution, court action, and Intergovernmental Relations Technical Committee (for cases involving defunct local authorities).

b) Contingent Liabilities

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

(i) Nyayo Estate Embakasi Phase Six

Nyayo Embakasi Residents Association (NERA) instituted legal proceedings in the High Court of Kenya at Nairobi Environment and Land Division ELC NO.1170 of 2014 seeking to stop construction of the project because of environmental concerns. This has resulted in delay in completion of the works and this has led to the expiry of the Bank guarantee and the mobilization fee of Kes.215, 540,774.00 is at risk. The value of work done is thus KES 274.7 million against the payment of KES 227.9 million. This implied that the Fund's exposure is KES 168.7 which will be claimed based on the terms of the contract.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(ii) Nyayo Estate, Embakasi (Mugoya Construction)

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

However, full provision of Kes. 324.36 million was made in the 2008/2009 Financial Statements. To date, the arbitration process is still ongoing.

iv) Construction of Hazina Trade Centre

M/s China Jiangxi International Kenya Ltd was awarded contract No.21/2012-2013 to construct Hazina Trade Centre at a cost of Kes.6, 715,218,188.00. A total of Kes.1, 912,043,004.00 has been paid to date. Nakumatt Ltd, the main Tenant in Hazina Trade Centre, has raised legal concerns and instituted a claim of Kes.1, 630,323,151.00 which has led to delay in project completion.

45. Financial risk management policies

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

a) Significant Accounting Policies

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

b) Financial Risk Factors

The Fund's overall risk management programme seeks to maximize the returns derived from the level of risk to which the Fund is exposed and seeks to minimize potential adverse effects on the Fund's performance. The management of these risks is carried out by the Management and Fund Managers under investment policies approved by the Board of Trustees.

c) Foreign Currency Risk

The Fund does not hold any of its bank balances in foreign currency. The fluctuations in currency exchange rates therefore do not expose the Fund to foreign currency risk. IFRS 7 considers the foreign exposure relating to non-monetary assets and liabilities to be a component of market price risk not foreign currency risk. However, Management monitors the exposure on all foreign currency denominated assets and liabilities.

d) Liquidity Risk Management

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
Liquidity Risk

As at 30 June, 2018	Less than 12 Months Kes'000	Over 12 Months Kes'000	Total Kes'000
Assets:			
Investments at quoted market values	8,019,139,643	154,095,417,267	162,114,556,910
Investments at estimated fair	-	38,869,137,084.43	38,869,137,084
Other assets:			
Inventory	-	64,303,404	64,303,404
Receivables & Prepayments	3,632,430,126	-	3,632,430,126
Taxation	-	-	-
Accrued Income	4,895,881,467	-	4,895,881,467
Long Term Deposits	922,663,220.48	430,232	923,093,452
Short Term Deposits	5,637,577,681	-	5,637,577,681
TPS loans	-	5,391,563,937.80	5,391,563,938
	23,107,692,138	198,420,851,925	221,528,544,064
Liabilities:			
Accounts Payable	(2,295,147,790)		(2,295,147,790)
Total	20,812,544,348	198,420,851,925	219,233,396,274

46. Currency

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

APPENDIX 1
XVII. PROGRESS ON FOLLOW UP OF AUDITORS RECOMMENDATIONS FROM PRIOR YEARS

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.

Ref. No. on the audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Time frame
1	Unremitted members contributions	Regular follow up with employers to clear. Strategies have been put in place for regular follow up and where necessary court cases are being pursued in line with the Act	Manager Registration & Collections	Work in progress	30 th June 2019
2	Members contributions held in suspense account	These are funds in employer accounts yet to be transferred to member accounts. The Fund has adopted zero tolerance to suspense through the SSPAS system and hired interns to facilitate reconciliation of employer/member accounts	Manager Registration & Collections	Work in progress	30 th June 2019
3	Irregular disposal of undeveloped land -Mavoko	The contract has not been terminated since the delay in completing the conveyancing process was caused by a dispute over physical location of the plots involving the Fund and other parties who claimed to have ownership documents to the physical location. The matter is being resolved.	General Manager, Corporate Affairs/company Secretary	Not resolved	30 th June 2018
4	Hazina Plaza Mombasa Lease-LR MSA /BLK XX/328&329	Termination of lease and eviction of the tenant in progress. The Fund is evaluating the best use case for use of property Tenant evicted successfully.	General Manager Finance & Investments	resolved	closed
5	Milimani Plots-Kisumu	The rent paid by staff is nominal as their role is caretaking pending development of the property and due to the dilapidated status of the buildings. Security services on the property have been scaled down due to reduction of the security risk that existed before. Rent from staff being collected	Manager , Property Management	Not resolved	closed
2.0	Previous matters 2014/2015				
2.1	Illegal transfer of NSSF land in Upper Hill Nairobi-LR 209/11642	The matter is being pursued between NSSF and the Chairman of the National Land Commission (NLC) to ensure the title is reinstated	Manager , Property Management	Not resolved	30 th June 2019
2.2	Nyayo Estate Embakasi phase six contract no. 18/2012/2013	NSSF has resolved to terminate the contract for the project. The project consultants have commenced the termination process including recovery of the advance payment of Kes. 215,540,744.22	Manager , Property Development	Not resolved	30 th June 2019
2.3	Stalled construction of Hazina Trade Centre -Nairobi	The State Department of Public Works have been commissioned to offer Project management Services and are awaiting renewal of approvals for completion works to commence.. Project in progress.	Manager , Property Development	Resolved	closed



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