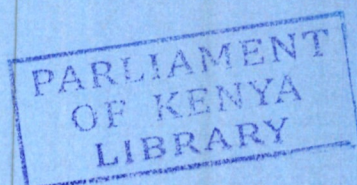
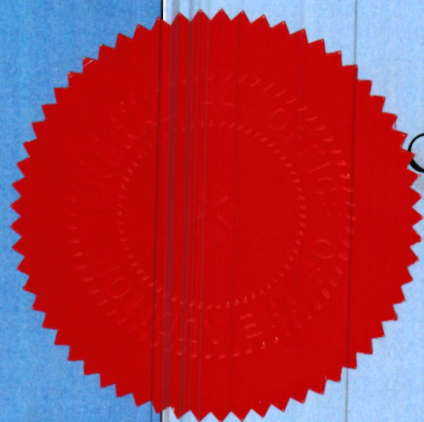


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



**REPORT**

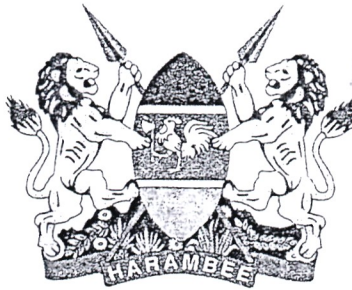
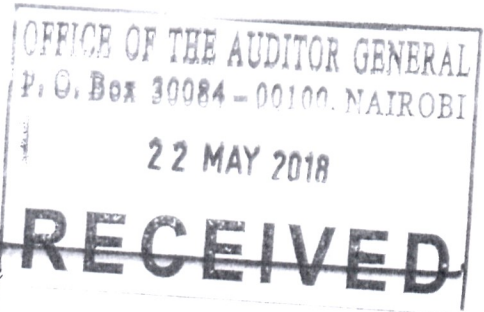
**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
ASIAN OFFICERS FAMILY PENSION  
FUND**

**FOR THE YEAR ENDED  
30 JUNE 2017**



**PENSION FUND NAME: ASIAN OFFICERS FAMILY PENSION FUND**

**IMPLEMENTING ENTITY: NATIONAL TREASURY**

**FUND IDENTIFICATION NUMBER:901**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2017**

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

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## **1. NATIONAL TREASURY INFORMATION AND MANAGEMENT**

### **(a) Background Information**

The National Treasury was established via the Executive Order No. 2 of May, 2013. The basis for establishment of the National Treasury is found in Article 225(i) of the Constitution of Kenya which states that an Act of Parliament shall provide for the establishment, functions and responsibilities of the National Treasury. This has been actualized in Section 11 and 12 of the Public Finance Management (PFM) Act, 2012.

At Cabinet level, the National Treasury is represented by the Cabinet Secretary for Finance, who is responsible for the general policy and strategic direction of the Ministry.

#### **Vision**

An institution of excellence in economic and public financial management.

#### **Mission**

To promote economic transformation for shared growth through formulation, implementation and monitoring of prudent economic and financial policies at national and county levels of government.

#### **Core Values**

The National Treasury is committed to providing quality services to all and is guided by the following core values: Customer Focus, Results Oriented, Stakeholder participation, professionalism, Accountability, Integrity and Transparency, Teamwork and Staff as key asset and Equity, Fairness and Inclusion.

#### **Mandate of the National Treasury**

The National Treasury derives its mandate from Article 225 of the Constitution, Public Finance management Act, 2012 and the Executive Order No.2/2013. The National Treasury will be executing its mandate in consistency with any other legislation as may be developed or reviewed by Parliament from time to time.

The core functions of the National Treasury as derived from the above legal provisions include:-

- Formulate, implement and monitor macroeconomic policies involving expenditure and revenue;
- Manage the level and composition of national public debt, national guarantees and other financial obligations of national government;

- Formulate, evaluate and promote economic and financial policies that facilitate social and economic development in conjunction with other national government entities;
- Mobilize domestic and external resources for financing national and county government budgetary requirements;
- Design and prescribe an efficient financial management system for the National and County Governments to ensure transparent financial management and standard financial reporting.
- In consultation with the Accounting Standards Board, ensure that uniform accounting standards are applied by the national government and its entities;
- Develop policy for the establishment, management, operation and winding up of public funds;
- Prepare the Annual Division of Revenue Bill and the County Allocation of Revenue Bill;
- Strengthen financial and fiscal relations between the National Government and County Governments to develop their capacity for efficient, effective and transparent financial management; and
- To prepare the National Budget, executive/implement and control approved budgetary resources to MDAs and other Government Agencies/Entities.

### **Role of the National Treasury in the Devolved System of Government**

The National Treasury is mandated by law to:

- Strengthen financial and fiscal relation between the National Government and County Governments and encourage support for County Governments in performing their functions;
- Assist County Governments to develop their capacity for efficient, effective and transparent financial management;
- Prepare the Annual Division of Revenue Bill and the County Allocation of Revenue Bill;
- Provide logistical support to intergovernmental institutions overseeing intergovernmental fiscal relations;
- Coordinate the development and implementation of financial recovery plans for County Governments that are in financial distress;
- Coordinate capacity building of County Governments on public finance management matters.

#### **(b) Key management**

The National Treasury day-t-day management is under the following key offices:

### **Office of the Principal Secretary**

This office is responsible for the administration of the National Treasury for efficient delivery of public services that have been assigned to this Ministry. The Principal Secretary is also charged with the responsibility of rendering advice to the Cabinet Secretary in order to enhance efficiency and collective responsibility of the National Treasury.

### **Organizational Structure of the National Treasury**

The National Treasury is organized into four (4) technical Directorates headed by Directors General and One (1) Administrative and Support Service Directorate headed by the Principal Administrative Secretary. Each Director General is responsible for a Directorate comprising a cluster of Departments responsible for related policy functions. The Directorates and Departments are as follows:-

#### **(i) Directorate of Budget, Fiscal and Economic Affairs**

The Directorate is headed by a Director General, reporting to the Principal Secretary, National Treasury. It is organized into the following five (5) Technical Departments each headed by a Director:

- Budget Department;
- Macro and Fiscal Affairs Department
- Financial and Sectoral Affairs Department
- Inter-Governmental Fiscal Relations Department
- Public Procurement Department

#### **(ii) Directorate of Accounting Services and Quality Assurance**

The Directorate is headed by a Director General reporting to the Principal Secretary, National Treasury. It is organized into the following four (4) Technical Departments each headed by a Director:-

- Government Accounting Services;
- Internal Audit Services Department;
- Financial Management Information System (FMIS)
- National Sub-County Treasuries

**(iii) Directorate of Portfolio Management**

The Directorate is headed by a Director General reporting to the Principal Secretary, National Treasury. It is organized into the following four (4) Technical Departments each headed by a Director:-

- Government Investment and Public Enterprises;
- National Assets and Liabilities Management;
- Pensions Department;
- Public Private Partnership Unit.

**(iv) Directorate of Public Management Office**

The Directorate is headed by a Director General reporting to the Principal Secretary, National Treasury. It is organized into the following three (3) Technical Departments each headed by a Director:-

- Resource Mobilization (Front Office)
- Debt Policy, Strategy and Risk Management (Middle Office)
- Debt Recording and Settlement (Back Office)

**(v) Directorate of Administrative and Support Services (Common Shared Services)**

The Directorate is headed by a Director General reporting to the Principal Secretary, National Treasury. It is organized into twelve (12) specialized functions offering common shared services. The common shared services of the National Treasury consist of functions that are not core to the national Treasury but officer critical support services to the National Treasury. The functions include:-

- Accounting;
- Finance;
- Human Resource Management and Development;
- Central Planning and Project Monitoring;
- Supply Chain Management;
- Legal;
- Public Communication;
- General Administration;
- Records Management;
- Internal Audit;
- ICT;
- Government Clearing Agency.

**(c) Fiduciary Management**

The key management personnel who held office during the financial year ended 3th June, 2017 and who had direct fiduciary responsibility were:

<b>NO</b>	<b>DESIGNATION</b>	<b>NAME</b>
1.	Principal Secretary	Dr. Kamau Thugge, EBS
2.	Principal Administrative Secretary	Mr. Mutua Kilaka, CBS, SS
3.	Director General, BFEA	Dr Geoffrey Mwau, EBS
4.	Director General, Accounting Services	Mr. Bernard Ndung'u, MBS
5.	Director General, PIPM	Ms. Esther Koimett, CBS
6.	Director General, PDMO	Mr. Jackson Kinyanjui, OGW
7.	Director, Macro and Fiscal Affairs Department	Mr. Musa Gathanje
8.	Director, Budget Department	Mr. Francis Anyona, OGW
9.	Director, Financial and Sectoral Affairs Department	Mr. Christopher Oisebe
10.	Ag Director, Public Procurement Department	Mr. Eric Korir
11.	Director, Intergovernmental Fiscal Relations Department	Mr. Albert Mwenda, HSC
12.	Internal Auditor General	Mr. Alfayo Mogaka
13.	Ag Director, Government Accounting Services Department	Mr. Jona Wala
14.	Ag Director, National Sub County Treasuries	Mr. Jona Wala
15.	Ag Director, Financial Management Information System	Mr. Jerome Ochieng
16.	Director, Public Private Partnership Unit	Eng. Stanley Kamau
17.	Director, National Assets and Liability Management	Mrs Beatrice Gathirwa
18.	Director, Government Investment and Public Enterprises	Mr. Kennedy Ondieki
19.	Director, Pensions Department	Mr Shem Nyakutu
20.	Director, Resource Mobilization Department	Mr. Jackson Kinyanjui, OGW
21.	Director, Debt Policy, Strategy and Risk Management Department	Mr. Daniel Ndolo
22.	Ag Director, debt Recording and settlement Department	Mrs Felister Kivisi
23.	Director of Administration	Mr David Oleshege, OGW
24.	Head, Accounts Division	Mr. George Gichuru
25.	Chief Finance Officer	Mr. Kimathi Mugambi, HSC
26.	Head, SCM	Mr. Peter Momanyi
27.	Director, Human Resource Management and Development	Ms. Susan Mucheru
28.	Ag Director, Information Communication and Technology	Mr. George Kariuki
29.	Head, Central Planning and Project Monitoring Unit	Mr. Antony Muriu
30.	Head, Public Communications	Mr. Maina Kigaga
31.	Programme Coordinator, Public Financial Management Reform Secretariat	Mr. Julius Mutua
32.	Head, Government Clearing Agency	Mr. Felix Ateng

**(d) Fiduciary Oversight Arrangements**

To manage the fiduciary risk, the National Treasury has put in place fiduciary oversight arrangements including setting up committees. The key oversight arrangements include:

**(i) Internal Audit Unit**

The National Treasury has a well-resourced internal Audit Unit. The unit is charged with the responsibility of identifying risks in the management and day to day operations of the Ministry through the risk based audits. The Unit reports directly to the accounting officers on a regular basis.

**(ii) Audit Committee**

The National Treasury established an audit committee comprising officers from all departments of the Ministry, under the chairmanship of the Chief Finance Officer. The Committee reviews and analyses all audit queries and makes recommendations on how to reduce fiduciary risks. In addition, the committee prepares responses to all audit queries for presentation to the relevant committees of parliament.

Other fiduciary oversight arrangements include the following committees with specific objectives;

**(iii) Senior Management Committee**

To monitor the implementation of the Ministry's programmes and performance, the National Treasury has appointed a Senior Management Committee comprising of Directors General and Heads of Departments. The Committee receives reports from departments, builds consensus on National Treasury responses to emerging issues, challenges and risks and ensures that the decisions of top management are implemented in a timely manner.

**(iv) Public Financial Management Sector Working Group**

To facilitate the implementation of Financial Management Reform, the National Treasury had appointed senior officers to the Public Financial Management Sector Working Group. The Committee plays an oversight role in the implementation of financial reforms in the public service in collaboration with the development partners.

**(v) Budget Implementation Committee**

To monitor the implementation of the Ministry's budget, programmes and activities, the National Treasury has appointed a committee comprising of

officers from all the Departments of the Ministry. The Committee reviews and analyses the progress made by Departments in the implementation of budget and the planned programmes and activities and advises the management accordingly.

**(vi) Monitoring and Evaluation**

The Ministry undertakes monitoring and evaluation exercises to establish progress made in the implementation of various programmes and projects including those that are funded by the development partners.

**(a) The National Treasury**

P. O. Box 30007-00100,  
Treasury Building,  
Harambee Avenue  
**Nairobi, Kenya**  
Telephone: (54)020-2252299  
Email: [info@treasury.go.ke](mailto:info@treasury.go.ke)  
Website: [www.treasury.go.ke](http://www.treasury.go.ke)

**(b) The National Treasury Bankers**

Central Bank of Kenya  
Haile Selassie Avenue  
P. O. Box 60000  
City Square 00200  
**Nairobi, Kenya**

**(c) Independent Auditors**

Auditor General  
Kenya National Audit Office  
Anniversary Towers, University Way  
P. O. Box 30084  
GO 00100  
**Nairobi, Kenya**

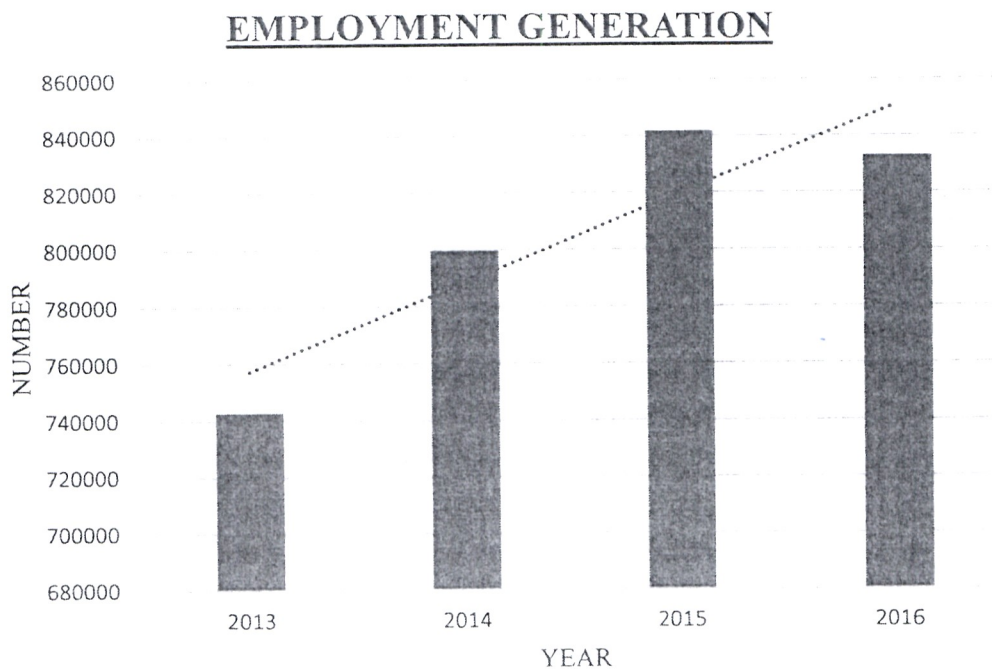
**(d) Principal Legal Adviser**

The Attorney General  
State Law Office  
Harambee Avenue  
P. O. Box 0112  
City square 00200  
**Nairobi, Kenya**

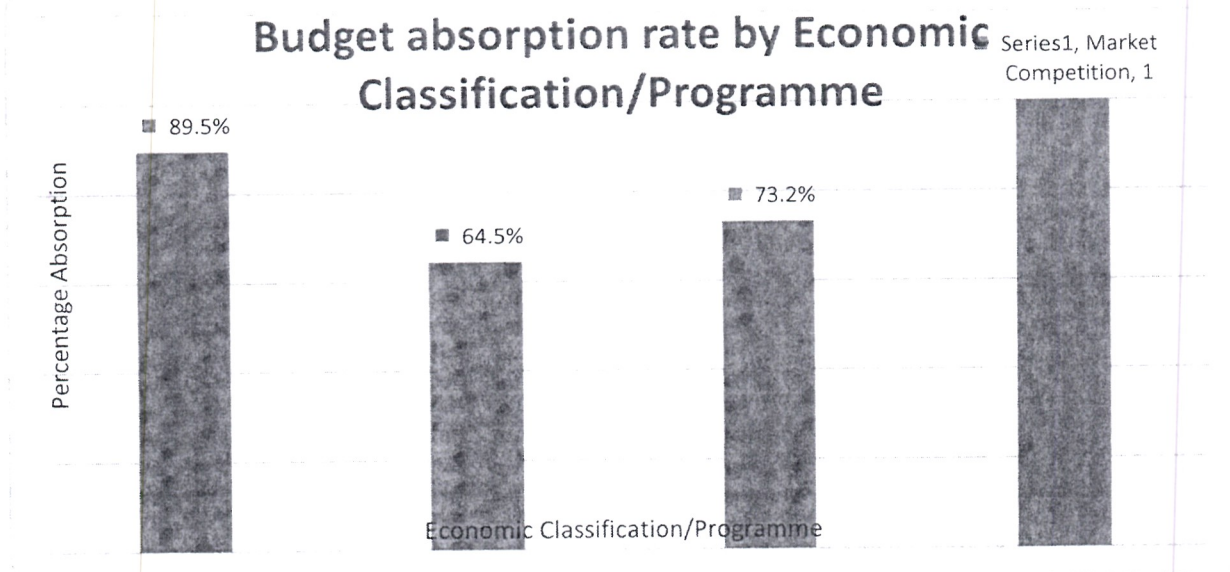
## 2. FORWARDED BY THE CABINET SECRETARY

The National Treasury is mandated to coordinate economic and financial management of the country in accordance with section 12 of the Public Finance Management Act, 2012. Overall, the National Treasury has strived to maintain a policy environment that is conducive to economic growth and development of the country. As a result of consistent implementation of bold economic policies, structural reforms and sound macroeconomic management, the economy grew by 5.8 per cent in 2016 compared to 5.6 per cent in 2015. This was above the average 1.4 per cent growth rate registered for sub- Sahara Africa. The sectors that registered significant improved performance in economic activities were; accommodation and food services; information and communication; real estate; and transport and storage. Persistent drought hampered growth in the fourth quarter of 2016 impacting negatively on agriculture and electricity supply.

The annual inflation rate was 8.1% in June 2017 compared to 6.5% in the same period in June 2016. This was largely on account of high food prices following adverse weather conditions. The Kenya shilling exchange rate however continued to display relatively less volatility compared to the East African currencies while the official foreign exchange reserves held by the Central Bank grew to **US\$ 8,500 million** (5.7 month of import cover) in June 2017 from **US\$ 8,267 million** (5.4 months of import cover) in the same period in 2016. The economic growth and stable macroeconomic environment led to the creation of 832,900 new jobs in 2016 broken down into 85,600 jobs in the modern sector and 747,300 jobs in the informal sector. Cumulatively, the economy is estimated to have generated 3,217,200 new jobs between 2013-2016 as shown in the bar graph below:-



In terms of budget performance, the National Treasury expenditure stood at **Kshs.35,563,916,019.00** against an approved budget of **Kshs.37,527,564,690.00** in Recurrent while Development expenditure stood at **Kshs.16,668,950,121.00** against an approved budget of **Kshs.21,527,884,302.00** giving an overall absorption rate of 88.5%. The National Treasury implemented the 2016/17 budget within four economic classification/programmes. These were General Administration, Planning and Support Services, Public Financial Management, Economic and Financial Policy Formulation and Management and Market Competition. As demonstrated in the bar graph below, the Market Competition Programme had the highest absorption at 100% followed by General Administration, Planning and Support Services (89.5%), Economic and Financial Policy Formulation and Management (73.2%) and Public Financial Management Programme at 64.5%.



Utilisation of the budget was carried out through various activities as shown in the table below:

	Approved Budget Allocation	Actual Payments	Variance
Payments	KShs	KShs	KShs
Compensation of Employees	2,393,400,581.00	2,177,407,291.15	215,993,289.85
Social Contributions	0.00	0.00	0.00
Goods and Services	16,204,555,515.00	13,898,644,098.30	2,305,911,416.70
Routine Maintenance	121,383,364.00	89,824,691.10	31,558,672.90
Subsidies to Public Corporations	1,050,000,000.00	1,050,000,000.00	0.00
Grants and Other Transfers to International Organisations	1,283,656,005.00	1,150,831,076.15	132,824,928.85
Grants & Transfer to other Govt. Units	25,267,659,516.00	25,060,536,140.65	207,123,375.35
Other Transfers and Emergency Relief	3,710,329,340.00	3,152,942,824.75	557,386,515.25
Social Security Benefits	1,805,634.00	0.00	1,805,634.00
Budget contingency Reserve	0.00	0.00	0.00
Acquisition of Fixed Capital Assets	2,332,414,837.00	1,418,732,823.25	913,682,013.75
Domestic Lending and On-lending	2,015,000,000.00	1,850,000,000.00	165,000,000.00
Domestic Equity Participation	600,000,000.00	600,000,000.00	0.00
Foreign Equity Participation	4,075,244,200.00	1,782,536,438.00	2,292,707,762.00
<b>Total Payments</b>	<b>59,055,448,992.00</b>	<b>52,231,455,383.35</b>	<b>6,823,993,608.65</b>

The Ministry's payments mainly comprise of Transfers to Other Government entities i.e. Projects, State Corporations, Semi-Autonomous Government Agencies (SAGAs) and employee compensation, subscriptions and acquisition of assets.

### Total Payment Breakdown

Payment	Year to 30 <sup>th</sup> June 2017	Year to 30 <sup>th</sup> June 2016	Change	%
	KShs	KShs	KShs	Change
Compensation of Employees	2,177,407,291.15	2,226,957,812.40	49,550,521.25	(2.2)
Social Contributions	0.00	0.00	0.00	0
Goods and Services	13,898,644,098.30	10,828,491,721.50	3,072,355,888.95	(28.4)
Routine Maintenance	89,824,691.10	217,510,677.30	127,685,986.20	58.7
Subsidies to Public Corporations	1,050,000,000.00	0.00	1,050,000,000.00	0
Grants and Other Transfers to International Organisations	1,150,831,076.15	154,303,947.45	996,527,128.70	645
Grants & Transfer To Other Govt. Units	25,060,536,140.65	25,341,007,430.65	280,471,290.00	(1.1)
Other Transfers and Emergency Relief	3,152,942,824.75	9,995,466,792.70	6,842,523,967.95	(68.4)
Social Security Benefits	0.00	0.00	0.00	0
Budget Contingency Reserve	0.00	5,000,000,000.00	5,000,000,000.00	(1000)
Acquisition of Fixed Capital Assets	1,418,732,823.25	2,333,505,123.40	914,772,300.15	(39.2)
Domestic Lending and On-lending	1,850,000,000.00	2,020,826,471.05	170,826,471.05	(8.4)
Domestic Equity Participation	600,000,000.00	375,000,000.00	225,000,000.00	60
Foreign Equity Participation	1,782,536,438.00	3,750,304,751.30	1,967,768,313.30	(52.4)
<b>Total Payments</b>	<b>52,232,866,140.00</b>	<b>62,243,374,727.75</b>	<b>10,005,846,797.25</b>	

The total payments for FY 2016/2017 stood at **Kshs. 52,232,866,140.00** representing an decrease from **Kshs.62,243,374,727.75** for FY 2015/2016.

The decrease in payments is attributable to a significant decrease in Transfers to Other Government entities i.e. Projects, State Corporations, Semi-Autonomous Government Agencies (SAGAs) and contingency reserves. Further, there was also a decrease in compensation of employees attributed to staff transferred from the Ministry and retirement.

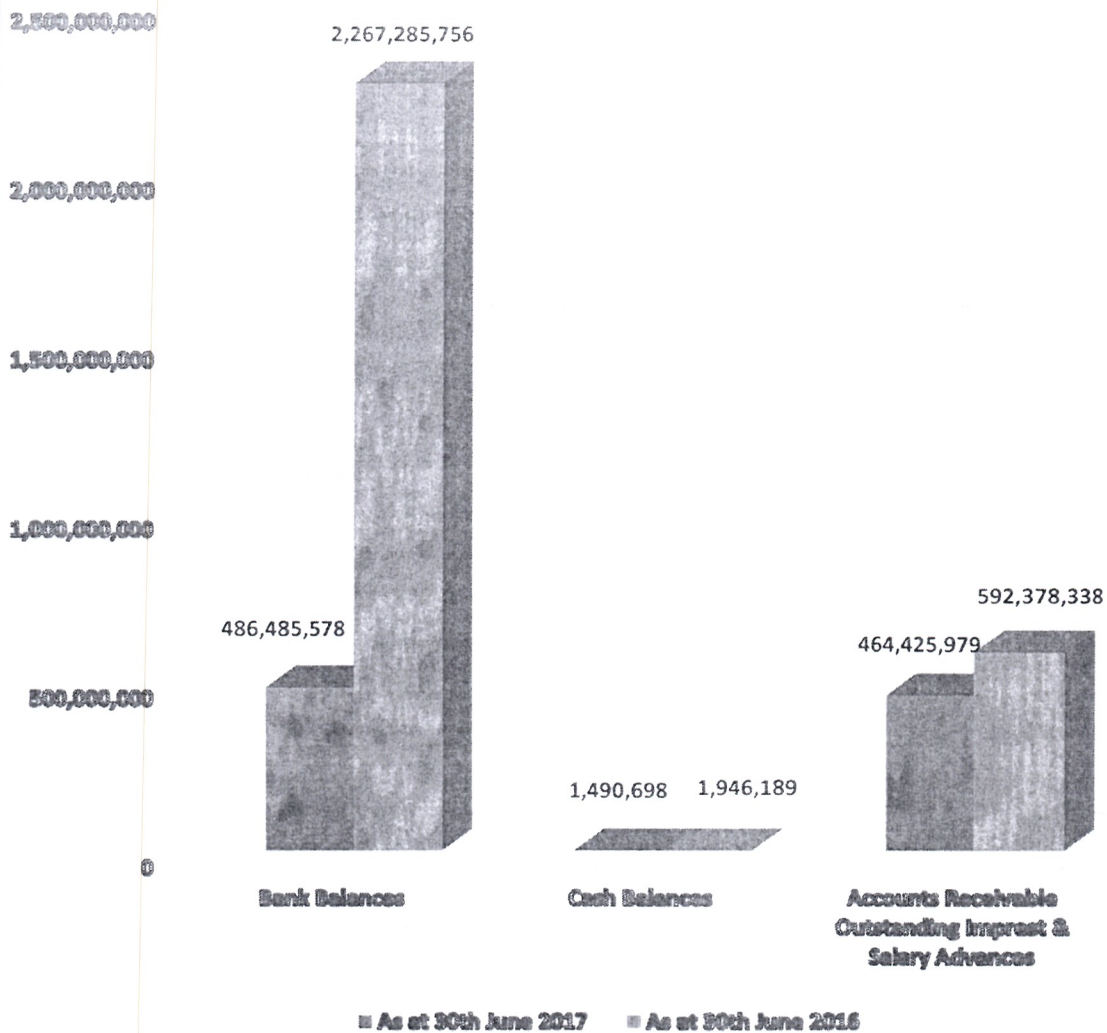
### Financial Assets Summary

Financial Assets	As at 30 <sup>th</sup> June 2017	As at 30 <sup>th</sup> June 2016	Change	%
	KShs	KShs	KShs	Change
Bank Balances	1,781,246,794.00	2,267,285,756.00	486,038,962.00	(21.4)
Cash Balances	1,490,696.00	1,946,189.00	455,493.00	(23.4)
Accounts Receivables - Outstanding Imprest & Salary Advances	464,425,979	592,378,338.00	127,952,359	(21.6)
<b>Total Financial Assets</b>	<b>2,247,163,469.00</b>	<b>2,861,610,283.00</b>	<b>614,446,446,814.00</b>	

Bank balances decreased by 21.4% as a result of decreased deposits held in our Deposit Bank Account.

Cash balances declined by 23.4% due to increased cash related transactions at the year-end. There is also a decline in accounts receivables by 21% as a result of prompt accounting for imprest advance by the imprest holders and funds released to projects.

**Total Financial Assets in Kshs**



**Cash Flows and Cash Position**

The cash and bank balances held by the Ministry as at 30<sup>th</sup> June 2017 was **Kshs.1,782,737,490/=** compared to **Kshs.2,269,231,945.00** held as at 30<sup>th</sup> June 2016.

The National Treasury continued to implement its mandate of supporting the devolved system of Government. In terms of payments, the County Governments received a total of **Kshs.302.2 billion** in 2016/2017 up from **Kshs.275.1 billion** in 2015/2016. Since their establishment in March 2013, County Governments have received more than **Kshs.1 trillion** from the National Government. The National Treasury submitted to Parliament the Equalization Fund Appropriations bill which has since been enacted and further conducted public participation to identify projects to be implemented under this fund. In addition the National Treasury trained over 800 officers from County Governments on Public Financial Management in 2016/17.

Other key achievements during the period under review are;

- The National Treasury launched the M-Akiba Mobile Platform for issuance of Government Bonds on 23<sup>rd</sup> March 2017. The special limited offer achieved its **Kshs.150 million** target within 13 days. With 102,632 registrations, this offer demonstrated the appetite and zeal of Kenyans to adopt and use technology to boost their well-being. M-Akiba will enhance a savings culture among Kenyans and promote financial inclusion even to the unbanked population.
- The National Treasury mobilized external resources amounting to **Kshs.292.8 billion** in 2016/17 which was above the fiscal target of **153.0 billion**. This positive variance is mainly attributed to capacitating the economy to mitigate against the drought related challenges that affected the country.
- The National Treasury was able to prepare the 2017/18 budget under a revised tight calendar that took into account the preparations of the 2017 General Elections. In addition, the National Treasury also prepared a Pre- Election Economic and Fiscal Report which was published as provided for in the Constitution.
- In its commitment to deepen the Financial Markets the Ministry finalized the Nairobi International Financial Centre Bill that was subsequently approved by Parliament.
- The National Treasury hosted the 2<sup>nd</sup> High Level Meeting on Global Partnership on Economic Development Conference in Nairobi from 28<sup>th</sup> November to 1<sup>st</sup> December 2016, where ministers and high level representatives of developing and developed countries as well as heads of multilateral and bilateral development agencies committed to effective development cooperation as a means to achieve the universal Sustainable Development Goals (SDGs).

Some of the challenges the National Treasury faced while implementing the 2016/17 budget include:-

1. Lack of adequate funds to finance all the budget requests by Ministries, Departments and Agencies.
2. Inadequate funds to finance all the programmes and projects of the National Treasury.
3. Inadequate funds to finance all the programmes and projects of the National Treasury.
4. Slow enactment of relevant regulations and related legal instruments to facilitate financial sector deepening.
5. High turnover of staff especially in the core technical areas of the National Treasury.

To surmount the above challenges and ensure successful implementation of the National Treasury goals and objectives, the Ministry will:-

1. Continue to maintain a prudent fiscal stance consistent with the medium-term debt targets while pursuing a shift in the composition of expenditure towards development priorities.
2. Implement reforms in public financial management to enable the government mobilize adequate financial resources.
3. Strengthen capacity building in public financial management to MDAs and County Governments to ensure that the high expectations linked to devolution are met.
4. Enhance the Government's cash management system to avoid undue pressure on payment flows and interest rates, and reduce borrowing costs for the government and the private sector.
5. Promote the Public Private Partnership initiatives to finance government capital projects.
6. Engage other developments partners for concessional loans and grants as well as pursue strategies to facilitate issuance of international bonds to finance government projects.
7. Implement the External Resources Policy for efficient management of external resources and increase absorption.
8. Fast track and implement the proposed new scheme of service for the National Treasury officers to retain staff.
9. Ensure constant collaboration between the National Treasury and all the Stakeholders.
10. Strengthen monitoring and evaluation framework.



HENRY K. ROTICH, EGH  
CABINET SECRETARY

### 3. STATEMENT OF THE PENSION FUND MANAGEMENT RESPONSIBILITIES

The *Principal Secretary* for the National Treasury and the Senior Assistant Accountant General for ***the Asian Officers Family Pension Fund*** are responsible for the preparation and presentation of the Pension Fund's financial statements, which give a true and fair view of the state of affairs of the Pension Fund for Asian officers Family Pension Fund and as at the end of the financial year ended on June 30, 2017.

This responsibility includes: (i) maintaining adequate financial management arrangement 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 Pension Fund; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Pension Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

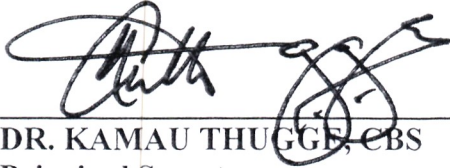
The *Principal Secretary* for the National Treasury and the Senior Assistant Accountant General for ***the Asian Officers Family Pension Fund*** accept responsibility for the Pension Fund's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The *Principal Secretary* for the National Treasury and the Senior Assistant Accountant General for ***the Asian Officers Family Pension Fund*** are of the opinion that the Pension Fund's financial statements give a true and fair view of the state of Pension Fund's transactions during the financial year ended June 30, 2017, and of the Pension Fund's financial position as at that date. The *Principal Secretary* for National Treasury and the Senior Assistant Accountant General for ***the Asian Officers Family Pension Fund*** further confirm the completeness of the accounting records maintained for the Pension Fund, which have been relied upon in the preparation of the Pension Fund financial statements as well as the adequacy of the systems of internal financial control.

The *Principal Secretary* for the National Treasury and the *Pension Fund* for ***the Asian Officers Family Pension Fund*** confirm that the Pension Fund has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Pension Fund funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Pension Fund financial statements

The Pension Fund financial statements were approved by the Principal Secretary for the National Treasury and the Senior Deputy Accountant General for the *Asian Officers Family Pension Fund* on 10/5/18 2018 and signed by them.



**DR. KAMAU THUGGE, CBS**  
Principal Secretary



**GEORGE K. GICHURU**  
Senior Deputy Accountant General  
ICPAK 9262

10/5/18

Date

10/5/18

Date

# REPUBLIC OF KENYA

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NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON ASIAN OFFICERS FAMILY PENSION FUND FOR THE YEAR ENDED 30 JUNE 2017

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Asian Officers Family Pension Fund set out on pages 20 to 27, which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

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 Asian Officers Family Pension Fund 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 (Cash Basis) and comply with the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, except for matters described in the Basis for Qualified Opinion section of my report, 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 Qualified Opinion

##### 1. Un-Supported Balances

The statements of financial assets and liabilities and as confirmed by note 9.4 reflects receivables balance of Kshs.15,200,000 relating to cash owed by the defunct Cereals and Sugar Finance Corporation CSFC that is undergoing a winding up process. The balance is however not supported by deposit certificates or other documentary evidence.

Further, the sundry debtors receivables reported in the previous years of Kshs.248,021,691 is an amount due from the Joint Consolidated Fund (JCF) which was not supported but which has since been cleared from the books of the fund without providing adequate documentation on how the balance were subsequent written off.

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*Report of the Auditor-General on the Financial Statements of Asian Officers Family Pension Fund for the year ended 30 June 2017*

Therefore, the receivable of Kshs.15,200,000 reflected in the statement of financial assets and liabilities cannot be confirmed correct.

## **2. Failure to Provide Records for Verification**

As reported in the Auditor General report for the year 2015/2016, the statement of receipts and payment reflected an expenditure of 1,328,196 being pension payments made during the year. The amount included Kshs.144,000 paid to four beneficiaries whose files were not provided for verification. Further in the current year under review, the statement of receipts and payments reflect an expenditure of Kshs.1,635,696 which includes payments of Kshs.107,800 to two beneficiary of files No.BPN/PB 589 and BPN/PB 1688 that the Department failed to avail for audit verification. Therefore, it is not possible to confirm the validity of the pension paid.

## **3. Irregular Pension Payment**

The previous year audit revealed that pension payments, of Kshs.519,800 were made to two deceased beneficiaries between the year 2007 and 2015. A further Kshs.42,000 was paid between July 2015 and Jan 2016. The families of the two beneficiaries notified the department of the demise of the pensioners in September 2007 and February 2008 respectively. The Department, however, continued to make payments until January 2016. The total payment made to the deceased pensioners was kshs.519,800.

The Department has so far recovered Kshs.418,710 which had been disbursed to the bank but not withdrawn. The balance of Kshs.143,090 has not been recovered. Further, the recovered amount was received in the Department's main bank account and has not been transferred to the Fund Account.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Asian Officers Family Pension Fund in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibility in accordance with the ISSAI and in accordance with other ethical requirement applicable to performing audits of financial statements in Kenya. I belief 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 judgement, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section of my report, I have determined that there are no Key Audit Matters to communicate in my report.

## **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 (Cash 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 Fund's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable 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.

Those charged with governance are responsible for overseeing the Fund'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. 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.

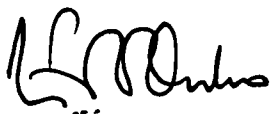
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 Fund'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 management's use of the sustainability of services 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 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 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**

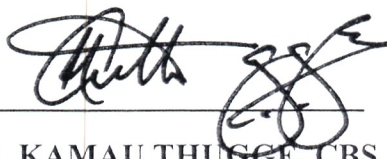
**Nairobi**

**30 May 2018**

5. **STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30TH JUNE, 2017**

	Note	2017	2016
		Kshs	Kshs
<b>RECEIPTS</b>			
Dividend Income	9.1	2,134,685	5,291,730
<b>Total receipts</b>		<b><u>2,134,685</u></b>	<b><u>5,291,730</u></b>
<b>PAYMENTS</b>			
Payment of pensions	9.2	1,635,696	1,328,196
<b>TOTAL PAYMENTS</b>		<b><u>1,635,696</u></b>	<b><u>1,328,196</u></b>
<b>SURPLUS/DEFICIT FOR THE YEAR</b>		<b><u>498,989</u></b>	<b><u>3,963,534</u></b>

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.



DR. KAMAU THUGGE, CBS  
 Principal Secretary



Date



GEORGE K. GICHURU  
 Senior Deputy Accountant General  
 ICPAK 9262

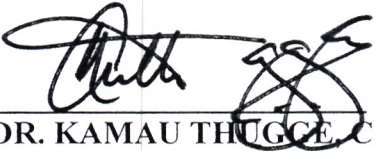



Date

6. STATEMENT OF FINANCIAL ASSETS AND LIABILITIES AS AT 30TH JUNE, 2017

	Note	2017 Kshs	2016 Kshs
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Investments	9.3	37,178,830	37,178,830
<b>CURRENT ASSETS</b>			
Receivables	9.4	15,300,680	93,221,691
Cash Equivalents	9.5	<u>450,912,125</u>	<u>448,250,862</u>
		<u>466,212,805</u>	<u>541,472,553</u>
<b>TOTAL FINANCIAL ASSETS</b>		<u>503,391,635</u>	<u>578,651,383</u>
<b>LIABILITIES</b>			
Members contributions	9.6(a)	37,680,778	37,680,778
Payables	9.6(b)	<u>267,672</u>	-
<b>TOTAL NET ASSETS</b>		<u>465,443,185</u>	<u>540,970,605</u>
<b>FINANCED BY:</b>			
Capital Account (Ledger)	9.7	122,295,935	122,295,935
Accumulated Surplus Income B/forward	9.8	342,648,261	414,711,136
Surplus/Deficit for the year		498,989	3,963,534
<b>NET FINANCIAL POSITION</b>		<u>465,443,185</u>	<u>540,970,605</u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 10/5/18 2018 and signed by:

  
 DR. KAMAU THUGGE, CBS  
 Principal Secretary

  
 GEORGE K. GICHURU  
 Senior Deputy Accountant General  
 ICPAK 9262

10/5/18  
 Date


10/5/18  
 Date

7. STATEMENT OF CASHFLOW FOR THE PERIOD 30<sup>TH</sup> JUNE, 2017

	Notes	2017 KShs.	2016 KShs.
Dividend Income	9.1	2,134,685	5,291,730
Payment of Pensions	9.2	(1,635,696)	(1,328,196)
		498,989	3,963,534
Net cash flow from operating activities		498,989	3,963,534
Other Receipts	9.9	267,672	
Other payments	9.10	(100,680)	
<b>CASHFLOW FROM INVESTING ACTIVITIES</b>			
Reduction on Receivables-JFC	9.4	1,995,282	120,000,000
<b>NET INCREASE IN CASH AND CASH EQUIVALENT</b>			
		2,661,263	123,963,534
Cash and cash equivalent at Beginning of the year		448,250,862	324,287,328
Cash and cash equivalent at end of the year		<u>450,912,125</u>	<u>448,250,862</u>

The accounting policies and explanatory notes to these financial statements forms an integral part of the financial statements. The entity financial statements were approved on

10/5/18 2018 and signed by:

  
 DR. KAMAU THUGGE CBS  
 Principal Secretary

Date:

  
 GEORGE K. GICHURU  
 Senior Deputy Accountant General  
 ICPAK 9262

Date:

## **8. SIGNIFICANT ACCOUNTING POLICIES**

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

### **8.1 Statement of compliance and basis of preparation**

The financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) with particular emphasis on Cash Basis Financial Reporting under the Cash Basis of Accounting. The financial statements comply with and conform to the form of presentation prescribed by the Accounting Standards Board of Kenya.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the Pension Fund and all values are rounded to the nearest one Shilling. The accounting policies adopted have been consistently applied to all of the years presented.

The financial statements have been prepared on the cash basis following the Government's standard chart of accounts. The cash basis of accounting recognises transactions and events only when cash is received or paid out by the Pension Fund.

### **8.2 Recognition of revenue and expenses**

The Pension Fund recognises all revenues from the various sources when the event occurs and the related cash has actually been received by the Pension Fund. In addition, the Pension Fund recognises all expenses when the event occurs and the related cash has actually been paid out by the Pension Fund.

### **8.3 In-kind donations**

In-kind donations are contributions made to the Pension Fund in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value of in-kind donations can be reliably determined, the Pension Fund includes such value in the statement of receipts and payments both as revenue and as an expense in equal and opposite amounts; otherwise, the donation is not recorded.

### **8.4 Cash and cash equivalents**

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

## **8.5 Pending bills**

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year/period or in past years/periods. As pending bills do not involve the payment of cash in the reporting period, they are simply disclosed as an Annex to the financial statements. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

## **8.6 Budget**

The budget is developed on the same accounting basis (cash basis), the same accounts classification basis, and for the same period as the financial statements. The Pension Fund's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. A high-level assessment of the Pension Fund's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

## **8.7 Exchange rate differences**

The accounting records are maintained in the functional currency of the primary economic environment in which the Pension Fund operates, Kenya Shillings. Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions.

Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of receipts and payments.

## **8.8 Comparative figures**

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

## **8.9 Subsequent events**

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

## 9. NOTES TO THE FINANCIAL STATEMENTS

### 9.1 DIVIDEND INCOME

RECEIPTS	2017	2016
	Kshs.	Kshs.
Dividend Income	2,134,725	5,291,730
<b>TOTAL</b>	<b><u>2,134,725</u></b>	<b><u>5,291,730</u></b>

The dividend Income relates to dividend from KPLC for Ordinary Shares.

### 9.2 PAYMENTS OF PENSIONS

	2017	2016
PAYMENTS	Kshs	Kshs
Government pension and retirement benefits	<u>1,635,696</u>	<u>1,328,196</u>

### 9.3 INVESTMENTS

	2017	2016
	Kshs.	Kshs.
Investments in shares	37,178,830	37,178,830

#### 9.4 RECEIVABLES

	2017	2016
	Kshs.	Kshs.
Sundry debtors interest receivables	78,021,691	248,021,691
Cash owed by Joint Consolidated Fund (JFC)		
Less: Cash Received from National Treasury		<u>(120,000,000)</u>
Adjustment of Dividend of 2014/2015		<u>(50,000,000)</u>
Adjustment of Dividend of 2015/2016	(76,026,408.65)	
Cash received from Treasury-2015/2016	(1,995,282.40)	
Pension from European	<u>100,680</u>	
Cash owed by Cereals and Sugar Finance Corporation(CSFC)	15,200,000	15,200,000
	<b><u>15,300,680</u></b>	<b><u>93,221,691</u></b>

#### 9.5 CASH AND CASH EQUIVALENTS

	2017	2016
	Kshs	Kshs
Cash (PMG) Annex I	<b><u>450,912,125</u></b>	<b><u>448,250,862</u></b>

#### 9.6(a) PERSONAL CONTRIBUTION


Personal contributions E.A.C	530,610	530,610
Personal contribution E. A.C Customs	5,006	5,006
Government Contributions	1,219,565	1,219,565
Fines	1,082,904	1,082,904
Profit/loss Realisation of investment	<u>33,393,016</u>	<u>33,393,016</u>
	<b><u>37,680,778</u></b>	<b><u>37,680,778</u></b>





### 10. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the External Audit report	Issue/Observations from Auditor	Management Comments	Focal point person to resolve the issue (Name and designation)	Status (Resolved/Not resolved)	Time frame: (Put a date when you expect the issue to be resolved)
1.	Investment held in insolvent C&SFC-Ksh.15,200,000.00	Recoverability of the amount will be determined when winding process will be finalized	Shem Nyakutu	Not Resolved	
2.	Irregular Pension payment-Kshs.591,800.00	Bank has continued to pay back the money. We have since written to the bank to remit the balance of Kshs.101,090.00	Shem Nyakutu	Not Resolved	
3.	Failure to provide records for verification	Effort to retrieve the files from the archives is being made.	Shem Nyakutu	Not Resolved	
4.	Un-supported balance-Ksh.93,221,691.00	Figure of Kshs.78,021,691.00 has been cleared. Balance of Kshs.15,200,000.00 is held in the insolvent C&SFC in the process being wound up.	Shem Nyakutu	Not Resolved	

  
DR. KAMAU THUGGE  
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GEORGE GICHURU  
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Date 

Date