

REPUBLIC OF KENYA

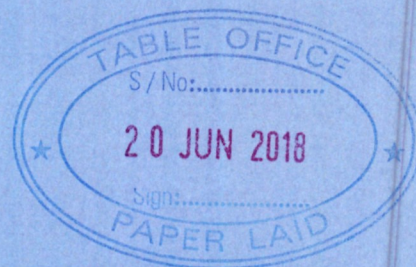


*Paper Laid by the
Hon. Adu Duale
msif
Tuesday 20.6.2018*

OFFICE OF THE AUDITOR-GENERAL

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REPORT



OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
RETIREMENT BENEFITS AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE 2017**



**ANNUAL REPORT & FINANCIAL
STATEMENTS FOR THE YEAR ENDED**

30.06.2017

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

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Key Authority Information and Management

Background Information

Retirement Benefits Authority (RBA) is a regulatory state corporation under the National Treasury, established by section 3 (1) of the Retirement Benefits Act, Cap 197. Section 5 of the Act provides for the objects and functions of the Authority which can be summarised as established for the regulation, supervision and promotion of retirement benefit schemes and development of the retirement benefits sector.

Principal Activities

The principal activities of the authority are to:

- (a) Regulate and supervise the establishment and management of retirement benefits schemes;
- (b) Protect the interests of members and sponsors of retirement benefits sector;
- (c) Promote the development of the retirement benefits sector;
- (d) Advise the Cabinet Secretary National Treasury on the national policy to be followed with regard to the retirement benefits industry and implement all government policies relating thereto.

Key Management

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

1. Board of Directors
2. Chief Executive Officer and
3. Management

Fiduciary Management

The key management personnel who held the financial year ended 30th June 2017 and who had fiduciary responsibility were:

- | | |
|--|-------------------------|
| 1. Chief Executive Officer | Dr. Edward Odundo |
| 2. Ag. Chief Executive officer | Mr. Nzomo Mutuku |
| 3. Chief Manager Finance | Mr. Jesse Kiptim |
| 4. Chief Manager Supervision | Mr. Charles Machira |
| 5. Chief Manager Market Conduct | Mrs. Anne Mugo |
| 6. Chief Corporate Communications | Mrs. Rose Kwena |
| 7. Chief manager human resources | Mr. Gordon Bulinda |
| 8. Chief Manager Research and Strategy | Mr. Shem Auma |
| 9. Corporation Secretary | Mrs. Praxcidis Maisi |
| 10. Manager Internal Audit and Risk | Mrs. Elizabeth waruingi |

Authority's Headquarter

Registered Office

13th Floor, Upper hill Road
Rahimtulla Tower
P.O. Box 57733-00200 Nairobi

Authority Contact

Tel: +254-20-2809000
Fax: +254-20-2710330
Mobile: +254-722-509939
Mobile: +254-735-339132
E-mail: info@rba.go.ke
Website: www.rba.go.ke

Authority Bankers

Kenya Commercial Bank Ltd

Milimani Branch
NSSF Building, Bishops Road
P. O. Box 48400 - 00100
Nairobi

Barclays Bank of Kenya Ltd

Off Waiyaki Way
P. O. Box 30120 - 00100
Nairobi, Kenya
Tel: +254(20)4254000
Email: Barclays.kenya@barclays.com

Independent Auditors

Auditor General
Kenya National Audit Office
P.O. Box 30084-00100 GPO
Nairobi

Principal Legal Advisor

Attorney General

Sheria House, Harambee Avenue
P.O. Box 40112-00100 GPO
Nairobi

Board of Directors

Mr. Victor Pratt	Chairman
Cabinet Secretary, National Treasury	Director
Mr. Joseph Ngugi, Alternate to Cabinet Secretary	The National Treasury
Mr. Godfrey Kiptum, MBS	Director
Mr. Paul Muthaura	Director
Mr. Steve Gichohi Gichuhi, MBS	Director
Ms. Agnes Nyaguthie	Director
Dr. Hillary Barchok	Director
Mr. Vincent Rotich	Director
Dr. Edward Odundo	Director
Mr. Nzomo Mutuku	Director

Board Members



Mr Victor R. Pratt
 Chairman
 Education – Business Administration,
 Post Graduate Studies in Industrial Development Banking.



Dr Edward Odundo, MBS
 Chief Executive Officer
 Retirement Benefits Authority
 Education – BSc, MSc (Business Administration), Ph.D. (Strategic Management), FCPA, FCPS, FKIM.
 Year of Birth – 1958



Dr Hillary Barchok
 Education – Doctor of Philosophy in Curriculum Development
 Year of Birth – 1973



Mr Joseph Ngugi
 Alternate Director to CS The National Treasury.
 Education - Bachelor of Arts (Economics), Master of Arts (Economics)
 National Treasury
 Year of Birth – 1966
Education – MA Economics



Mr Steve Gichohi Gichuhi, MBS
 Education - BBM, Dip. Banking, Dip. Sales & Marketing
 Year of Birth – 1965



Mr Vincent Rotich
 Education – MA Project Management
 Year of Birth – 1979



Mr Paul Muthaura
 Chief Executive Officer
 Capital Markets Authority
 Education – Bachelor of Laws, Masters in Banking and Finance Law.
 Year of Birth – 1978



Godfrey K. Kiptum, MBS
 Acting CEO
 Insurance Regulatory Authority
 Education - Master of Business Administration
 Year of Birth – 1970



Mr Nzomo Mutuku
 Acting Chief Executive Officer
 Retirement Benefits Authority
 Education - BA, MA - Economics.
 Year of Birth – 1969



Ms Agnes Nyaguthie
 Director
 Education - MBA
 Year of Birth – 1968

Management Team



Mr Nzomo Mutuku
Acting Chief Executive Officer
Retirement Benefits Authority
Education - BA, MA -
Economics.
Year of Birth -1969



Dr Edward Odundo, MBS
Chief Executive Officer
Retirement Benefits Authority
Education – BSc, MSc (Business
Administration), Ph.D (Strategic
Management), FCPA, FCPS,
FKIM.
Year of birth -1958



Mr Jesse K. Kiptim
Chief Manager, Finance
MBA, CPA-K.
Year of birth -1959



Ms Elizabeth Waruingi
Manager, Internal Audit & Risk
Management.
BA, MBA, CPA, CIA, CISA,
CRMA.
Year of birth -1971



Ms Rose Kwena
Chief Manager, Corporate
Communications.
BA, PGD, MSc.
-1961



Mr Charles Machira
Chief Manager, Supervision
BSc, MSc.
Year of birth -1967



Mr Gordon Bulinda
Chief Manager, Human
Capital.
Development &
Administration
BEd, PGD, MBA.
Year of birth -1972



Dr. Alfred Shem Ouma
Chief Manager, Research &
Strategy
BA (Econ.), MA (Econ.), PhD
(Econ.)
Year of birth -1964



Ms Anne Mugo, MBS
Chief Manager
Market Conduct
BCom, MBA, ACII
Year of birth -1963



Mrs. Praxidis Naomi Saisi
Chief Manager, Legal Services &
Board Secretary
LLB, LLM, PGD-Law, MBA
Year of birth -1967

Corporate Governance Statement

Board Size and Composition

- Mr. Victor Pratt, Chairman (Appointed 30th May 2016)
- Cabinet Secretary, The National Treasury
- Mr. Joseph Ngugi, Alternate Director to the Cabinet Secretary, The National Treasury (Appointed 14th October, 2015)
- Mr. Godfrey Kiptum, Member of Chartered Insurance of Institute of UK, Ag. Chief Executive Officer, Insurance Regulatory Authority
- Mr. Paul Muthaura, Director, Chief Executive Officer, Capital Markets Authority
- Ms. Agnes Nyaguthie Director (Up to 19th February 2017)
- Mr. Steve Gichohi Gichuhi, MBS, Director (Appointed 17th April 2015)
- Dr. Hillary Barchok, Director (Appointed 17th April 2015)
- Mr. Vincent Rotich, Director (Appointed 2nd October, 2015)
- Dr. Edward Odundo, Director and Chief Executive Officer (up to 30 April, 2017)
- Mr. Nzomo Mutuku, Ag. Director & Chief Executive Officer (1st May, 2017)

The Inspector General (Corporations) under section 18(2) of the State's Corporation Act, Cap 446 may attend the meetings of any State Corporation or of any Board or Committee as he deems necessary for the effective performance of his duties under the Act.

Committees of the Board

To align itself with Chapter one of the Mwongozo, the Board re-constituted its Committees and now has four (4) Committees each with its own Charter. The individual Charters set forth the purpose, goals and responsibilities of the Committees as well as the qualifications for Committee membership, the procedure for appointment and removal of a member and the procedure of reporting to the Board. The Committees facilitate efficient decision making of the Board in the discharge of its statutory duties and responsibilities.

All Directors exercise the requisite duty and care in the best interest of the Authority. The current members of the Board and their membership on the Board Committees of the Authority are as follows:

Technical Committee

The membership of the Committee is as follows:

- Mr. Godfrey Kiptum – Chairperson
- Mr. Vincent Rotich
- Mr. Stephen Gichohi Gichuhi, MBS
- Mr. Joseph Ngugi - Alternate CS, The National Treasury

The Committee held four regular meeting and two special meeting in the financial year under review.

Staff Welfare and Remuneration Committee

The membership of this Committee is as follows:

- Dr. Hillary Barchok – Chairperson

- Mr. Stephen Gichohi Gichuhi, MBS
- Mr. Vincent Rotich
- Mr. Paul Muthaura
- Mr. Joseph Ngugi - Alternate CS, The National Treasury

The Committee held three regular meeting and four special meetings in the financial year under review.

Finance and Administration Committee

The membership of this Committee is as follows:

- Mr. Stephen Gichohi Gichuhi, MBS - Chairperson
- Dr. Hillary Barchok
- Mr. Godfrey Kiptum
- Mr. Joseph Ngugi - Alternate CS, The National Treasury

The Committee held four regular meeting and three special meetings in the financial year under review.

Audit and Risk Management Committee

The membership of this committee is as follows:

- Mr. Vincent Rotich - Chairperson
- Dr. Hillary Barchok
- Mr. Paul Muthaura
- Mr. Joseph Ngugi - Alternate CS, The National Treasury

The Committee held two regular meeting in the financial year under review

The Board Meetings

During the financial year the Board held six full board regular meeting and seven special meetings in the financial year under review.

Main Board & Committee Membership and Number of Meeting in the financial year:

	Board Member	Classification	Designation	Finance & Administration Committee (FAC): Total No. of meetings 7 (4 scheduled + 3 special meetings)	Audit and Risk Management Committee (AC): Total No. of meetings 2)	Technical Committee (TC): Total No. of meetings 6 (4 scheduled + 2 special meetings)	Staff Welfare and Remuneration Committee (SWRC): Total No. of meetings 7 (3 scheduled + 4 special meetings	Main Board 13 meetings (6 scheduled + 7 special meetings))
1	Mr. Victor Pratt	Independent	Board Chairman					13/13
2	Mr. Joseph Ngugi	Representing the Cabinet Secretary, National Treasury		4/7	1/2	4/6	5/7	9/13
3	Mr. Paul Muthaura	CEO, Capital Markets Authority			2/2		2/7	5/13
4	Mr. Godfrey K. Kiptum, MBS	Ag. CEO, Insurance Regulatory Authority	Chairperson TC	3/7		4/6		7/13
5	Mr. Sammy Makove	CEO, Insurance Regulatory Authority		2/7		1/6		3/13
6	Dr. Hillary Barchok	Independent	Chairperson SWRC	4/7	1/2		7/7	12/13
7	Ms. Agnes Nyaguthie	Independent						4/13
8	Mr. Steve Gichohi Gichuhi, MBS	Independent	Chairperson FAC	6/7		5/6	7/7	11/13
9	Mr. Vincent Rotich	Independent	Chairperson AC		2/2	5/6	7/7	13/13
10	Mrs Jane Mugambi	State Corporation						2/13
11	Mr Christopher Ombega	Representing the Cabinet Secretary, National Treasury						2/13

THE CHAIRMAN'S STATEMENT



It is my pleasure to present the nineteenth Annual Report of the Retirement Benefits Authority. The Authority has continued to fulfill its fundamental objectives to the main players; sponsors and members of pension schemes as evidenced by impressive growth of pension scheme assets and timely disbursement of payable pension to retirees.

The year saw the stock markets record slow gains, the half year growth of assets under management grew by 9.7 percent from 831.78 Billion recorded in June to 912.66 Billion recorded in December 2016. In comparing with the other year, the overall yearly growth increased from 3.3 percent recorded in December 2015 to 12.1 percent recorded in December 2016, a change of Kshs.98.55 Billion from 814.11 Billion recorded in December 2015. The year 2016 was characterized by a steady capital market and movements of investments from long term asset classes to shorter term asset classes where schemes derived more value from investments.

From the recorded Kshs.912.66 Billion, fund managers and insurance issuers held majority of the assets at Kshs. 784.72 Billion, Kshs.52.01 Billion internally administered by the National Social Security Fund¹ (NSSF) and an additional Kshs.75.93 Billion of property investments that are directly managed by the trustees of the various schemes investing in direct property². The assets under fund management include Kshs.116.49 Billion of NSSF funds that are managed by 5 external managers. Assets managed internally by NSSF are majorly in immovable property³, quoted securities as well as unquoted securities. Schemes continue to invest heavily on government paper with the asset class recording 38.26 percent of the total assets under management. However, percentage distribution of other asset classes changed with more investments in property than in Equity shares compared to other periods. Property accounted for 19.55 percent while investments in shares accounted for 17.43 percent in 2016 as compared to 19 percent and 23 percent in December 2015. Investments in guaranteed funds mark the other asset class where most schemes have invested in with a 14.20 percent representation. Albeit slow schemes are venturing into

¹ The amount is the difference of the funds accounted by Fund Managers and the total assets under management reported by NSSF

² Directly managed property are all investments in Property not reported by Managers but in Financial Accounts 2015

³ Inclusion of Tenant Purchase Agreements

alternative assets with an inclusion of Private Equity and Venture Capital and Real Estate Investment Trusts (REITs) contributing to around 0.54 percent of the total assets under management.

The table below provides more details on how investments were made in the available asset classes. In the one year period, assets under management grew by 12.1 percent; represented by significant growths in government securities, guaranteed funds and immovable property at 44 percent, 30.4 percent and 18.3 percent respectively. There were marked decline changes in investments in fixed deposits, quoted securities, and offshore securities at 55.8 percent, 14.8 percent and 2.7 percent respectively.

OVERALL INDUSTRY INVESTMENT PORTFOLIO (Kshs. Billion's)

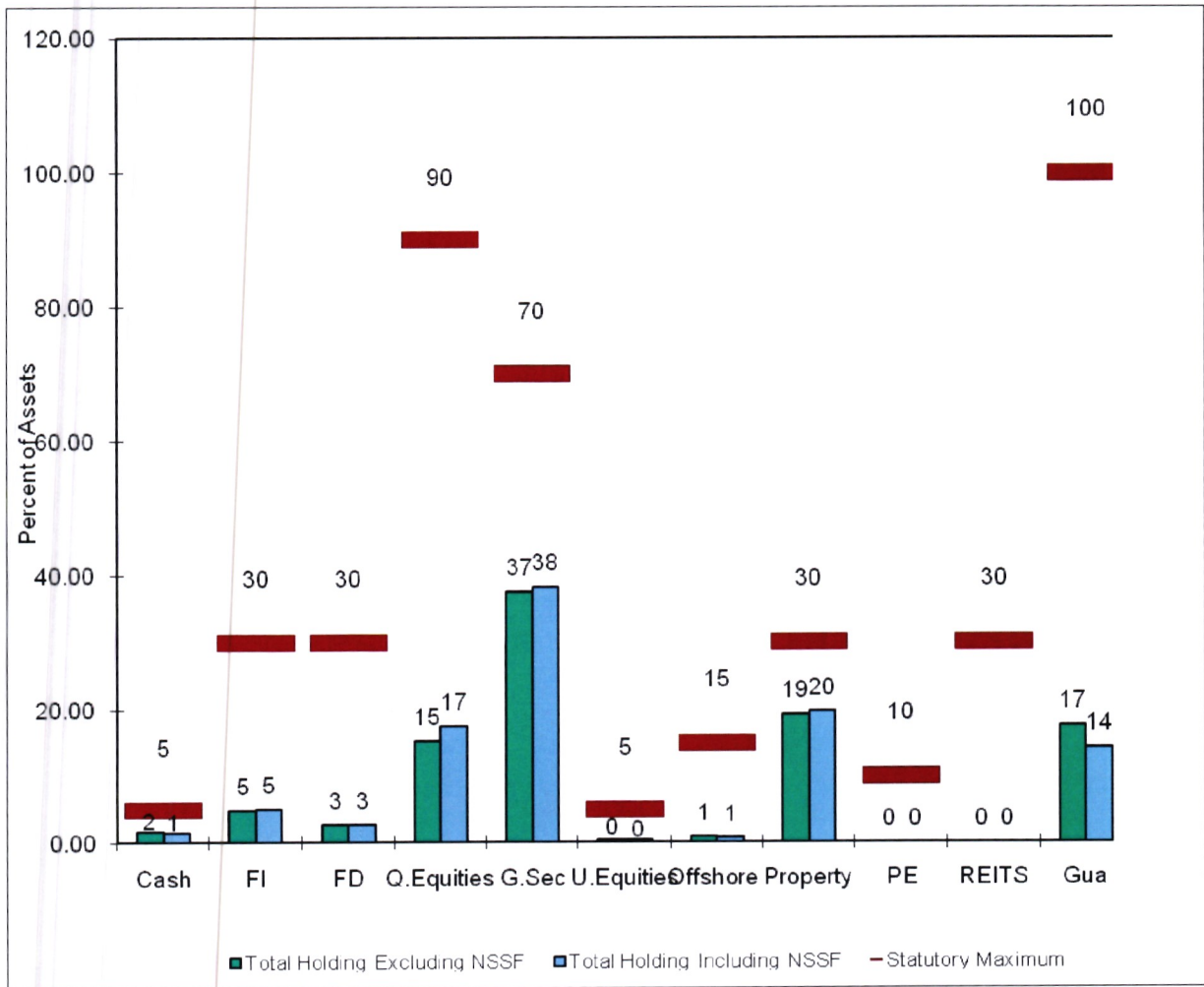
		December 2015		June 2016		December 2016		Half year change		Year Change	
		Kshs	%	Kshs	%	Kshs	%	Kshs	%	Kshs	%
1	Government Securities	242.43	30	211.85	25	349.15	38	137.29	64.8	106.72	44
2	Quoted Equities	186.81	23	129.68	16	159.07	17	29.40	22.7	-27.74	-14.8
3	Immovable Property	150.78	19	126.52	15	178.42	20	51.90	41	27.64	18.3
4	Guaranteed Funds	99.40	12	101.89	12	129.58	14	27.70	27.2	30.18	30.4
5	Fixed Income	48.09	6	39.42	5	46.95	5	7.53	19.1	-1.14	-2.4
6	Fixed Deposits	55.61	7	28.31	3	24.57	3	-3.74	-13.2	-31.04	-55.8
7	Offshore	7.16	1	5.27	1	6.96	1	1.69	32.2	0.19	-2.7
8	Cash	11.26	1	8.71	1	12.93	1	4.22	48.5	1.67	14.8
9	Unquoted Equities	2.77		62.57 ⁴	8	3.95		-58.62	-93.7	1.18	42.6
10	Private Equity	0.17		0		0.22		0.22	100	0.05	30.6
11	REITS			0		0.84	1	0.84	100	0.84	100
12	Unclassified/Others	9.62	1	117.56 ⁵	14	0		-117.5	-100	-9.63	-100

⁴ Incorporated investments in Alternative asset classes

TOTAL	814.11	100	831.78	100	912.66	100	80.88	9.7	98.55	12.1
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On average, all categories of investment were within the statutory investment limits provided in the Retirement Benefits Regulations. The year 2015/2016 saw the introduction of new asset classes such as Real Estate Investment Trusts (REITS); Private Equity and venture capital; Derivatives and global depository Notes.

OVERALL INDUSTRY INVESTMENT VS STATUTORY MAXIMUM

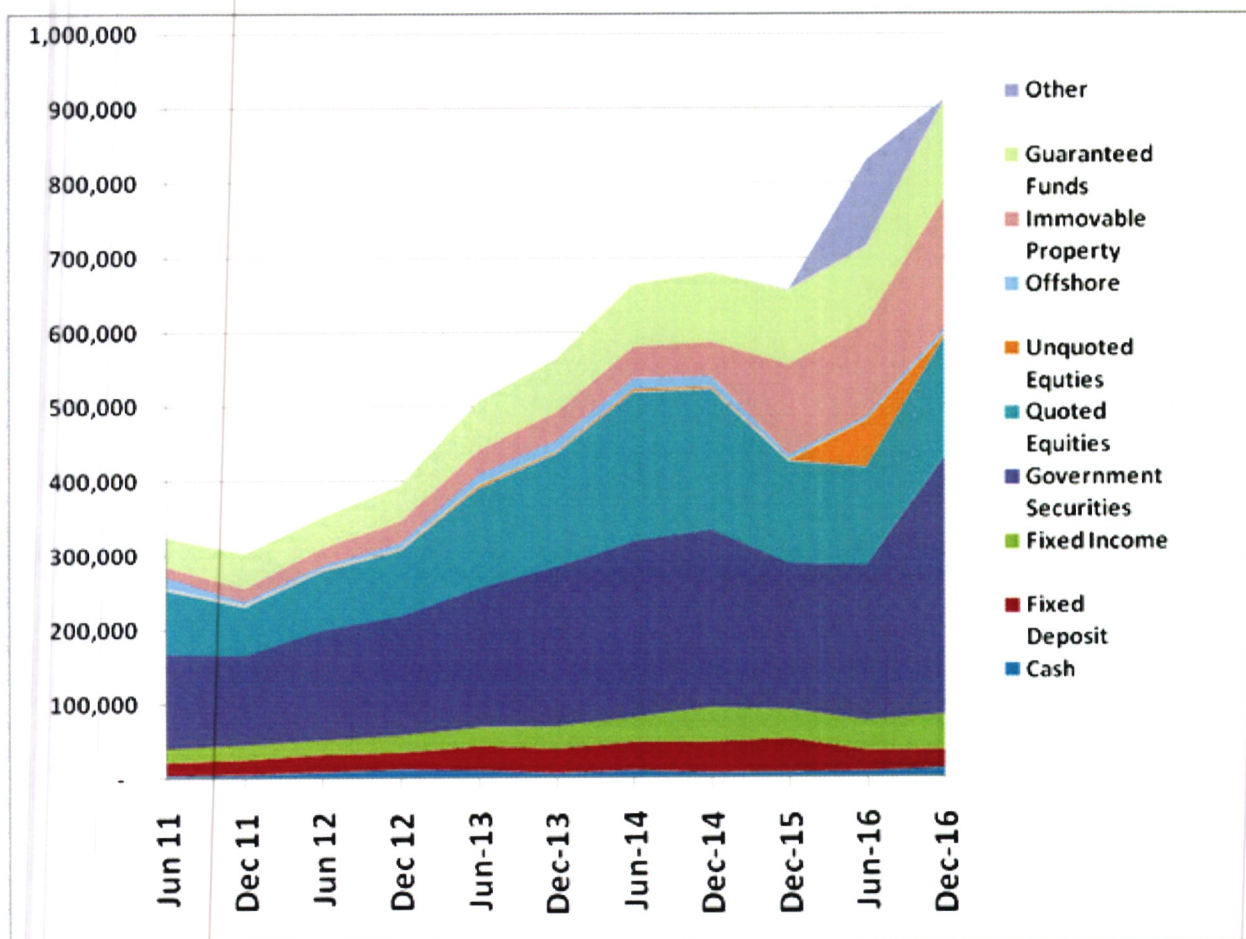


ASSETS HELD BY FUND MANAGERS AND INSURANCE ISSUERS

⁵ Unclassified asset classes represents investments in Collective Investment Vehicles

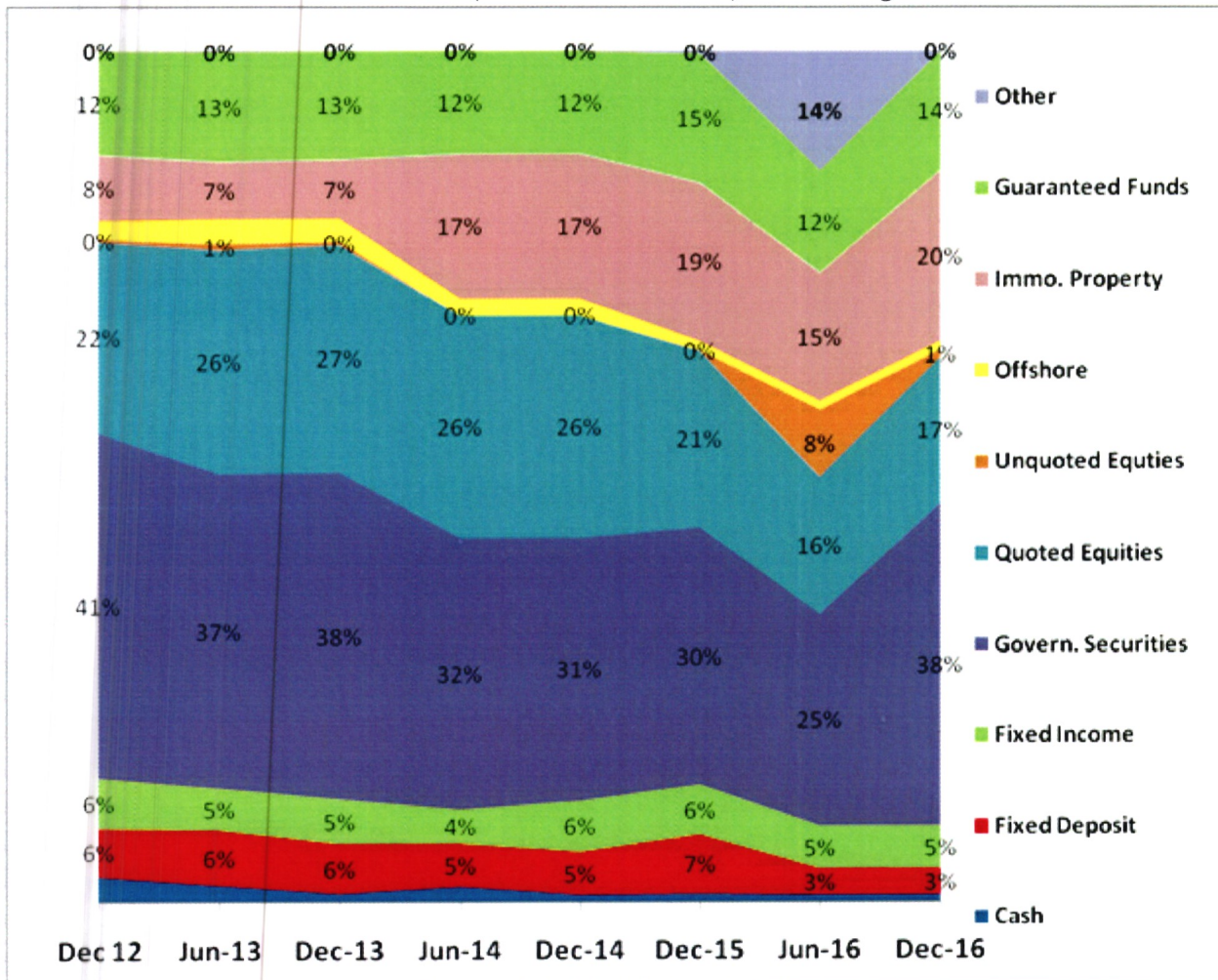
For the period ending December 2016, 16 fund managers and 6 insurance issuers, submitted 1241 scheme reports with a total fund value of Kshs.784.72 Billion representing 19.3 percent increase in the total assets under management from the Kshs.657.78 billion recorded in December 2015. The increase in the growth of funds over the period can be attributed to increased submission rates where there were 23 more schemes that reported in December 2016. Fund managers also changed their investment strategy opting to invest in government securities and reducing the exposures in the quoted securities. The debt market has been an attractive avenue for investing giving investors’ double digit returns. Though there are marked reductions in investments in the stock market, the year has seen a resilient market, where most counters have been stable or grown in value. Investments in this asset class have grown by 22.7 percent over the half year period. Valuation of land and property is one of the attributes that can be linked to the increase in total assets under immovable property.

ASSETS UNDER FUND MANAGEMENT (Jun. 2011-Dec.2016 in Kshs. Millions)⁶



⁶ Figures exclude funds internally managed by NSSF

PORTFOLIO DIVERSIFICATION (DEC. 2012- DEC.2016) in Percentage

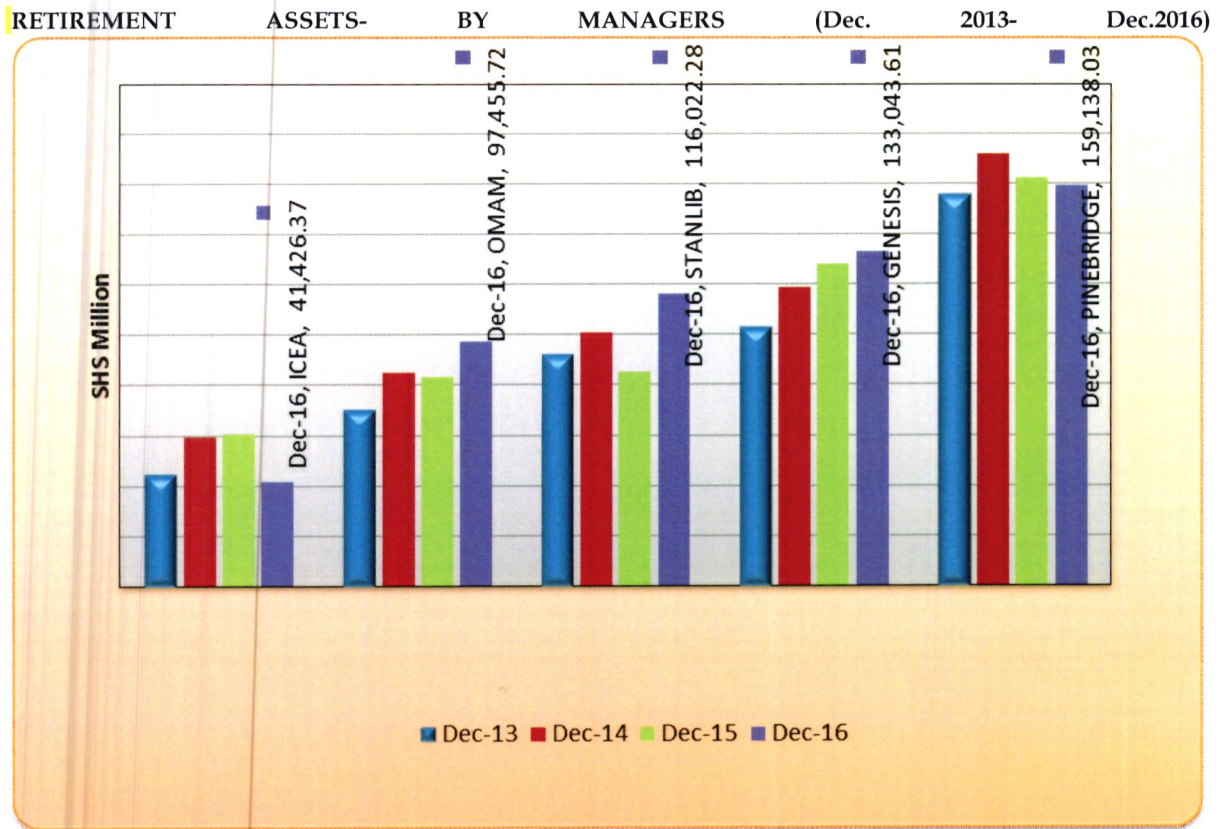


Asset portfolio diversification remained similar to previous periods with most of the asset classes recording minimal gains. However, some of the marked changes during the year were allocations in the unquoted securities as well as other asset classes. 14 percent investments in other asset classes represented investments in collective investment vehicles that were not clearly defined. 8 percent of investments in unquoted security represent a fraction of investments in REITs as well as private equity. Inclusion of separate investment classes has reduced the investments in other asset classes over the year.

During the year, asset classes with highest representation was on investments in government securities, immovable property, quoted securities and guaranteed funds at 38 percent, 20 percent, 17 percent and 14 percent respectively. This represents more than 80 percent of the total assets under management. The year saw investments in government securities increase the most by 44 percent from the recorded Kshs.242.43 billion in December 2015 to Kshs.349.15 billion in December 2016. In rankings investments in quoted equities ceded ground to immovable property with total investments in this asset class reducing from 22 percent as at December 2015 to 17 percent in December 2016. An overall investment in this asset class has reduced by Kshs.27.74 Billion representing a -14.8 percent reduction for the year. This reduction has been caused by a divestiture of investments as well as a bearish run of the market.

In total there were 1154 schemes that deposited investment reports for the period ending December 2016. In the reporting period, schemes with more than one manager were merged and considered as one scheme marking a divergence of procedure from other periods. 31 percent of the 1154 schemes were segregated schemes with the rest accounting for guaranteed schemes. However, segregated funds account for 85 percent of total assets under management for the planned period. Majorly reporting for segregated funds is done by fund managers while guaranteed funds are done by approved issuers.

Pinebridge Investments Asset Managers is the manager with the largest assets under management with total assets under management at Kshs.159.2 billion, 20 percent of the total assets under fund management. Top tier fund managers (Pinebridge Investments, Genesis Kenya, Stanlib Investment Kenya, OMAM Asset Managers, British American Asset Managers and ICEA Lion Asset Managers) continue to manage the bulk of the investments with the total assets under management at Ksh.594.7 billion accounting for 75.8 percent of the entire assets under management. The analysis reviews each entity according to how it is registered hence, where a parent company has both an approved issuer and fund manager the two will be considered as distinct entities. Other than ICEA Lion Asset Managers and Pinebridge Asset Managers, all other large tier fund managers had an increase on the total assets under management as depicted by the diagram



ASSETS HELD BY NATIONAL SOCIAL SECURITY FUND (NSSF)

Total assets of NSSF has risen by Kshs.12.16 billion in December 2016 from Kshs.156.33 billion in December 2015 representing a 7.3 percent growth in the total fund. Out of the total amount of Kshs.168.49 billion, Kshs.52.01⁷ billion was internally managed by the NSSF. The externally managed funds continue to increase over the period with a noted increase of Kshs.14.04 billion from 102.5 billion in December 2015 to Kshs.116.49 recorded in December 2016.

The table below shows the distribution of the funds to the various fund managers. In the year there was a noted increase in assets under management in British American Asset Managers with more than Kshs.4.1 billion increase over the year. Pinebridge Investments and Co-op trust Investments have not managed the NSSF fund for the last two years.

⁷ These represent investments in immovable property, unquoted securities as well as other investments in the capital markets not transferred to the External fund Managers

NSSF PORTFOLIO OF THE EXTERNAL MANAGERS (Dec.2014-Dec. 2016)

FIGURES IN MILLIONS						
Fund Manager	Dec-14	Dec-15	Dec-16	Year Change	% Change	
British-American Asset Managers Limited	-	17,860	22,033	4,173	23.37	
Gen Africa Asset Managers	13,125	30,096	31,667	1,571	5.22	
ICEA Lion Asset Management Limited	13,269	18,058	20,534	2,476	13.71	
Old Mutual Asset Managers (Kenya) Limited	13,352	17,945	20,620	2,675	14.91	
Stanlib Investments Kenya Limited	12,246	18,494	21,639	3,145	17.01	
Pinebridge Asset Managers	14,962	-		-		
Co-op Trust	12,652	-		-		
Total	79,606	102,453	116,493	14,040	13.70	

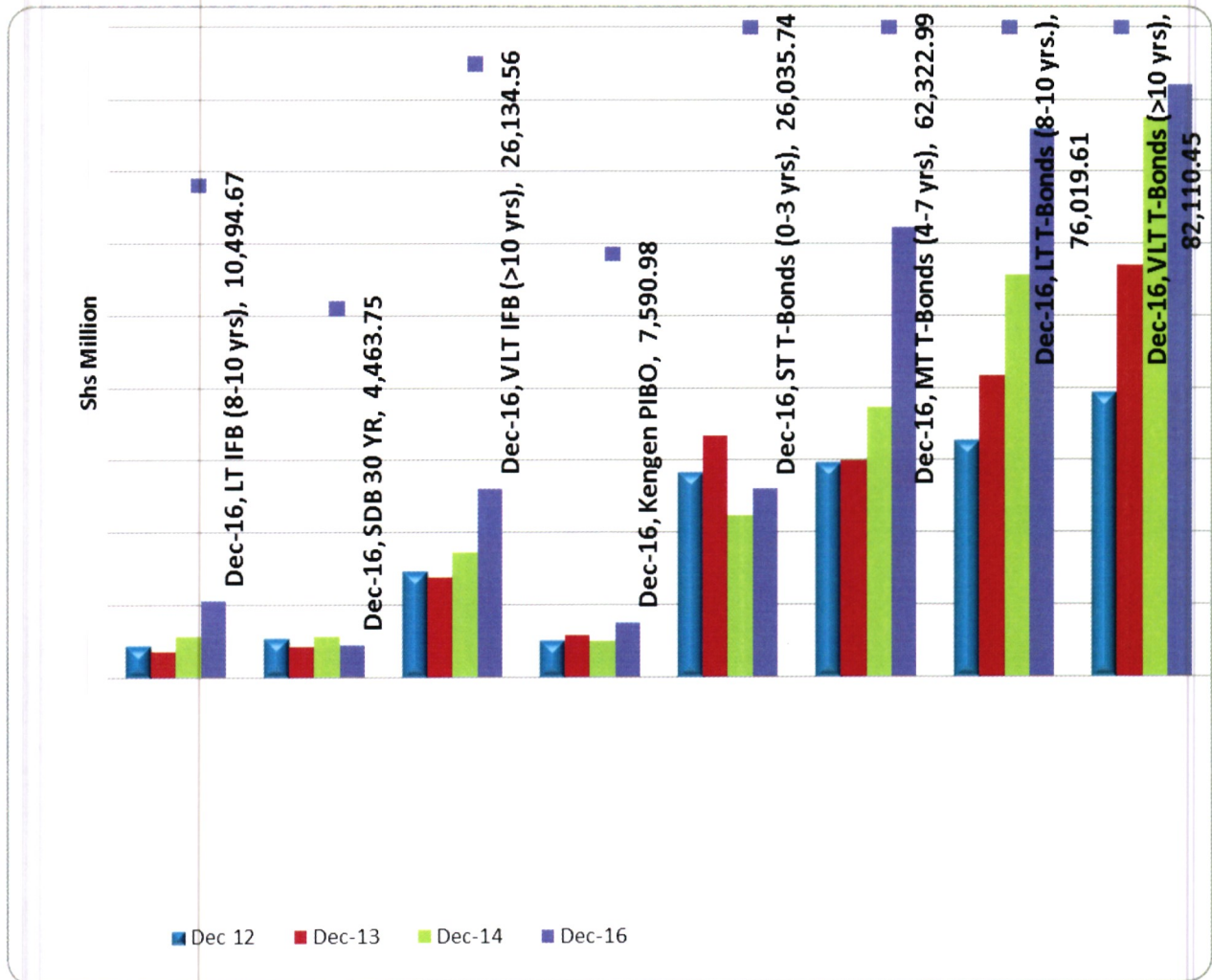
The overall portfolio is heavily invested in government securities, quoted securities and immovable property at 42 percent, 27 percent and 22 percent, respectively. The portfolio allocation is in compliance with the investment guidelines.

RETIREMENT BENEFITS INDUSTRY'S INVESTMENT IN GOVERNMENT SECURITIES.

The government securities accounted for the largest portion of the overall investments at 38 percent of the total assets under management as at December 2016 a rise of 8 percent from the recorded 30 percent in December 2015. During the year the asset class recorded the highest increment of 44 percent to stand at Kshs.349.15 billion of the total assets under management as at December 2016. The growth of Kshs.106.72 billion can be attributed to many schemes opting to invest in longer term bonds issued by the government that give schemes minimal but predictable returns with low risks of default. The slump of the stock exchange has seen many schemes choosing to invest in the many debt instruments offered by the government.

Schemes invested more in the longer term instruments with majority investing in mid-term bonds, long term bonds and very long term bonds at Kshs.62.32 billion, Kshs.76.02 billion and Kshs.82.11 billion respectively. There was also an increased investment in the very long term investments in Infrastructure bond by Kshs.8.92 billion from the Kshs.17.21 billion as at December 2015. In total schemes heavily invested in longer term debt instruments with a maturity date of more than 5 years offered by the government as the diagram below depicts.

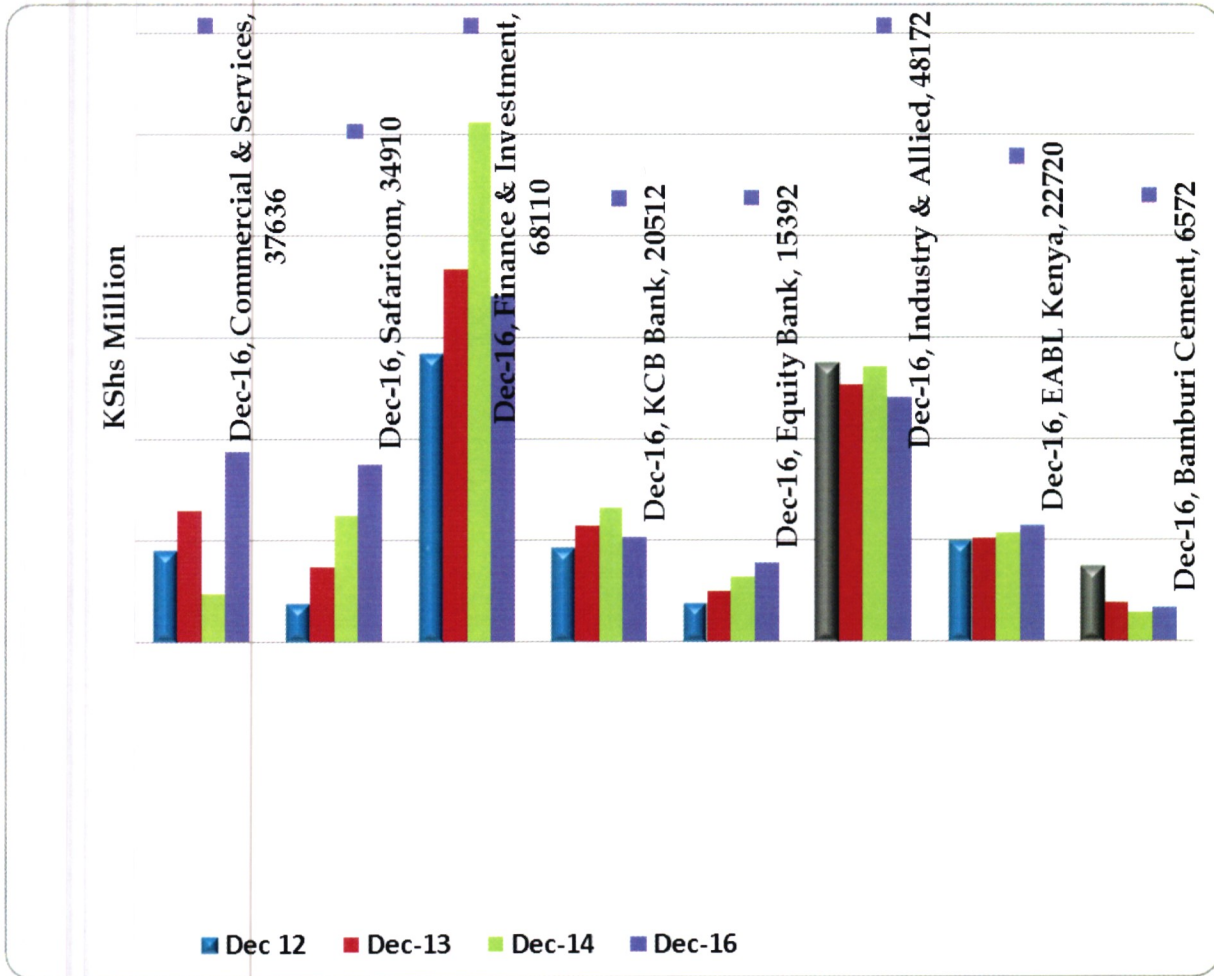
RETIREMENT BENEFIT INDUSTRY HOLDINGS OF GOVERNMENT SECURITIES



RETIREMENT BENEFITS INDUSTRY INVESTMENT IN QUOTED EQUITIES

Investments in quoted securities were the third largest with total investments accounting for 17.43 percent of the total assets under management. In the half year period investments in this asset class rose by 22.7 percent from Kshs.129.68 billion in June 2016 to Kshs.159.07 billion in December 2016. However, in the 1 year period there was a noted reduction of 14.8 percent which saw the total investments in equities reduce by Kshs.27.74 billion from recorded Kshs.186.81 billion as at December 2015. The decline in value can be attributed to the bearish market that has seen most of the counters in the Nairobi Stock exchange loose in value especially in the first half of the year 2016.

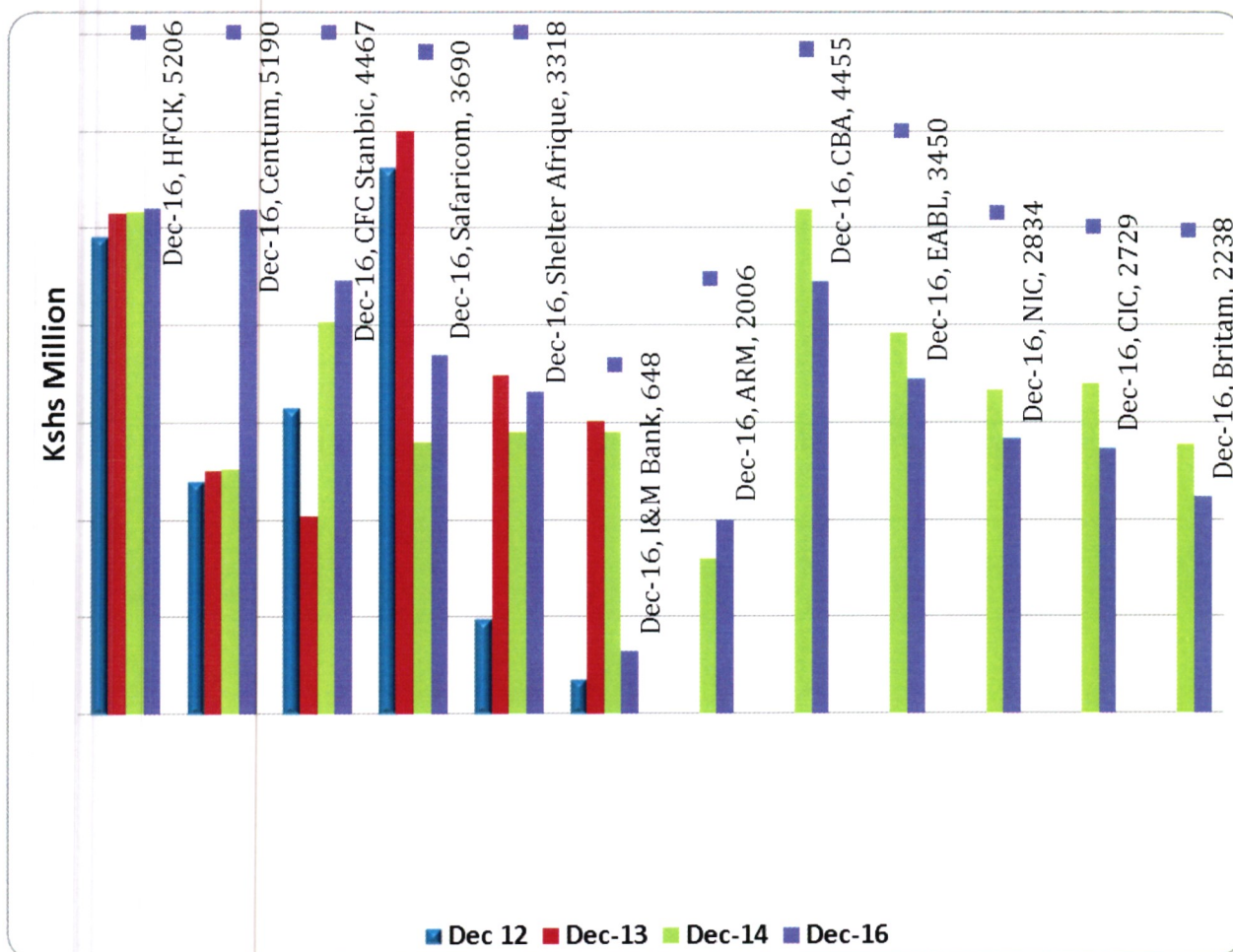
RETIREMENT BENEFIT INDUSTRY HOLDINGS OF QUOTED EQUITIES



RETIREMENT BENEFITS INDUSTRY INVESTMENT IN CORPORATE BONDS

In the period under review investments in this asset class marked a marginal decline of 2.4 percent for the 1 year period from the Kshs.48.09 billion reported in December 2015 to Kshs.46.95 billion reported in December 2016. This marks a total representation of 5 percent of the total assets under management. The year saw a marked investment in Centum Investments, CFC Stanbic, Housing Finance and Safaricom corporate bonds. The year under review saw schemes acknowledging losses due to investments in Imperial Bank and Chase Bank corporate bonds that were suspended from trading in the market by CMA. However, the Kshs.1.1 billion decrease is as a result of reduced investments in the corporate debt market as witnessed in most of the investments shown below.

RETIREMENT BENEFIT INDUSTRY HOLDINGS OF CORPORATE BONDS



INDIVIDUAL RETIREMENT BENEFITS SCHEMES SECTOR

The membership and assets of individual retirement benefits schemes continued to grow considerably. The membership grew from 144,640 members in December 2014 to 162,882 and 196,028 members in December 2015 and December 2016, respectively. In the one year period the assets have grown from Kshs.28.83 billion to Kshs.34.49 billion representing a 19.63 percent asset growth. The growth in the sector has emanated from the various sensitization forums RBA holds encouraging individual membership in pension arrangements. The Blue MSME’s Jua Kali Retirement Benefits Scheme, commonly known as the “Mbao Pension scheme” continues to be the largest scheme in membership with a representation of 48 percent, with a total membership of 94,185. However, in terms of assets, the largest individual pension plan is Jubilee Individual pension plan with a membership of 21,795 members and a total value of Kshs.8.78 billion as at December 2016.

**INDIVIDUAL RETIREMENT BENEFITS SCHEMES DATA IN KSHS.BN
(JUNE 2010- December 2015)**

	Total Membership	Total Assets	Contributions (6 Months)	Benefits Paid out (6th Months)	Transfers In (6 Months)	Transfers Out/Withdrawals (6th Months)
Jun-10	25,289.00	7.00	1.70	0.60	0.60	0.08
Dec-10	38,608.00	9.10	2.20	0.40	1.10	0.50
Jun-11	43,737.00	8.60	2.10	1.40	0.60	0.07
Dec-11	61,240.00	11.00	2.60	0.80	0.90	0.70
Jun-12	75,402.00	12.10	3.20	1.90	0.50	0.30
Dec-12	88,509.00	13.60	3.20	1.00	0.90	0.90
Jun-13	103,978.00	16.58	2.65	1.37	0.82	0.29
December 2013	113,316.00	17.40	2.79	1.25	0.86	0.34
June 2014	127,475.00	20.56	3.37	1.52	0.71	0.59
December 2014	144,640.00	22.93	5.20	1.43	1.04	1.87
December 2015	162,882.00	28.83	5.76	2.08	1.73	2.07
June 2016	165,480	31.28	4.01	1.60	0.87	0
December 2016	196,028	34.49	6.25	2.88	2.24	0

INDUSTRY EXPOSURE TO A SINGLE ENTITY

Other than the government of Kenya, the retirement benefits industry has also invested heavily in property, Quoted securities, Fixed Income securities as well as Fixed Deposits. In this analysis, industry exposure is the overall exposure to a single entity of more than 1 percent of the total assets under management. Similar to other periods, the entities/groups that had issued debt instruments, were trading in the stock market and had given out deposits had a large exposure to schemes. There were 13 entities that had an exposure of more than 1 percent of the total assets under management. The entities with the most exposure were Kenya Commercial Bank, Safaricom Limited, East African Breweries Limited and Equity Bank having the highest exposures as illustrated below.



Victor Pratt

Chairman

September 27, 2017

THE CHIEF EXECUTIVE OFFICER'S STATEMENT



The Authority continued in the financial year to maintain high standard of corporate governance in the management of pension assets and also strived to reach out to the potential savers who were not covered in any arrangements.

Pension Education Campaign

The successful achievement of the Authority's mandate and Objectives depend on how well RBA communicates to its stakeholders. In a world of increasing financial risks, financial education and awareness is becoming critically important. However, uncertainties and sophistication of the financial landscape coupled with very low financial literacy is a major barrier to the uptake of the pension product.

During the 2016/2017 financial year, the Authority re-activated 'Kulegalega" Campaign in electronic media (Radio and TV) as well as the digital platform (Facebook, Twitter, YouTube, Snap Chat, Instagram and YouTube) to provoke Kenyans to start saving for retirement.

The social media campaign elicited tremendous response from the target audience with Twitter growing from 177 to 4,059 Followers at the end of the campaign and a minimum of 100 post reach per week on Facebook. The posts were purely organic with no paid adverts or influencer engagements – a clear demonstration that Kenyans appreciate the pension subject and are willing to have a conversation around it.

The Authority also activated a Toll-Free line as a Call-to-Action tool with the aim of conveniently and cost-effectively engaging Kenyans from all parts of the country.

ASK Shows

ASK shows provide a platform for the Authority to engage the general public on the importance of saving for retirement and respond to questions and complaints. In 2016/2017, the Authority participated in Kisumu, Mombasa, Nairobi and Eldoret ASK shows where it educated the public on the importance of saving for retirement and the available channels for saving.

Employer Sensitization

The Authority hosted workshops for members of Kenya Association of Travel Agents (KATA) in March 2017 and sensitized them on the importance of establishing a pension arrangement for their members and employees. The Authority has since assisted KATA develop a concept paper on the establishment of an industry pension scheme.

The Authority also partnered with Law Society of Kenya and sensitized its members on the importance of saving for retirement. Nyeri, Mombasa and Eldoret chapters were sensitized in May and June 2017. Mombasa chapter expressed interest in establishing a regional pension scheme for its members.

Key projects and investment decisions the Authority is planning /implementing

During the Financial Year, the Authority established a Market Conduct Department to enhance supervision of the industry players, with the following key objectives: -

1. Issuance of governance guidelines and monitoring of compliance with their provisions;
2. Industry sensitization programs on governance requirements;
3. Training of all registered scheme trustees within 3 months of appointment
4. Training of service providers once appointed;
5. Sensitization of scheme members on their rights and obligations as well as preparing them for retirement; and,
6. Resolution of member complaints within set timelines.

During this Financial Year the Authority drafted, and released for stakeholders input, a market conduct guideline titled Guideline on "Good Governance Practices in the Management of Retirement Benefits Schemes". Draft Guideline will be redrafted and released for public participation before the legislative process is completed. In addition, the Authority trained more than 1000 Trustees bringing the total trained to-date to about 4000.

The Authority also trained about 11,000 Members during the year enhancing their knowledge on, inter alia, the provisions of the Act and regulations, their rights and obligations, psychological and health issues arising in retirement and financial management. The authority was able to resolve all members disputes and complaints within given timelines and achieved a score of 91% under the monitoring framework issued by the Commission on Administrative Justice.

The setting up of the new Department will continue to enable the Authority enhance its capacity to meet its mandate, with a particular focus on the conduct of trustees, and the service providers that they appoint, towards sponsors and members who are the beneficial owners of Schemes. Towards this end, several more guidelines will be finalized and released including the following: -

- Good governance practices for retirement Benefits Schemes
- Fair Treatment of Customers
- Vetting of Trustees and Service Providers
- Risk Management for Retirement Benefits Schemes, and,
- Reviewing the remuneration and incentives for Trustees and Service providers;

Building a Resource Pool for the Pension Industry

The Authority has put in place considerable effort to attract and retain career driven professionals looking to make a difference in institutional management. The necessary training and capacity building initiatives including the necessary resources were accorded to staff to sharpen their skills so as to competently resolve the emerging challenges in the sector.

Risk Management and Internal Control

The Retirement Benefits Authority (RBA) Board of Directors has taken the responsibility of ensuring that an appropriate risk management and control process is in place to identify, assess, manage and monitor risks faced by the Authority in achieving its objectives. These risks include strategic, operational, financial, reputational, staff and stakeholder risks that are inherent in the nature of the Authority's activities.

RBA has developed and is implementing an Institutional risk management policy and control framework since 2012. Both policy and practice of the Authority's risk management conforms to principles and guidelines issued by the National Treasury, circular no.3/2009. The Authority manages risk by ensuring that appropriate means, processes and tools, as well as control systems and people, are in place throughout the organization. The key practices RBA has developed to manage risks include appropriate policies and procedures, regular environmental scans, integrated planning systems, financial and management reporting systems, as well as monitoring individual performance and business processes across key areas.

The design and effectiveness of the risk management policy, strategy and mitigation strategies is subject to on-going review by the RBA's internal audit and risk management department, which is independent and reports on the results of its audits directly to the Board of Directors through the Board's Audit & Risk Management Committee.

The Board also remains very alive to the impact of external events over which the Authority has no control other than to monitor and, as the occasion arises, to provide mitigation.

The Board of Directors have reviewed RBA's risk management policy and strategy and are satisfied that it was implemented effectively during the financial year ended 30th June, 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

The Authority's operational and financial performance

The Financial Performance of the Authority for the twelve months ended 30th June 2017 is presented herewith in accordance with the requirement of the Retirement Benefits Act, the Public Audit Act and the International Public Sector Accounting Standards

This is the 19th financial year since inception of the Authority and the levy payable by retirement benefits schemes has been the main source of revenue.

Income

Levy collected during the financial year was Kshs. 751 m compared to Kshs. 720 m in the prior year. This was above target by Kshs. 49 m and was payable by schemes whose accounting periods fall between the months of July and March of the Financial Year.

Expenditure Statements

The operating expenditure was Kshs. 690 m compared to Kshs. 611m in the previous year

Treasury Management

The position of the investment portfolio as at 30th June 2017 was Kshs. 509 m in the Treasury Bills compared to Kshs. 667 m, with bank balances of approximately Kshs. 161 m compared to Kshs. 50 m in in the previous year.

The Authority, like in the previous periods, continued to invest most of its funds in 91days Treasury Bills with some funds placed in fixed deposit accounts at the Authority's banks to meet the requirements of bank guarantees for goods and services and to facilitate the staff house and car loan schemes.

Cash Flow Statement

Cash flows from the operations of the Authority are detailed in the cash flow statement for the twelve months ended June 30, 2017.the cash and cash equivalent was Kshs. 671m compared to Kshs. 717 m in the prior year.

OVERALL FINANCIAL PERFORMANCE

The performance of the Authority of the financial year is an excess of income over recurrent expenditure of Kshs.136m compared to Kshs.190m in the previous year.

Authority's compliance with statutory requirements

The Authority has no ongoing court cases or default and the Authority has complied with all known statutory requirement.

The Authority's financial probity and serious governance issues

There were no major financial improbity reported in the last financial year and likelihood there will be none this financial year by Internal Audit, External Auditors, National Government Agencies providing over sight and there were no government issues among the board members and top management including conflict of interest.



Nzomo Mutuku

Ag. Chief Executive Officer

September 27, 2017

CORPORATE SOCIAL INVESTMENT STATEMENT /SUSTAINABILITY REPORT

To complement its mandate, RBA carries out Corporate Social Responsibility and Investment (CSR&I) activities that are aimed at improving the lives of the people in the environment in which we operate.

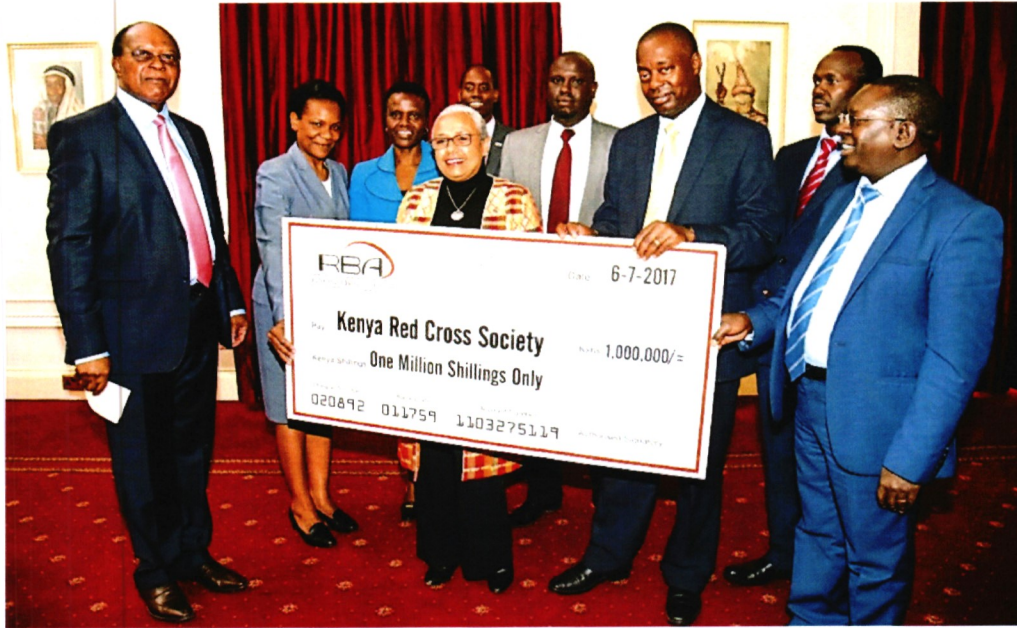
During the financial year, the Authority carried out a number of CSR&I programmes. These included market-cleaning exercises in Kisumu and Kakamega counties.

The cleaning exercise in Kisumu was held on 29th May 2017 and was supported by NEMA, Kisumu County Government, Micro & Small Enterprises Authority and the County Commandant who helped to mobilize all traders to clean Jubilee Market. Similar exercises were carried out in Kakamega County where Kakamega, Mumias and Sabatia markets were cleaned between 12th and 13th June 2017. These activities generated positive publicity on the Authority's mandate.



Retirement Benefits Authority clean-up campaign at Kibuye Market, Kisumu.

The Authority also donated Ksh. 1million to Kenya Red Cross Society on 6th July 2017 towards fighting the effects of the persistent drought in our country that has affected many families who have seen all their hope to sufficiently feed themselves erased by the drought.



Retirement Benefits Authority makes a donation towards the Kenya Red Cross Drought Fund at a ceremony officiated by Her Excellency, First Lady of The Republic of Kenya, Mrs. Margaret Kenyatta on 6th July 2017 at State House Nairobi.

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 30 June 2017 which shows the statement of the Authority affairs.

Principal activities of the authority are to:

- (a) Regulate and supervise the establishment and management of retirement benefits schemes;
- (b) Protect the interests of members and sponsors of retirement benefits sector;
- (c) Promote the development of the retirement benefits sector;
- (d) Advise the Cabinet Secretary, National Treasury on the national policy to be followed with regard to the retirement benefits industry and implement all government policies relating thereto.

Results

The result of the Authority for the Financial Statement ended 30 June 2017 is set out on page 34 & 38

Directors

The member of the board of the directors who served in the board are 9 including the Chief Executive Office during the year one director's term ended in February 2017 and one resigned. There was no subsequent appointment to replace the two directors.

Auditors

The Auditor General is responsible for the statutory audit of Retirement Benefits authority in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 to carry out the Audit of the Retirement Benefits Authority for the year ended 30 June 2017 in accordance to section 23 of the Public Audit act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

By Order of the Board



Nzomo Mutuku
Ag. Chief Executive Officer

September 27, 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of Public Finance Management Act, 2012, Public Act, no. 12 of 2003 and The Retirement Benefits Authority Act, require the Directors to prepare financial statements for each financial year, which include a balance sheet showing in detail the assets and liabilities of the Authority, a statement of income and expenditure, and such other statements that the Directors may deem necessary. It also requires the Directors to ensure the Authority keeps proper books of account and other books and records in relation to the Authority and to all undertakings, Funds, investments, activities and property of the Authority. They are also responsible for safeguarding the assets of the Authority.

The Directors are responsible for the preparation and presentation of the *Authority's* financial statements, which give a true and fair view of the state of affairs of the *Authority* for and as at the end of the financial year (period) ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Authority; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *Authority*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *Authority's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and The Retirement Benefits Authority Act. The directors are of the opinion that the *entity's* financial statements give a true and fair view of the state of *Authority's* transactions during the financial year ended June 30, 2017, and of the *entity's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *entity*, which have been relied upon in the preparation of the *entity's* financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The *Authority's* financial statements were approved by the Board on 27th Sept 2017 and signed on its behalf by:



Chief Executive Officer



Chairman

Date: 27 September, 2017

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON RETIREMENT BENEFITS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Retirement Benefits Authority set out on pages 34 to 47, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of comparison of budget and actual amounts and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and the Public Audit Act, 2015. I have obtained the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Retirement Benefits Authority as at 30 June, 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Retirement Benefits Authority Act, No. 3 of 1997.

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

Basis for Opinion

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

Key Audit Matters

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

Report of the Auditor-General on the Financial Statements of Retirement Benefits Authority for the year ended 30 June 2017

Responsibilities of Management and those Charged With Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Authority 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 provision of Section 47 of the Public Audit Act, 2015.

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

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

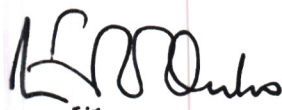
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

07 May 2018

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017

	Note	2016 -2017 Kshs	2015- 2016 Kshs
Revenue from non-exchange transactions			
Revenue from Non-Exchange	4	754,090,665	723,065,494
		754,090,665	723,065,494
Revenue from exchange transactions			
Investment Income on Treasury Bills	5	38,301,914	56,331,726
Other income	6	35,810,124	21,438,974
		74,112,039	77,770,700
Total revenue		828,202,704	800,836,194
Expenses			
Employee costs	7	306,925,528	299,550,545
Repairs and maintenance	8	11,345,053	5,324,807
General expenses	9	332,236,048	267,306,930
Finance costs	10	521,869	371,429
Remuneration of Directors	11	20,021,259	17,255,236
Depreciation and amortization expense	18	19,882,493	20,947,340
Total expenses		690,932,250	610,756,286
Gains/(losses) disposal of assets		1,080,911	-
Total other gains/(losses)		1,080,911	-
Surplus/(deficit) for the period		136,189,543	190,079,908
Attributable to:			
		136,189,543	190,079,908

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Note	2016 -2017	2015- 2016
		Kshs	Kshs
Assets			
Current assets			
Cash and cash equivalents	13	161,425,157	50,360,089
Investment in Treasury Bills	14	509,005,200	666,506,600
Long Term Deposits	15	309,727,558	305,219,248
Income Receivable	17	7,339,699	21,740,776
Prepayments	17	6,065,227	2,035,022
Total Current Assets		993,562,841	1,045,861,735
Non-current assets			
Property ,plant and equipment	18	61,331,699	60,275,547
Total no - current assets		61,331,699	60,275,547
Total assets		1,054,894,540	1,106,137,282
Liabilities			
Current liabilities			
RBA Trust Fund	19	-	7,421,834
Employers Obligations	20	16,711,545	38,459,062
Sundry Creditors	21	11,308,636	11,706,831
Total current liabilities		28,020,181	57,587,727
Non-current liabilities			
Net Assets		1,026,874,360	1,048,549,555
Total liabilities			
Net assets			
Capital Fund	22	109,357,000	109,357,000
Accumulated surplus	23	917,517,322	939,192,555
Total net assets		1,026,874,360	1,048,549,555
Total net assets and liabilities		1,026,874,360	1,048,549,555

The Annual Financial Statements set out on pages 34 to 47 were signed on behalf of the Board of Directors by:



Chairman



Chief Executive Officer



Chief Manager, Finance
ICPAK Member No. 2837

Date: 27 September, 2017

STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2017

	Capital Fund	General Fund	Total Fund
	Kshs'	Kshs'	Kshs'
At 1 July 2016	109,357,000.00	939,192,554	1,048,549,554
Surplus / Deficit for the period		136,189,543	136,189,543
Surplus Paid		(157,864,775)	(157,864,775)
At 30 June 2017	<u>109,357,000.00</u>	<u>917,517,322</u>	<u>1,026,874,322</u>

STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2016

	Capital Fund	General Fund	Total Fund
	Kshs	Kshs	Kshs
At 1 July 2015	109,357,000	869,709,682	979,066,682
Surplus / Deficit for the period		190,079,908	190,079,908
Surplus Paid		- 120,597,035	- 120,597,035
At 30 June 2016	<u>109,357,000</u>	<u>939,192,555</u>	<u>1,048,549,555</u>

STATEMENT OF CASH FLOW FOR THE PERIOD ENDED 30 JUNE 2017

		2017 Kshs'	Restated 2016 Kshs'
Cash flows from operating activities:-	NOTE		
Net Surplus of the year		136,189,543	190,079,908
loss on disposal written back		1,080,911	
Depreciation written back	18	19,882,493	20,947,340
Net cash inflow from operating activities		157,152,947	211,027,248
(Increase)/Decrease in receivable	16	10,370,872	(744,313)
Increase / (Decrease) in payable		(22,145,712)	(2,888,909)
Net working capital changes		(11,774,840)	(3,633,222)
Net cash flows from operating activities		145,378,107	207,394,026
Cash flows from investing activities :-			
Purchase of Property & Equipment	18	(22,252,307)	(3,359,304)
Proceeds from Sale of Assets		232,750	-
Net cash used in investing activities		(22,019,557)	(3,359,304)
Cash flows from financing activities :-			
Increase in deposits	15	(4,508,310)	(6,435,601)
Surplus /Tax paid to KRA		(157,864,775)	(120,597,035)
Increase in RBA trust fund	19	(7,421,834)	(882,440)
(Decrease)/Increase in Staff Benevolent Fund		-	-
Net cash used in financing activities		(169,794,919)	(127,915,076)
Net increase/(decrease) in cash and cash equivalent in the year		(46,436,369)	76,119,646
Cash and cash equivalents as 1 JULY 2016		716,866,689	640,747,042
Cash and cash equivalents as 30 JUNE 2017	13	670,430,320	716,866,689

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2017

	Budget 2016-2017 Shs'	Actual 2016-2017 Shs'	Variance 2016-2017 Shs'
Revenue			
Trading Income			
Fees Income	3,100,000	3,250,000	150,000
Interest from Bank Deposit	1,500,000	5,507,591	4,007,591
Investment Income	31,000,000	32,794,323	1,794,323
Miscellaneous Income	16,060,000	35,762,984	19,702,984 (a)
Retirement Benefits Levy	702,000,000	750,840,665	48,840,665 (b)
Tribunal Fees	40,000	47,140	7,140
Total Trading Income	753,700,000	828,202,704	74,502,704
Gross Profit	753,700,000	828,202,704	74,502,704
Expense			
Bank Charges	800,000	521,869	(278,131)
Board Expenses	19,693,984	20,021,259	327,275
Cleaning Expenses	2,777,800	1,077,880	(1,699,920) (c)
Hire of Equipment	2,076,000	1,037,975	(1,038,025) (d)
Information Technology Systems	22,074,836	22,403,424	328,588
Library Expenses	2,900,000	2,681,699	(218,301)
Maintenance & Security of Equipment	4,860,000	2,998,435	(1,861,565) (e)
Medical Expenses	22,250,000	22,990,407	740,407
Depreciation	20,000,000	19,882,493	(117,507)
Motor Vehicle Maintenance & Security	9,640,000	8,346,618	(1,293,382) (f)
Office Running Expenses	8,699,160	8,683,830	(15,330)
Official Entertainment	3,000,000	3,101,872	101,872
Pension Contribution	40,334,400	28,313,000	(12,021,400) (g)
Member Education Seminars/ Consumer protection	21,500,000	21,505,818	5,818
Pension Education (Electronic Media)	8,900,000	9,023,010	123,010
Financial Literacy (Scheme Visit)	14,000,000	15,496,120	1,496,120 (h)
Consumer protection (Education)	30,100,000	30,513,255	413,255
Personnel Emoluments	294,018,000	255,622,121	(38,395,879) (i)
Post & Telephone	8,858,000	8,139,884	(718,116)
Power & Lighting	5,400,000	4,764,340	(635,660) (j)
Printing & Stationary	3,849,180	3,175,391	(673,789) (k)
Professional Charges	42,170,000	42,389,877	219,877
Rent & Ground Rates	43,668,400	36,330,779	(7,337,621) (l)
Research & Development	35,000,000	36,446,469	1,446,469
Sports & Recreation	12,100,000	11,434,591	(665,409)
Training & Development	27,000,000	26,482,532	(517,468)
Travel & Accommodation	34,500,000	35,695,522	1,195,522
Tribunal Expenses	8,530,000	11,851,781	3,321,781 (m)
Total Expenses	748,699,760	690,932,250	(57,767,510)
Gain or loss on Sale of Assets	-	-1,080,911	-1,080,911
Surplus before Tax Transferred to General Fund	5,000,240	136,189,543	131,189,303

Note on budget expenditure variance:

(a) Miscellaneous Income: Increase is due to Refund on personnel emoluments for staff under secondment.

(b) Retirement Benefits Levy: The increase is as a result of changes in the levy payable period by pension schemes from 6 months to 3 months. The industry assets grew by 7 percent and this resulted in more levy payables in the period.

(c) Cleaning Expense: Reduction is as a result of negotiated cheaper contract for cleaning services.

(d) Hire of Equipment: Delay in the procurement of outsourced printers

(e) Maintenance Insure & Security of Equipment: The Authority secured a cheaper cost of insurance through the new contract as compared to the previous contract.

(f) Motor Vehicle Maintenance & Security: The fuel card of the authority was delayed hence less usage of the vehicles & purchase of planned additional vehicles did not take place since the authority had projected there maintenance costs.

(g) Pension Contribution: Recruitment of the projected staff was delayed due to austerity measures imposed by the Government

(h) Financial Literacy (Scheme Visit): Increased number of activities due to the creation of a new department.

(i) Personnel Emoluments: Delayed recruitment of the projected staff due to austerity measures imposed by the Government

(j) Power & Lighting: Delay in conclusion of the contract for 4th floor office space

(k) Printing & Stationary: Authority introduced measures to reduce wastage of paper

(l) Rent & Ground Rates: Delay in conclusion of the lease contract for occupation of the 4th floor office space

(m) Tribunal Expenses: High cost of trainings for the members and increased no. of cases as the tribunal members terms were expiring.

Property Plant and Equipment: Government freeze on capital expenditures necessitated by the call for merger of financial service regulators

NOTES TO FINANCIAL STATEMENT AS AT 30TH JUNE 2017

1. Statement of compliance and basis of preparation- IPSAS 1

The Authority's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency. The accounting policies have been consistently applied to all the years presented. The Authority adopted IPSAS in the year 2014 following the gazettment of the Public Sector Accounting Standards Board (PSASB), which was established by Public Finance Management Act (PFM) No.18 of sector entities, which the Authority complies with. The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Public Sector Accounting Standards (IPSAS).

The financial statements have been prepared on the basis of historical cost and on accrual basis. The cash flow statement is prepared using the Indirect Method.

2. Adoption of new and revised standards

Authority did not have an early adopt any new or amended standards in the year

3. Summary of significant accounting policies

a) Fees, interest and other income

Licensing fees paid by service providers and interest income from investments and deposits are accounted for on accrual basis.

b) Changes in accounting policies and estimates- IPSAS 3

The Authority recognizes the effects resulting from changes in accounting policy retrospectively. The effects of changes in accounting policy are applied if retrospective application is impractical.

c) Foreign currency transactions - IPSAS 4

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Exchange differences, are recognized as income or expenses in the period in which they arise.

d) Inventories - IPSAS 12

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

e) Subsequent events - IPSAS 14

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June, 30, 2017.

f) Property, plant and equipment- IPSAS 17

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual's assets with specific useful lives and depreciated them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is required in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value. The assets are depreciated on reducing balance method as follows:

Furniture and fittings	12.5%
Equipment	25%
Motor Vehicles	25%

Gain and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining surplus for the year.

g) Contingent liability- IPSAS 19

There was no contingent liability as at June 30th, 2017

h) Provisions- IPSAS 19

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

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

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

The over provision accrued in the prior years is credited to income while under provisions are charged to income of subsequent year.

i) Budget information- IPSAS 24

The approved budget and actual expenditure are included in the Financial Statements.

j) Employee benefits - IPSAS 25

Retirement benefit plans

The Authority operated a defined contribution scheme and the Authority thus had no obligation to scheme as at 30.06.2017. The assets of the scheme are managed and held by registered fund manager and custodian as per the requirement of Retirement Benefits Act, 1997.

k) Financial instruments- IPSAS 30

Financial assets

Initial recognition and measurement

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate.

The Authority determines the classification of its financial liabilities at initial recognition.

l) Intangible assets- IPSAS 31

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

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

m) Research and development costs

The Authority expenses research costs as incurred.

n) Taxes- IAS 12

Public Finance Management Act (PFMA) - National Government Regulations, 2015 exempt the Authority from corporate tax and instead the Authority is required to remit into Consolidated Fund (90%) of surplus reported in the Audited annual financial Statement.

o) Nature and purpose of reserves

The Authority creates and maintains reserves in terms of specific requirements.

p) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which

are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year.

q) Comparatives figures

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

r) Related parties

The Authority has disclosed all related party transactions during this reporting period under staff and Board costs. A summary of top Management and Board emoluments are as follows:

NOTES TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2017

	2017 Kshs	Restated 2016 Kshs
4 Revenue from Non Exchange transactions		
Retirement Benefits Levy	750,840,665	719,965,494
Service providers licensing fees	3,250,000	3,100,000
	<u>754,090,665</u>	<u>723,065,494</u>
5 Revenue from exchange transactions		
Investment income from T- Bills	32,794,323	50,612,471
Interest income on Bank deposits	5,507,591	5,719,255
	<u>38,301,914</u>	<u>56,331,726</u>
6 Other Income		
Tribunal fess	47,140	88,700
Miscellaneous income	35,762,984	21,350,274
Total	<u>35,810,124</u>	<u>21,438,974</u>
7 Employee costs		
Medical Expenses	22,990,407	18,137,044
Personnel cost	255,622,121	250,843,416
Pension Contribution	28,313,000	30,759,400
Total	<u>306,925,528</u>	<u>299,739,860</u>
8 Repairs & Maintenance of Equipment		
Motor maintenance	8,346,618	3,491,031
Maintenance of Equipment & insurance	2,998,435	1,833,775
Total	<u>11,345,053</u>	<u>5,324,807</u>
9 General Expenses		
Member Education Seminars	21,505,818	16,828,792
Financial Literacy Activities	15,496,120	13,119,023
Pension Industry Development	9,023,010	11,109,112
Consumer Protection (Education)	30,513,255	23,771,761
Professional Charges	42,389,877	22,664,938
Cleaning Expenses	1,077,880	1,349,245
Power & Lighting	4,764,340	3,254,627
Official Entertainment	3,101,872	2,853,506
Office Running Expenses	8,683,830	9,683,123
Library Expenses	2,681,699	2,552,979
Rent & Ground Rates	36,330,779	37,676,117
Training & Development	26,482,532	22,031,268

Staff welfare - Sports & recreation	11,434,591	7,853,511		
Post & Telephone	8,139,884	6,229,038		
Travel & Accommodation	35,695,522	29,744,103		
Tribunal Expenses	11,851,781	3,510,428		
Hire of Equipment	1,037,975	621,326		
Research & Development	36,446,469	29,560,173		
Information Technology Systems	22,403,424	18,859,379		
Printing & Stationery expenses	3,175,391	4,034,480		
	332,236,048	267,306,930		
10 Finance cost				
Bank charges	521,869	371,429		
	521,869	371,429		
11 Directors Expenses				
Sitting Allowance	5,020,000	4,288,766		
Travelling & accommodation/Lunch	5,722,029	2,450,873		
Board Training	7,125,989	4,190,600		
Board e-board	576,481	3,652,988		
Luncheon/Photos/Gifts/V.A.T	616,760	2,534,009		
Chairman Honorarium	960,000	138,000		
Total	20,021,259	17,255,236		
12 Gain/ Loss on Sale of Assets				
Property, plant & Equipment @cost	4,873,447	-		
Less: Accumulated depreciation	(3,559,786)	-		
Proceeds from sales	(232,750)	-		
Total	1,080,911	-		
13 Cash & Cash Equivalent				
KCB - Milimani (Main Account)	90,824,592	25,929,299		
KCB - Milimani (Revenue A/C)	19,797,881	20,298,928		
Barclays Bank (Office Account)	50,802,685	4,131,849		
Total	161,425,157	50,360,089		
14 Investment in Government papers				
Investment in 91 Treasury Bills	509,005,200	666,506,600		
Investment in 182 Treasury Bills	-	-		
	509,005,200	666,506,600		
15 Bank Deposits :				
RBA Rent Guarantee Deposit	4,896,534	4,896,534		
KCB Car Loan Security Account	36,005,248	36,005,248		
S & L Mortgage Deposits	228,697,968	225,448,117		
NIC Car Loan Deposit	9,885,144	9,722,529		
HFCK Mortgage Deposits	30,242,665	29,146,821		
Total	309,727,558	305,219,248		
16 Income Receivable				
Staff on seconded at Treasury	2,280,000	12,237,000		
Interest receivable on T-Bills	5,059,699	9,503,776		
	7,339,699	21,740,776		
17 Prepayment				
Prepayment	6,984,874	2,954,669		
Provision for doubtful debts	(919,647)	(919,647)		
Total	6,065,227	2,035,022		
18 PROPERTY PLANT AND EQUIPMENT AT THE YEAR ENDED 30 JUNE 2017				
	MOTOR	OFFICE	FURNITURE	TOTAL
	VEHICLE	EQUIPMENT	FITTING	

	(KShs')	(KShs')	(KShs')	(KShs')
COST/VALUATIONS:-				
01.07.2016	28,488,207	107,549,886	34,957,055	170,995,148
Additions in the quarter	18,855,828	1,821,988	1,574,491	22,252,307
Disposal in the year	-	2,976,282	1,897,166	4,873,447
30.06.2017	47,344,035	106,395,592	34,634,380	188,374,008
DEPRECIATION:				
01.07.2016	23,245,068	70,290,130	17,184,404	110,719,602
Charge for the period	1,966,178	15,129,648	2,786,667	19,882,493
Depreciation w/back on disposal		2,369,950	1,189,837	3,559,786
30.06.2017	25,211,246	83,049,828	18,781,235	127,042,309
NET BOOK VALUES:-				
30-Jun-17	22,132,789	23,345,764	15,853,145	61,331,699
30-Jun-16	5,243,139	37,259,757	17,772,651	60,275,547

PROPERTY PLANT AND EQUIPMENT AT THE YEAR ENDED 30TH JUNE 2016

	MOTOR VEHICLE (KShs')	OFFICE EQUIPMENT (KShs')	FURNITURE FITTING (KShs')	TOTAL (KSh's)
COST/VALUATIONS:-				
01.07.2015	28,488,207	104,954,103	34,193,534	167,635,844
Additions in the quarter		2,595,783	763,521	3,359,304
Disposal in the year	-	-	-	-
30.06.2016	28,488,207	107,549,886	34,957,055	170,995,148
DEPRECIATION:				
01.07.2015	20,623,497	54,806,709	14,342,057	89,772,263
Charge for the period	2,621,571	15,483,421	2,842,348	20,947,339
Depreciation w/back on disposal				
30.06.2017	23,245,068	70,290,130	17,184,405	110,719,602
NET BOOK VALUES:-				
30-Jun-16	5,243,139	37,259,757	17,772,651	60,275,547
30-Jun-15	7,864,709	50,147,393	19,851,478	77,863,581

19	RBA Trust Fund		
	RBA Trust Fund b/f	7,421,834	8,304,274
	Trust Fund paid	(7,421,834)	(882,440)
	Additional Trust Fund Received in year		-
	Total RBA Trust Fund		7,421,834
	RBA Trust Fund b/f	-	1,771,650
	Transferred (Fund managed independently)	-	(1,771,650)
	RBA Benevolent fund	-	-
	Total	-	-
20	Employee Benefits Obligations		
	Staff Bonus	12,411,545	26,110,462
	Staff Gratuity	1,100,000	9,148,600
	Board Bonus	3,200,000	3,200,000
	Total	16,711,545	38,459,062
21	Creditors		
	Insurance & maintenance of mv expenses	196,054	33,750
	Office Equipment @ cost	297,064	-

Power & Lighting	426,858	402,161
Board Expenses	50,800	130,800
Cleaning Expenses	87,651	-
Maintenance of Office Equipment	25,000	194,880
Official Entertainment	149,100	-
Pension Industry Development	192,000	318,288
Printing & Stationary	55,300	-
Library Expenses	-	23,533
Research & Development	2,469,703	8,171,309
Office Running Expenses	293,705	-
Travel & Accommodation	174,213	-
Audit fees	750,000	750,000
Professional service expenses	642,432	242,000
Medical Expenses	4,500,000	-
Telephone & other communication expenses	247,956	102,957
Information system expenses	750,800	1,337,153
Total	11,308,636	11,706,831
Total Creditors	28,020,181	50,165,893

Capital Fund

22	Capital Fund	109,357,000	109,357,000
		109,357,000	109,357,000

Accumulated Surplus

23	General reserve fund	939,192,554	869,709,982
	Surplus paid to GOK	(157,864,775)	(120,597,035)
	Net Profit (Current Year)	136,189,543	190,079,907
	Total	917,517,322	939,192,554

24. Related party

The Authority has disclosed all related party transactions during this reporting period under staff and Board Costs. A summary of Top Management and Board emoluments are as follows:

Related Party Balances	2017 Kshs'	2016 Kshs'
The National Government 90% remittance	157,864,775	120,597,035
The National Treasury	-	-
Key Management Compensation	48,320,000	49,080,000
Directors Fees	5,920,000	3,120,000
Total	212,104,775	172,797,035

