

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



*Paper Laid
on Tuesday 4/8/15
by Hon Aden Duara
The L.O.M. 6
AD*

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
RETIREMENT BENEFITS AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE 2014**





**ANNUAL REPORT &
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2014**

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CORPORATE INFORMATION

The Authority is a State Corporation established under Section 3 (1) of Retirement Benefits Act 1997.

Board of Directors:

The Board of Directors who served during the financial year are as follows:

Mr. Kanyi Gachoka	-	Chairman
Principal Secretary	-	PS, The National Treasury
Mrs. Thamuda Omar Hassan	-	Member
Mr. Jacob N Onkunya	-	Member
Mr. Sammy Makove	-	Member
Mr. Paul Muthaura	-	Member
Mr. Cleophas Agingu	-	Member
Ms. Agnes Nyaguthie	-	Member
Dr. Edward Odundo	-	Member & CEO

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Upper Hill Road
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E-mail: info@rba.go.ke
Website: www.rba.go.ke

Bankers: Kenya Commercial Bank Ltd
Milimani Branch
NSSF Building
Bishops Road
P. O. Box 48400 - 00100
NAIROBI

Barclays Bank of Kenya Ltd
Enterprise Road
Po Box 18060
NAIROBI
Fax 543388

NIC Bank
Head Office
NIC House, Ground Floor
Masaba Road
Po Box 44599 - 00100
Tel 254-020-288-8208
Fax 254-020-288-8513

Housing Finance Company of Kenya
Head Office: Rehani House
Kenyatta Avenue / Koinange Street
PO Box 30088 – 00100 GPO Nairobi

Auditors: Auditor General
Kenya National Audit Office
P O Box 30084 – 00100 GPO
NAIROBI- KENYA

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, The National Treasury on the national policy to be followed with regard to the retirement benefits industry and implement all government policies relating thereto.

Corporate Information

The Board of Directors

In line with the requirements of the Retirement Benefits Act and indeed good corporate governance principles, the Board continues to represent a skills-mix appropriate to its role and function. Members of the Board, other than ex-officio members, hold office for a period not exceeding four years, and are eligible for reappointment for one more term for a period not exceeding four years.



Dr Kamau Thugge - Principal Secretary The National Treasury
Year of Birth — 1956
Nationality — Kenyan
Education — BA (Econ), MA (Econ), and Ph.D in Economics.



Mr Kanyi Gachoka - Chairman
Year of Birth — 1968
Nationality — Kenyan
Education — LL.B, Advocate of the High Court



Dr Edward Odundo, MBS (CEO, RBA)
Year of Birth — 1958
Nationality — Kenyan
Education — FCPA, FCPS, FKIM, BSc, MSc (Business Administration), Ph.D (Strategic Management)



Mr Cleopas Agingu
Year of birth — 1969
Nationality — Kenyan
Education — Bachelor of Education



Mrs Thamuda Omar Hassan
Year of Birth — 1953
Nationality — Kenyan
Education — BA Economics & Sociology



Mr. Sammy Makove (CEO, IRA)
Year of Birth — 1959
Nationality — Kenyan
Education — Bachelor of Commerce, Masters in Psychology

Board of Directors...cont.



Mr Jacob Onkunya
Year of Birth — 1952
Nationality — Kenyan
Education — Master in Business Administration from the United States International University (USIU) and a Bachelors degree in Economics from University of Nairobi.



Mr Paul Muthaura
Year of Birth — 1978
Nationality — Kenyan
Education — Bachelor of Laws degree (University of Warwick), Masters in Banking and Finance Law (London School of Economics), undertaking a Doctorate in Business Administration at the Maastricht School of Management.



Ms Agnes Nyaguthie
Year of Birth — 1968
Nationality — Kenyan
Education — Master of Business Administration and Management

Management Team



Mr. David Nyakundi
Board Secretary,
Chief Manager,
Legal
(LLB, LLM, CPS
- Kenya)



Dr. Edward Odundo, MBS
Chief Executive Officer
(BSc., MBA, PhD, FCPA,
FKIM, FCPS)



Mr. Gordon Bulinda
Chief Manager,
Human Capital
Development &
Administration
(BEd, PGD, MBA)



Ms. Rose Kwena
Chief Manager,
Corporate
Communications
(BA, PGD, MSc)



**Ms. Elizabeth
Waruingi**
Manager, Internal
Audit & Risk Mgt.
(BA, MBA, CPA,
CIA, CISA, CRMA)



Dr. Alfred Shem Ouma
Chief Manager,
Research & Strategy
BA (Econ.), MA
(Econ.), PhD (Econ.)



Mr. Jesse K. Kiptim
Chief Manager,
Finance
(MBA, CPA-K)



Mr. Charles Machira
Chief Manager,
Supervision
(BSc, MSc)



Mr. Dennis Abuya
Manager, ICT
(BSc, MSc, MBA, CISA)



Mr. Nzomo Mutuku
On Secondment to
National Treasury as
Financial Sector Adviser
(BA, MA - Economics)



Ms. Anne Mugo
On Secondment as
Director of Pensions
(BCom, MBA, ACII)

**CORPORATE GOVERNANCE STATEMENT
RETIREMENT BENEFITS AUTHORITY**

FOR THE YEAR ENDED 30 JUNE 2014

The Board of Directors for Retirement Benefits Authority who were in the office in the financial year ended 30 June 2014 are detailed under corporate information.

Composition and Role of the Board

The management of the Authority vest in the Board of Directors which comprises of nine (9) directors (5) of whom are independent non-executive including the Chairman. These directors bring a wealth of experience in matters relating to the administration of pension funds, banking, insurance, law and actuarial services. The other (4) members are: the Chief Executive Officer who is responsible for the day to day management of the affairs of the Authority, the Principal Secretary, The National Treasury, The Chief Executive Insurance Regulatory Authority and the Chief Executive Capital Market Authority

The Board defines the Authority's corporate strategies vital to the achievement of its objects and functions as set out under Retirement Benefits Act.

Committees of the Board

The Board has set up principal Committees each with its own charter which sets forth the purposes, goals and responsibilities of the committees as well as qualifications for committee membership, procedure for appointment and removal and committee reporting to the Board. This is intended to facilitate efficient decision making of the Board in discharging its duties and responsibilities.

Finance and Administration Committee

The membership of this Committee is comprised as follows:

Agnes Nyaguthie - Chairperson
Sammy Makove
Thamuda Omar Hassan
PS, Treasury /Alternate Dr. Geoffrey Mwau
Inspector General (Corporations) Rep. Theodora Gichana

The committee held four (4) regular meetings in the year under review.

Audit and Risk Management Committee

The membership of this Committee is comprised as follows:

Jacob Onkunya - Chairperson
Cleopas Agingu
Paul Muthaura
PS, Treasury /Alternate Dr. Geoffrey Mwau
Inspector General (Corporations) Rep. Theodora Gichana

The Committee held four (4) regular meetings in the year under review.

Staff Welfare and Remuneration Committee

The membership of this Committee is comprised as follows:

Cleopas Agingu - Chairperson
Agnes Nyaguthie
Jacob N Onkunya
PS, Treasury /Alternate Dr. Geoffrey Mwau
Inspector General (Corporations) Rep. Theodora Gichana

The committee held four (4) regular one (1) special meetings in the year under review.

Chairman's Statement

Overall assets under management

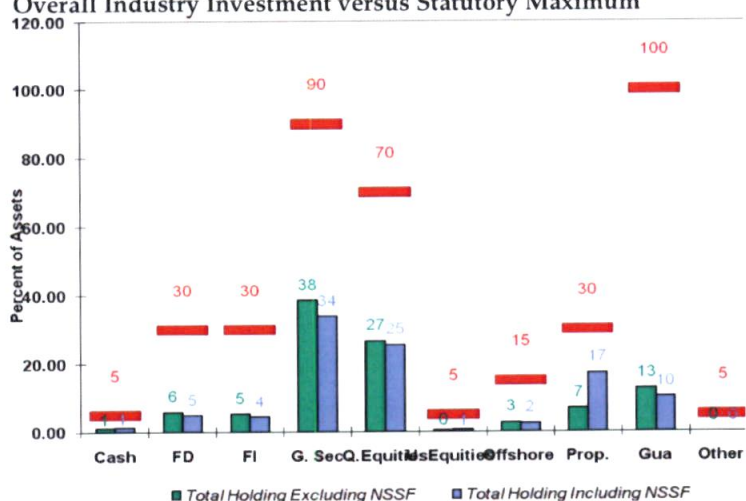
Total Industry assets grew by 9.9 per cent in the second half of the year 2013 to stand at Kshs.696.68 billion as of December 31, 2013. Compared to last year, December 2012, the assets under management have grown by 27 per cent from 548.7 Billion to 696.68 Billion. The amount was composed of the Kshs.564.82 billion held by the fund managers and insurance issuers, Kshs.92.86 billion that is internally administered by National Social Security Fund (NSSF) and an additional Kshs.39 billion of property investments directly managed by scheme trustees. The assets under fund management included Kshs.43.4 billion of NSSF funds that are externally managed by the six contracted managers. Similar to other periods, fund managers continued investing heavily in Government Securities and Quoted Securities with the two investments constituting the largest share of the industry assets at 59.2 per cent of total assets under management. In the period under review, there was a marked growth across all asset classes except in the cash and property asset classes which registered negative returns at -16.37 per cent and -1.21 per cent, respectively.

Overall Industry Investment Portfolio (Billions)

	December 2012		June 2013		December 2013		Change 2013- 2013	June December
	Kshs	%	Kshs	%	Kshs	%		
1 Government Securities	190.3	35	211.0	33.31	235.16	33.75		11.45
2 Quoted Equities	130.4	24	147.69	23.31	177.41	25.47		20.12
3 Immovable Property	101.6	19	121.30	19.15	119.84	17.20		-1.21
4 Guaranteed Funds	48.1	9	65.41	10.33	71.46	10.26		9.25
5 Fixed Income	26.7	5	25.24	3.98	30.38	4.36		20.37
6 Fixed Deposits	27.1	5	32.92	5.20	34.17	4.91		3.80
7 Offshore	8.5	2	14.90	2.35	15.29	2.19		2.62
8 Cash	12.9	2	10.80	1.70	9.03	1.30		-16.37
9 Unquoted Equities	3.1	1	3.75	.59	3.94	.57		5.04
10 Unclassified	-	-	.45	.07	0	0		0
TOTAL	548.7	100	633.46	100	696.68	100		9.98

On average, all categories of investment were within the statutory maximum guidelines provided in the Retirement Benefits Regulations.

Overall Industry Investment versus Statutory Maximum



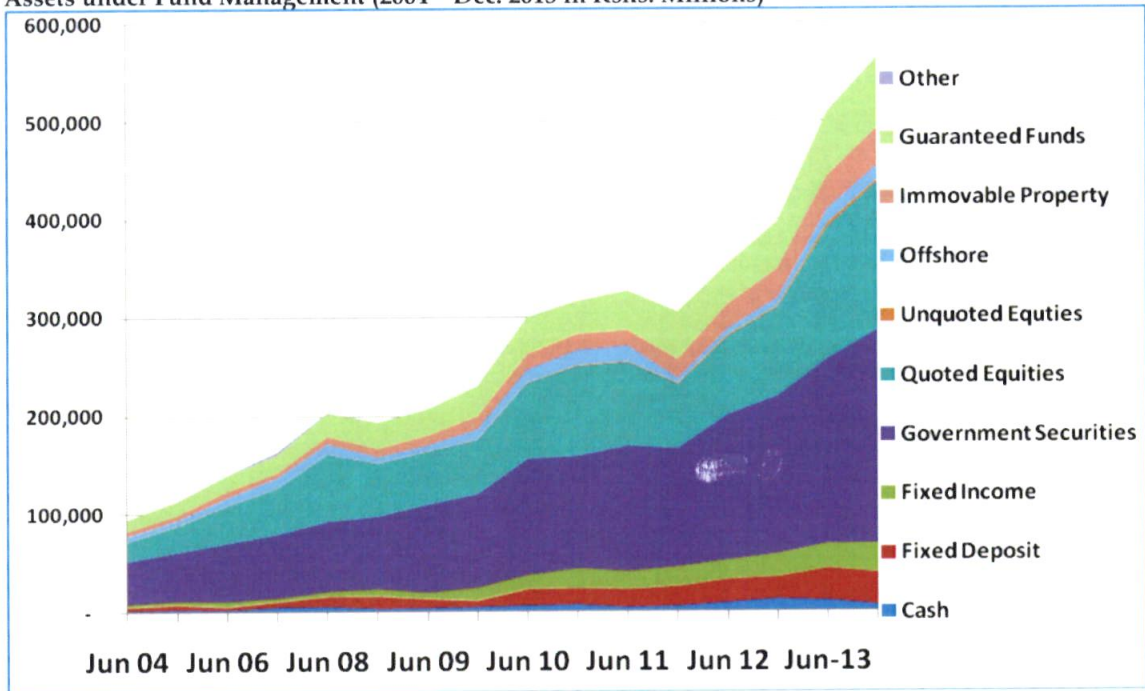
On a scheme to scheme basis, there was a marked improvement in scheme breaches for the period ending December 2013. There was an overall scheme breach status of 23% as 104 schemes of the 453 schemes who submitted returns had breached the guidelines. This is an improvement from the 27 per cent and 48 per cent marked breaches in June 2013 and December 2012 returns respectively. In similar pattern to other periods most breaches were detected in the short

term and fixed deposits asset classes with the two contributing to 66 per cent of the total breaches in the investment guidelines.

Assets held by fund managers and insurance issuers

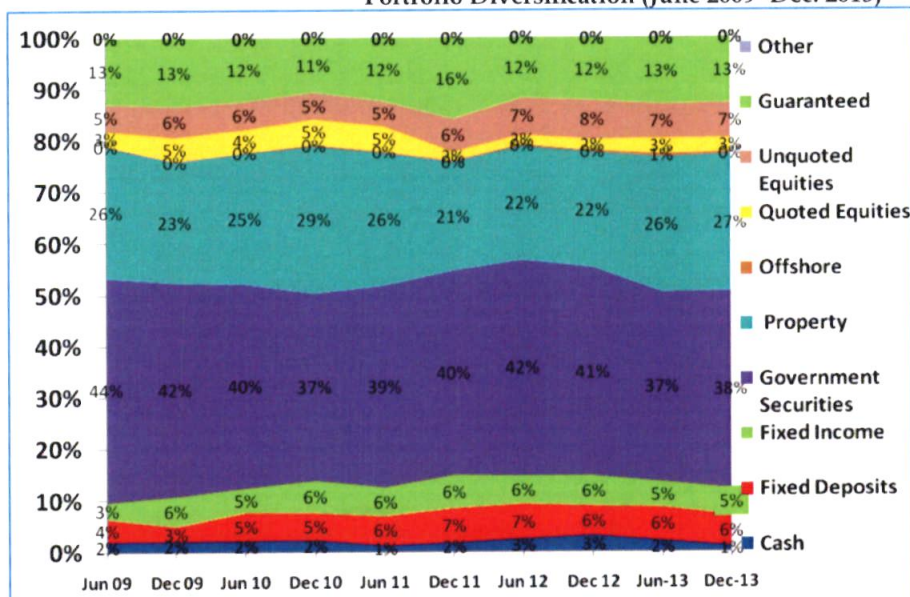
For the period ending December 2013, 16 fund managers and one insurance issuer (Kenya Alliance) submitted 1,304 scheme reports with a total fund value of Kshs.565 billion. This is an increase of 11 per cent of the total fund value from the Ksh.509 billion registered in June 2013. Over a one year period the asset fund value has increased by 19 per cent from Kshs.474 billion recorded in December 2012. The growth of the industry was as a result of a stable performance of the Nairobi Securities Exchange, revaluation of the assets held under property investments and good performance of the bond market.

Assets under Fund Management (2004 – Dec. 2013 in Kshs. Millions)



Asset classes with considerable growth within the half year period, between June 2013 –December 2013, were fixed income securities, government securities and immovable property with 18 per cent, 15 per cent and 14 per cent increase in assets, respectively. However investments in short term deposits (cash, demand and call deposits) and unquoted equity shrank by 41 per cent and 37 per cent, respectively. This is attributed to some managers divesting the funds in more long term investments.

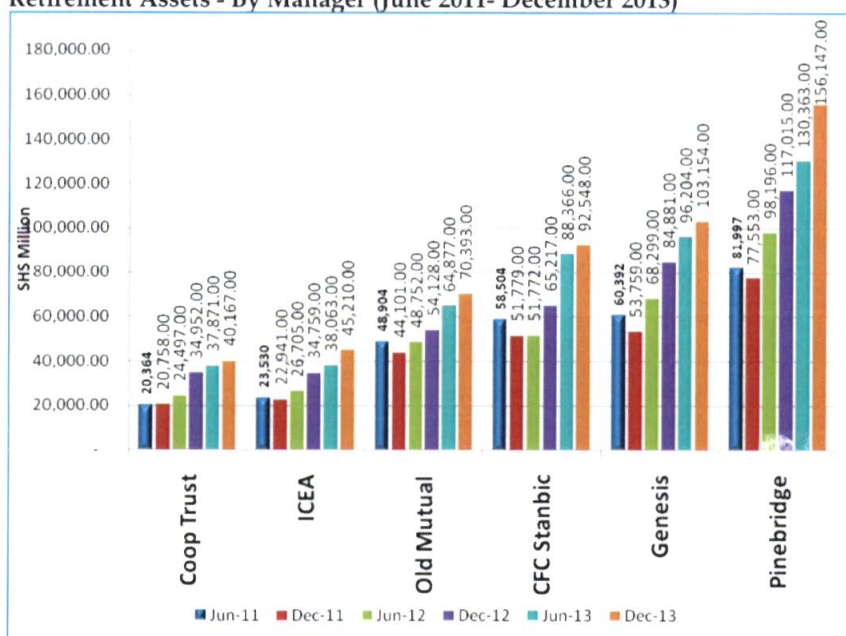
Portfolio Diversification (June 2009- Dec. 2013)



The fund manager managing the largest market share in terms of schemes under management was ICEA Lion with 356 schemes, or 27.3 per cent of total schemes under management of which 324 were guaranteed and 32 were segregated schemes. However the manager with the largest assets under management remained AIG PineBridge with 27.6 per cent of the market share at Ksh.156.1 billion of assets. Compared to the previous period the top tier fund managers (AIG PineBridge, Genesis Kenya, CFC Stanlib Kenya, and OMAM Kenya) continue to account for 75 per cent of the total investments under management accounting for Ksh. 422 billion.

The diagram presents six of the largest fund managers, who manage more than Kshs.20 billion, for a three year period from June 2011 to December 2013.

Retirement Assets - By Manager (June 2011- December 2013)

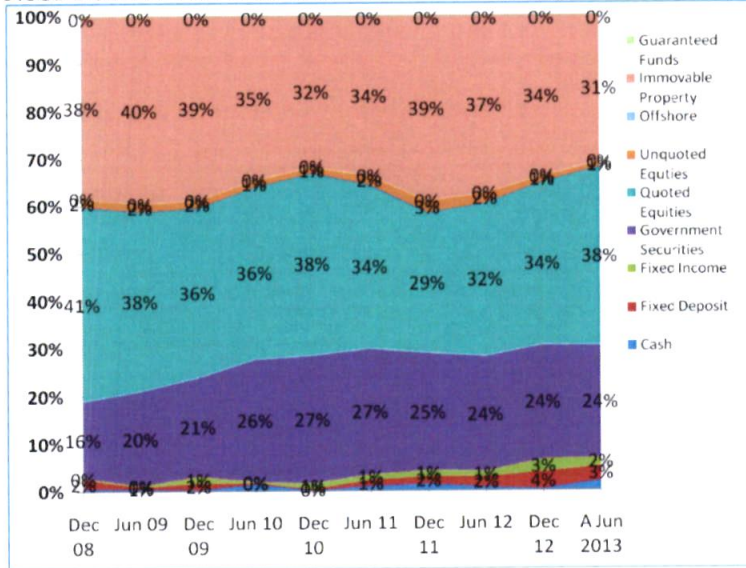


Assets held by NSSF

Total assets of the NSSF rose from Kshs.121.5 billion in December 2012 to Kshs.136.2 billion in June 2013 representing a 12 per cent growth in the total fund. Of this amount, Kshs.92.9 billion was managed in-house and Kshs.43.3 billion managed by the registered fund managers. There was a Kshs.6 billion increase or a 16 per cent growth in the assets managed externally from Kshs.37.3 billion to Kshs.43.3 billion. The total funds under the managers were well diversified though heavily in quoted equities and government securities at 55.4 per cent and 32.6 per cent, respectively.

The overall portfolio was diversified and is in compliance with the investment guidelines except for the immovable property assets which at 31 per cent of assets was above the statutory maximum of 30 per cent.

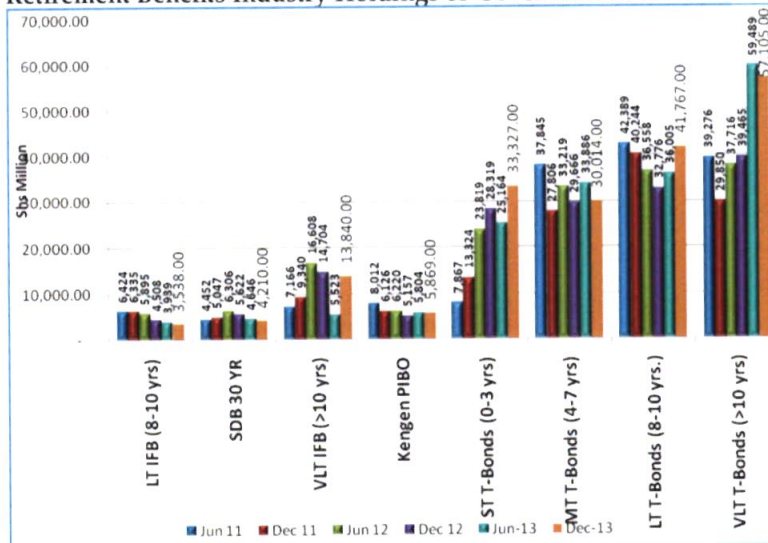
NSSF PORTFOLIO DIVERSIFICATION 2008-2013



Retirement benefits industry investment in government securities

Government securities accounts for the largest portion of investment at 33.75 per cent of the total assets under management. The industry total holdings of government securities stood at Kshs.235.16 billion as at December 2013 compared to Kshs.211 billion as at June 2013 an increase of 11.45 per cent. As indicated before, schemes moved back in investing in the longer term government securities with most fund managers investing in bonds with maturity rates of more than 10 years and between 8 to 10 years as indicated in the diagram below.

Retirement Benefits Industry Holdings of Government Securities

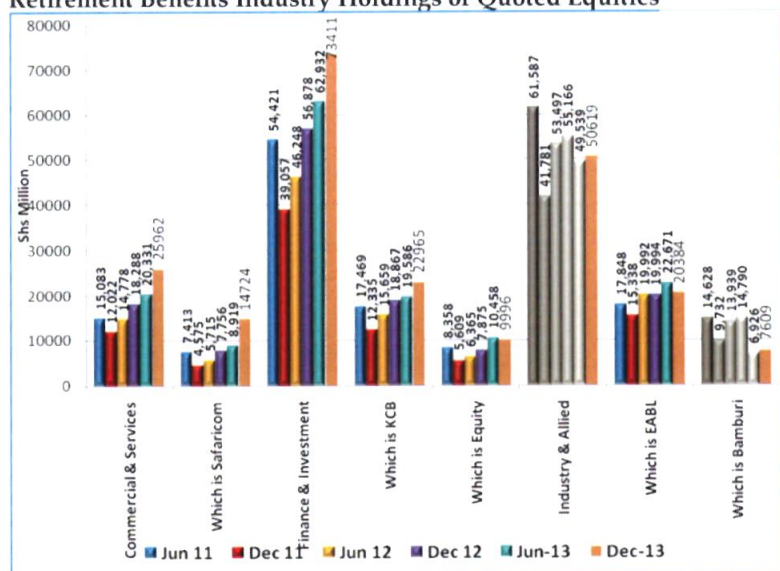


Retirement benefits industry investment in quoted equities

Industry investments in quoted equities rose by 20.12 per cent from Ksh.147.69 billion in June 2013 to Kshs.177.41 billion in December 2013. Marked by a stable market, investment in this asset class continued to register positive returns with all fund managers increasing the investments in this asset class. Investments in this asset class constituted 25.47 per cent of all assets under management. Similar to last year and the period ending June 2013, most investments were made in the banking and manufacturing and allied sectors constituting 66 per cent of all investment in quoted equities. However, the most stocks held by schemes were Kenya Commercial Bank, and East African Breweries Limited and

Safaricom Limited at Ksh.23 billion, Ksh.20.4 billion and Ksh.14.7 billion, respectively as represented in the table below.

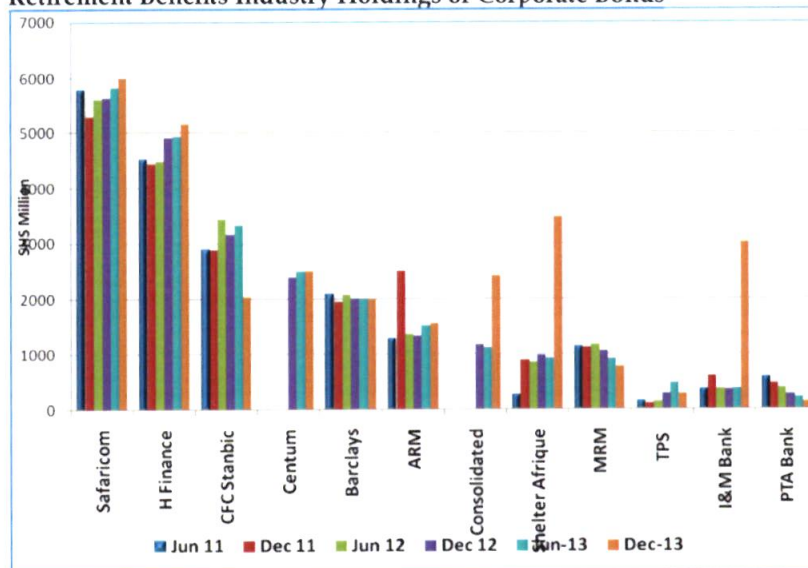
Retirement Benefits Industry Holdings of Quoted Equities



Retirement benefits industry investment in corporate bonds

Investments in this asset class increased by 18.01 per cent, from Kshs.25.2 billion invested in June 2013 to Kshs.29.8 billion in December 2013. The same trend was experienced over a one year period where the investments in this asset class increased by 21 per cent. This asset class represents 5.2 per cent of the total fund value. Similar to other periods, most fund managers invested in Safaricom, Housing Finance, and Shelter Afrique constituting 49 per cent of all investments in this asset class. The table below shows investments in this asset class over three-year period with more than Kshs.100 million investments.

Retirement Benefits Industry Holdings of Corporate Bonds



Individual retirement benefits schemes sector

The individual retirement benefits schemes membership continued to grow steadily by 28 per cent from 88,509 members in December 2012 to 113,316 registered members in December 2013. The total assets under individual retirement benefits schemes also grew by 27.5 per cent over the year to stand at Kshs.17.4 billion largely driven by contributions within the period and marked reduction in withdrawals out of the schemes. A significant part of the growth in membership

of this sub sector has come from the Mbao Pension Scheme targeting the informal sector which had 50,057 members as at December 2013 which was 44.2 per cent of the total membership in individual pension plans. However, in terms of assets, the Mbao Pension Scheme has Kshs.64.4 million in assets which is only 0.37 per cent of the total assets of the individual pension plans.

**Individual Retirement Benefits Schemes Data - in Kshs. Billions
(June 2010- June 2013)**

	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

Industry exposure to a single entity

Other than the government of Kenya, the retirement benefits industry has also invested heavily in Cash, Fixed Deposits and Fixed Income securities - Corporate Bonds and Quoted Equities. In this analysis, industry exposure is the overall exposure to a single entity of more than one per cent of the total assets under management. There were 14 entities that had an exposure of more than one per cent of total assets under management with Kenya Commercial Bank, Safaricom Limited, East African Breweries and Equity Bank having the greatest exposures as illustrated below.

Retirement Benefits Industry Overall Exposure to Single Entity as at June 2013, Kshs. Millions

	Amount Invested					As a Percentage of overall Industry Assets
	Cash	Fixed Deposits	Corp. Bonds	Quoted Equities	Total	
Kenya Commercial Bank	275.00	5,293.00		22,965.00	28,533.00	5.05
Safaricom Limited			5,996.00	14,724.00	20,720.00	3.67
EABL				20,384.00	20,384.00	3.61
Equity	469.00	1,331.00		9,996.00	11,796.00	2.09
Barclays Bank	1,008.00	2,690.00	1,990.00	5,662.00	11,350.00	2.01
NIC Bank	929.00	3,430.00		6,289.00	10,648.00	1.89
Standard Chartered	838.00	1,585.00		7,594.00	10,017.00	1.77
Co-op Bank	408.00	2,058.00		6,330.00	8,796.00	1.56
DTB	1,090.00	3,483.00		3,620.00	8,193.00	1.45
Housing Finance	382.00	2,136.00	5,153.00	115.00	7,786.00	1.38
Bamburi				7,609.00	7,609.00	1.35
BAT				7,117.00	7,117.00	1.26
NMG				6,847.00	6,847.00	1.21
I & M Bank	9.00	1,543.00	3,013.00	2,198.00	6,763.00	1.20
CFC Stanbic	390.00		2,037.00	3,602.00	6,029.00	1.07
ARM			1,563.00	4,258.00	5,821.00	1.03

Outlook for second half 2014

According to the African Development Bank, the economy is expected to grow at 5.7 per cent in 2014 backed by most sectors of the economy registering positive growth. However, there is potential to increase the rate of growth if the government addresses the challenges in the energy and mining sector and utilises the opportunities that exist in mining of minerals and the discovery of oil and gas.

In the pension sector the assets under management are set to increase with targeted campaigns at employers to encourage participation and financial literacy programmes that will encourage potential members to save towards retirement. The introduction of new assets such as Private Equity, Real Estate Investment Trusts (REITs) and other alternative investments is set to diversify the investment portfolio hence reducing the systemic risk as well as increasing members' benefits.

RBA's 2014-2019 Strategic Plan

The launch of the Authority fourth 2014-2019 Strategic Plan on June 27, 2014 underpins our commitment to regularly review the way we envision our future and develop the necessary procedures and operations to achieve that future. Through this planning process we identify the outcomes the Authority wants to achieve through programmes and the specific means by which intend to achieve these outcomes. As the regulator, the Authority promises to be innovative in regulation, grow the industry and ensure its stability. There is always room for improvement and as Authority the landscape in which we all work changes over the coming years the Authority must be ready to change with it, and to up our game to make sure that every member of a pension scheme feels confident about the way their pension savings are being managed.

The Authority 2014-2019 Strategic Plan sets out the Authority's strategic direction to realise opportunities and meet challenges in the retirement benefits industry and broader economic conditions. The Plan sets out three key result areas to support and guide the work of the Authority.

- Improve regulation and supervision of the sector – The current regulatory and supervisory framework need to be brought into full compliance with international best practices including the International Organization Pension Supervisors (IOPS) principles of good practices. This will ensure public confidence in the integrity of the sector. There is need to strengthen the governance structure and risk management of schemes and service providers.
- Promote growth and development of the sector – Development of the retirement benefits sector is greatly influenced by awareness of the public on matters relating to the importance of saving for retirement. There is need to develop education and awareness programmes to ensure public awareness.
- Strengthen institutional capacity – This covers capacity building, implementation of institutional risk management and control framework, strengthening internal processes and controls and leverage of information and communication technology.

In developing the Plan, the Authority undertook a thorough and consultative process to identify key drivers, environmental influences and innovative ideas that will impact on, and contribute to our success. We went through the process of identifying where we wanted to be and decided what we must do to get there. We know that without a clear picture of where we want to be our path will be rocky. There will be indecisiveness, second guessing and heading off into directions that we don't want to pursue. The Board of Directors has adopted the plan and we have in place a programme to check the progress on accomplishing the plan's goals and objectives.

Chief Executive Officer's Statement

In 2013/2014, the Authority was able to achieve and surpass the majority of its targets. I am pleased to present highlights of our achievements over this period. During the Financial Year we continued to perfect our Risk-Based Supervision we launched two years ago. Also Mbaos Pension Plan, which targets informal sector workers continued to register more members and consequently its fund value significantly went up. This is a big step in the right direction because it shows Kenyans in the informal sector are increasingly appreciating the need to save for their retirement.

Supervision

Supervision continued to form a big part of the Authority's activities in 2013/2014. By June 2014, the total number of registered schemes stood at 1,240.

Risk Based Supervision

The Authority continues to use Risk-Based Supervision model (RBS), a supervisory model which focuses on the identification of potential risks and the assessment of the financial and operational factors that exist to minimise and mitigate those risks. RBS model aims at promoting transparency provide early warning signals and encourage self-evaluation of risk at regular intervals. A risk-based approach encourages supervised entities to place a greater focus on risk management in their daily operations, which promotes a stronger pension system and more effective outcomes for the members of schemes. The full implementation of the system still awaits the Authority's Risk Based Supervision System (RBSS), which is under development. Once the RBSS is complete the Authority will link up with service providers to obtain returns online.

Human Capital

The Authority continues talent mapping to ensure the effective utilisation of the resources as we carry out our mandate that includes recruitment, development, motivation and retention of quality manpower. As at the close of 2013/2014 Financial Year, the Authority had a total of 52 employees. On gender distribution, 33 employees, or 63 per cent of the employees were male while the remaining 19 employees, accounting for 36 per cent were female. This means that there is no one gender that accounts for more than two-thirds of the members of staff.

We strive to enhance a superior service-oriented culture while providing benefits to employees that promote health, wellness and a sound work/life balance. Through employee orientation and professional development, we foster the values of inclusiveness, teamwork, long-term employee engagement, and life-long learning.

Culture Building

We continue with our efforts to nurture a corporate culture that fosters trust, embrace change and values teamwork. Team building exercises are organised regularly for all members of staff to nurture mutual understanding, improve communication, and enhance co-operation and coping capacity of team members. Other activities such as Sports Day and Family Day also helped build cohesiveness.

Training and Development

We attach great importance to staff training and development. An annual training programme plan was formulated, setting out the relevant programmes to be organized according to the needs of staff. We also nominated staff to attend or speak at seminars and conferences to facilitate both local and international exchange and widen their professional exposure and network.

Pension public Education

RBA continues to undertake pension education campaigns to educate Kenyans on the role of the Authority and inform them the importance of saving for retirement. The Authority continues to conduct pension public education campaigns to encourage Kenyans to save for retirement. RBA came up with a number of pension education programmes targeting different segments of the public. These are:

(i) Trustee Development Programme Kenya

Owing to increasing complexity of a trustee's duty, we officially launched Trustee Development Programme Kenya on August 29, 2011. This course leads to certification of retirement benefits trustees so that they get a clear understanding of their roles and responsibilities.

The training is currently carried out by College of Insurance although the curriculum for this five-day course was developed with the help from Canada's Humber Institute of Employee Benefits that has been training and certifying Trustees for over 30 years. The training sessions are designed to enhance trustee and retirement scheme officer understanding of investments and the respective investment vehicles available to retirement schemes, the legislative and regulatory environment, trusteeship and the fiduciary responsibilities of trustees, the service providers and their respective roles. Trustees have to attain a pass mark of 70 per cent and above to get certified.

We have a Practice Note requiring all trustees to be trained under the programme by December 31, 2014. This requirement also applies to Trust Corporations.

(ii) Retirement Planning Seminars

The Authority endeavours to be responsive to the needs of scheme members. Through the seminars we enlighten scheme members on pension saving and investment options. After we removed age limit for those attending the seminars, the stigma that was always associated with retirement was eliminated thus pension saving has become trendy as any other investment. As a result, more young people attend the seminars and appreciate the Authority's effort in helping them plan for their retirement.

Corporate Social Investment

Our commitment to our communities and social responsibility is at the heart of the culture and values that define us as an organisation. We have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders.

We are in partnership with Operation Ear Drop Kenya to facilitate the hearing conservation campaign amongst Kenya's growing informal sector. With the Authority's support, Operation Ear Drop carries out screening for noise induced hearing loss and provides health education and protective ear muffs to the Jua Kali artisans. From April 22-26, 2014, we held Jua Kali Hearing Conservation Clinic in Eldoret.

Agricultural Society of Kenya Shows

RBA participated in four shows organised by Agricultural Society of Kenya. The Authority took part in Kisumu Regional Show on July 30 – August 3, 2014, Mombasa International Show on August 28 to September 1, 2013, Nairobi International Trade Fair on September 29 to October 5, 2013 and Eldoret National Show on March 5-8, 2014. The shows provide an avenue for the public to learn about the Authority, retirement benefits saving options and their benefits. Also, the shows offer a chance to the public to register complaints with the Authority either regarding a scheme, a sponsor or trustees.

Appreciation

I wish to extend special thanks to the entire Board, Management and Staff of the Retirement Benefits Authority for dedicating time and tireless effort to see the Authority achieve continued success. Specifically, I wish to thank the Board of Directors for their outstanding leadership, vision and direction. Finally, I wish to thank all our stakeholders for their confidence in the Authority.

FINANCIAL PERFORMANCE OF THE AUTHORITY

The Financial Performance of the Authority for the twelve months period ended 30th June, 2014 is presented herewith in accordance with the requirement of the Retirement Benefits Act, Public Finance Management Act and International Public Sector Accounting Standards. The Annual Accounts comprise the statements listed below on the financial performance and position of the assets and liabilities of the Authority at 30th June, 2014.

1. Statement of Comprehensive Income and Expenditure.
2. Statement of Financial Position.
3. Statement of Changes in Equity.
4. Statement of Cash Flow.
5. Notes to the financial statements including any disclosures which are necessary for understanding by the users of financial statements.

The Annual Accounts shall be submitted to the National Audit office after approval by the Board in accordance with the requirements of Section 21 of the Retirement Benefits Act.

FINANCIAL STATEMENTS

A. Income Statements

This is the 16th Financial Year since inception of the Authority and the levy payable by retirement benefits schemes has been the main source of revenue for the past seven years. Levy collected during the financial year was **KShs 598m** compared to **KShs 506m** in the prior year. The increase was due to an increase in the asset growth. The investment income was **KShs 26m** compared to **KShs 32m** in the prior year.

B. Expenditure Statements

The operating and capital expenditure was **KShs 535m** and **KShs 15m** respectively compared to **KShs 486m** and **KShs 33m** in the previous year an increase of 10%. All the expenditure was within budgetary limit as approved by the board and the National Treasury.

C. 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, 2014. The statement is presented using indirect method option.

D. Treasury Management

The position of the investment portfolio as at 30th June 2014 was **KShs 303m** in Treasury Bills compared to **KShs 304m**, with bank balances of approximately **KShs 531m** compared to **KShs 436m** in both current and deposit account balances. The Authority, like in the previous periods, continued to invest most of its funds in 91 days Treasury Bills with some funds placed in fixed deposit accounts at the Authority's banks to meet operational requirements.

OVERALL FINANCIAL PERFORMANCE

The performance of the Authority in the financial year is an excess of income over recurrent expenditure of **KShs 129m** compared to **KShs 76m** in the previous year.

Risk Management and Internal Control

The Authority has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. These cover systems for obtaining authority for all transactions and for ensuring compliance with the laws and regulations that have significant financial implications. In reviewing the effectiveness of the internal control system, the Board takes into account the results of work carried out to audit and review the activities of the Authority. The Board also considers the management accounts for each quarter, reports from each Board Committee, annual budgetary proposals, major issues and strategic opportunities for the Authority. To achieve this goal, a risk management and governance framework has been put in place to assist the Board in understanding business risk issues and key performance indicators affecting the ability of the Authority to achieve its objectives both in the short and long term.

BY ORDER OF THE BOARD

Chairman:



Chief Executive Officer



Date: 04.09.2014

REPORT OF THE DIRECTORS

The directors have submitted their report together with the audited financial statements for the year ended June 30, 2014 which show the state of the Retirement Benefits Authority's affairs.

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 Minister of Finance on the national policy to be followed with regard to the retirement benefits industry and implement all government policies relating thereto

Results

The results of the Retirement Benefits Authority for the year ended June 30, 2014 are set out on page 22.

Directors

The members of the board of directors who served during the year are shown on page 5 in Accordance with Retirement Benefits Act Section 6.

Auditors

The auditor general is responsible for the statutory audit for the Retirement Benefits Authority in accordance with Public Finance Management (PFM) Act, 2012.

The Auditor General is responsible in carrying out the audit of the RBA for the year ended June 30, 2014.

BY ORDER OF THE BOARD



David B. Nyakundi
Board Secretary

Date 04.09.2014

STATEMENT OF DIRECTORS' RESPONSIBILITY

The Retirement Benefits Authority Act and Public Audit Act, no. 12 of 2003 requires 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 the undertakings, Funds, investments, activities and property of the Authority. They are also responsible for safeguarding the assets of the Authority.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with generally accepted accounting practice and in the manner required by the Retirement Benefits Authority Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Authority and of its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control. Nothing has come to the attention of the Directors to indicate that the Authority will not remain in a going concern basis for at least the next twelve months from the date of this statement.

Chairman:



Chief Executive Officer



Date: 04.09.2014

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON RETIREMENT BENEFITS AUTHORITY FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Retirement Benefits Authority set out on pages 22 to 41, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in net assets/equity, 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 Section 14 of the Public Audit Act, 2003. I have obtained the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) and (3) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

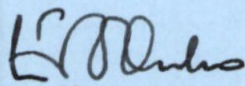
An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Authority as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Retirement Benefits Authority Act, No.3 of 1997.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

17 July 2015

RETIREMENT BENEFITS AUTHORITY FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

STATEMENT OF FINANCIAL PERFORMANCE

	Note	2013-2014 Kshs	2012-2013 Kshs
RBA Revenue			
Levy income	2	597,772,073	506,031,772
		597,772,073	506,031,772
Financial Income			
Investment income T/bills	3	26,364,087	32,191,781
Other income	4	34,218,726	23,406,845
		60,582,813	55,598,626
Total Revenue		658,354,886	561,630,398
Expenses			
Employee Costs	5	272,473,284	241,125,500
Depreciation & Amortisation Expenses	16	27,114,809	10,721,947
Repairs & Maintenance Expenses	6	6,143,826	7,669,731
Professional Charges	7	16,109,672	20,399,695
General Expenses	8	196,297,984	189,513,372
Finance Costs	9	356,139	259,182
Directors Charges	10	16,791,836	16,308,398
Total Expenses		535,287,549	485,997,826
Surplus before tax		123,067,337	75,632,572
Tax Charge for the year	11	49,833,144	29,321,863
Surplus aftertax for the year		73,234,193	46,310,709
Surplus aftertax for the year		73,234,193	46,310,709

The notes set out on pages 9 to 10 form an integral part of the Financial Statements

RETIREMENT BENEFITS AUTHORITY
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

		Kshs	Kshs
	Note	2013-2014	2012-2013
Assets:-			
Current Assets			
Cash and bank balances	12	531,489,632	435,679,210
Investments T-Bills	12	302,981,700	303,827,600
Reimbursement staff on secondment	13	34,164,300	11,629,000
Prepayment	14	1,040,172	7,954,904
Interest receivable on T- Bills	15	2,253,403	3,067,664
		<u>871,929,207</u>	<u>762,158,378</u>
Non-current assets			
Property, plant and equipment	16	93,283,971	45,583,035
		<u>93,283,971</u>	<u>45,583,035</u>
Total assets		<u>965,213,178</u>	<u>807,741,413</u>
Liabilities:-			
Current Liabilities			
RBATrust Fund and Staff Benevolent Fund	17	8,971,603	8,317,976
Employee benefit obligation	18	17,079,100	11,311,399
Payable- Creditors	19	31,755,887	17,839,641
Total current liabilities		<u>57,806,590</u>	<u>37,469,016</u>
Net assets		<u>907,406,588</u>	<u>770,272,397</u>
Capital fund	21	109,357,000	45,457,000
Asset Revaluation surplus	23	-	5,984,627
Accumulated surplus/Reserves	20	798,049,589	718,830,769
Total Equities		<u>907,406,589</u>	<u>770,272,396</u>
Total net assets and liabilities		<u>965,213,178</u>	<u>807,741,413</u>

The Financial Statement set out on pages 11 to 20 were signed on 04.09.2014 on behalf of Board of Directors by:



KANYI GACHOKA
CHAIRMAN



DR. EDWARD O. ODUNDO
CHIEF EXECUTIVE

RETIREMENT BENEFITS AUTHORITY
STATEMENT OF CHANGES IN NET ASSETS/EQUITY FOR THE YEAR ENDED 30 JUNE 2014

	Capital Fund	General Fund	Asset Revaluation Surplus	Total Fund
	(KShs)	(KShs)	(KShs)	(KShs)
At 1 July 2013	45,457,000	718,830,769	5,984,627	764,287,769
Additonal Government grant in the year	63,900,000			63,900,000
Revaluation surplus written back		5,984,627	-	5,984,627
Surplus for the year		73,234,193		73,234,193
At 30 June 2014	109,357,000	798,049,589	-	907,406,589

RETIREMENT BENEFITS AUTHORITY
STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30 JUNE 2014

		2014 (Kshs)	2013 (Kshs)
Cash flows from Operations:-	NOTE		
Net Surplus of the year		123,067,337	75,632,574
adjustment for :-			
Loss on Assets Disposed / written off		-	17,404
Reimbursement receivable in respect of seconded staff		-	(11,629,000)
Investment income receivable		-	(3,067,663)
Interest receivable on bank deposit		-	-
Depreciation	16	27,114,809	10,721,947
Net cash inflow from operating activities		150,182,146	71,675,261
Increase / Decrease in receivable	22	(14,806,307)	5,616,374
Increase / Decrease in payable	18 & 19	19,683,947	10,225,607
Net working capital changes		4,877,640	15,841,981
Net cash flows from operating activities		155,059,784	87,517,242
Cash flows from investing activities :-			
Purchase of Property & Equipment	16	(10,915,745)	(33,153,433)
Proceeds from disposal of property	16	-	236,778
Net cash used in investing activities		(10,915,745)	(32,916,655)
Cash flows from financing activities :-			
Instalment income Tax paid to KRA	11	(49,833,144)	(29,321,863)
RBA trust fund	17	470,027	1,849,030
Staff Benevolent Fund	17	183,600	24,300
Net cash from Financing activities		(49,179,517)	(27,448,533)
Net increase in Cash and Cash Equivalent in the year		94,964,524	27,152,054
Cash & Cash Equivalent as at the beginning of the year		739,506,810	712,354,757
Cash & Cash Equivalent as at the end of the year	12	834,471,332	739,506,810

CONSOLIDATED STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT
For The year ended 30 June 2014

Account	Original Budget		Adjustments		Final Budget		Actual on comparable basis		Variance		Remarks
	2014		2014		2014		2014		2014		
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.		
Trading Income											
Levy Income	598,800,000	0.00	598,800,000	597,772,073	-1,027,927	On target					
Finance Income	37,000,000	0.00	37,000,000	26,364,087	-10,635,913	On target					
Other Income	20,060,000	0.00	20,060,000	40,203,353	20,143,353	On target					
Total Income	655,860,000	0.00	655,860,000	664,339,513	08,479,513						
Expenses											
Board Expenses	17,592,982	0.00	17,592,982	16,791,836	00,801,147	On target					
Cleaning Expenses	2,263,800	0.00	2,263,800	01,732,151	00,531,649	On target					
Depreciation	-	0.00	-	27,114,809	-27,114,809						
Financial Literacy and Pension Education	61,400,000	0.00	61,400,000	55,407,505	05,992,495	GOK austerity measures circular in December 2013					
Hire of Equipment	1,100,000	0.00	1,100,000	00,789,363	00,310,637						
Information Technology Systems	26,165,467	0.00	26,165,467	16,105,385	10,060,082	Delay in implementation of ICT Systems					
Library Expenses	2,000,000	0.00	2,000,000	02,145,060	-00,145,060	On target					
Maintained Insured & Security of Equipment	2,910,000	0.00	2,910,000	01,699,638	01,210,362	On target					
Medical Expenses	18,200,000	0.00	18,200,000	11,775,598	06,424,402	Freezing of recruitment because of impending merger/ parastatal reform					
Motor Vehicle Maintenance & Security	5,900,000	0.00	5,900,000	04,027,191	01,872,809	GOK austerity measures circular in December 2013					
Office Running Expenses	7,748,760	0.00	7,748,760	08,358,769	-00,610,009	Increased cost of printing					
Official Entertainment	2,000,000	0.00	2,000,000	02,501,698	-00,501,698						
Partitioning & Repairs	2,500,000	0.00	2,500,000	00,416,997	02,083,003						
Pension Contribution	40,053,840	0.00	40,053,840	32,151,553	07,902,288	Freezing of recruitment because of impending merger/ parastatal reform					
Personnel Emoluments	279,577,000	0.00	279,577,000	228,546,134	51,030,866	Freezing of recruitment because of impending merger/ parastatal reform					
Post & Telephone	8,750,000	0.00	8,750,000	06,554,847	02,195,153	Reduction on telephone cost					
Power & Lighting	5,400,000	0.00	5,400,000	04,409,053	00,990,947	On target					
Printing & Stationary	4,631,680	0.00	4,631,680	01,743,969	02,887,711	Introductions of accounting software					
Professional Charges	23,250,000	0.00	23,250,000	16,523,057	06,726,943	Tribunal not having required number of members to execute cases					
Rent & Ground Rates	35,188,175	0.00	35,188,175	30,850,451	04,337,724	Authority allocated half 4th Floor instead of all					
Research & Development	16,300,000	0.00	16,300,000	17,074,869	-00,774,869	On target					
Sports & Recreation	6,300,000	0.00	6,300,000	06,515,070	-00,215,070	On target					
Training & Development	17,500,000	0.00	17,500,000	15,621,962	01,878,038	Circular halting foreign travel in December 2013					
Travel & Accommodation	24,300,000	0.00	24,300,000	24,173,107	00,126,893	On target					
Tribunal Expenses	16,453,150	0.00	16,453,150	02,215,479	14,237,671	New appointment made later on the year					
Uniforms	0,060,000	0.00	0,060,000	00,042,000	00,018,000						
Total Expenses	627,544,854	0.00	627,544,854	535,287,549	92,257,304						
Surplus/deficit for the period	28,315,146	0,000,000	28,315,146	129,051,964							

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

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

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) Budget information - IPSAS 24

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

c) Taxes - IAS 12

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

d) Property, plant and equipment - IPSAS 17

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

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

Revaluation increase arising on the revaluation of property, plant and equipment has been recognized in comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decreased previously expensed. A decrease in the carrying amount arising in the revaluation of such property, plant and equipment is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

e) 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.

f) Research and development costs

The Authority expenses research costs as incurred.

g) Financial instruments - IPSAS 29

Financial assets

Initial recognition and measurement

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

h) Inventories - IPSAS 12

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

i) 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 separate asset only when the reimbursement is virtually certain.

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

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

j) Nature and purpose of reserves

The Authority creates and maintains reserves in terms of specific requirements. Entity to state the reserves maintained and appropriate policies adopted.

k) Changes in accounting policies and estimates - IPSAS 3

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

l) Employee benefits - IPSAS 25

Retirement benefits plans

The Authority operated a defined contribution scheme and the Authority thus had no obligation to scheme as at 30.6.2014. The assets of the scheme are managed and held by registered fund manager and custodian as per the requirement of Retirement Benefits Act, 1997.

m) 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.

n) Cash and cash equivalents

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

o) Comparative figures

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

p) Key Management Personnel - IPSAS 20

The key management personnel, as defined by IPSAS 20 Related party Disclosure, are the members of council, who together constitute the governing body of the Group. The total remuneration of members of the council and the number of individuals, on the full-time equivalent basis, receiving the remuneration from the group are:

Total remuneration - Board sitting allowances for the year Kshs. 5,798,000.50
Number of persons - 8

q) Leases – IPSAS 13

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Entity also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Entity will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Entity. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

In the year the Authority had no finance lease apart from rental expenses forming part of our operating expenses.

r) Contingent assets and liabilities disclosure

There were no contingent liabilities in the year.

s) Subsequent events - IPSAS 14

There were no subsequent events that would affect the entity in the year.

t) Financial instruments - IPSAS 29

The Authority did not have any financial instrument that poses risk. The only investment the Authority is engaged in is investment in Treasury bills and lease deposit.

NOTE 2

LEVY INCOME

	2014 (KShs)	2013 (KShs)
Retirement Benefits Levy	594,563,401	503,141,752
Service providers licensing fees	3,200,000	2,850,000
Tribunal case registration fees	8,672	40,020
	<u>597,772,073</u>	<u>506,031,772</u>

NOTE 3

Financial Income

	2014 (KShs)	2013 (KShs)
Interest income on Fixed Deposit	4,861,525	2,664,590
Investment income from T-Bills	21,502,562	29,527,191
	<u>26,364,087</u>	<u>32,191,781</u>

NOTE 4

Other Income

	2014 (KShs)	2013 (KShs)
Salary Reimbursement from Seconded staff to The National Treasury	22,535,300	11,629,000
Salary Reimbursement from Seconded staff to Policy Holder Fund	8,771,050	6,234,900
Insurance Claim Refund	551,939	96,983
Miscellaneous tender fees etc	551,939	96,983
	<u>34,218,726</u>	<u>23,406,845</u>

NOTE 5

Employee Costs	2014 (KShs)	2013 (KShs)
Medical Expenses	11,775,598	14,343,789
Personnel Emoluments	228,546,134	195,025,252
Pension Contribution	32,151,553	31,756,459
	<u>272,473,285</u>	<u>241,125,500</u>

NOTE 6

Repairs & Maintenance of equipment and furniture	2014 (KShs)	2013 (KShs)
Motor Vehicle Maintenance & Security	4,027,191	4,185,298
Maintenance Insurance & Security of Equipment	1,699,638	1,023,024
Partitioning & Repairs	416,997	2,461,409
	<u>6,143,826</u>	<u>7,669,731</u>

NOTE 7

Professional Charges	2014 (KShs)	2013 (KShs)
Professional Charges	15,359,672	19,899,695
Audit Fees	750,000	500,000
	<u>16,109,672</u>	<u>20,399,695</u>

NOTE 8 General Expenses

	2014	2013
	(KShs)	(KShs)
Pension Industry Development	55,407,505	51,940,659
Cleaning Expenses	1,732,151	1,181,636
Power & Lighting)	4,409,053	3,754,569
Official Entertainment	2,501,698	1,892,196
Office Running Expenses	8,358,769	7,264,364
Library Expenses	2,145,060	1,316,452
Rent & Ground Rates	30,907,697	27,610,138
Loss from disposal of non-current assets	-	17,404
Training & Development	15,621,962	19,468,039
Staff welfare	6,515,070	5,494,923
Post & Telephone	6,554,847	7,504,924
Travel & Accommodation	24,173,107	21,575,969
Tribunal Expenses	2,215,479	11,085,668
Hire of Equipment	789,363	540,772
Uniforms	42,000	-
Research & Development	17,074,869	14,022,380
Information Technology Systems	16,105,385	10,437,700
Printing & Stationery	1,743,969	4,405,580
Total General Expenses	<u>196,297,984</u>	<u>189,513,372</u>

NOTE 9 Finance Costs

	2014	2013
	(KShs)	(KShs)
Bank Charges)	356,139	259,182
Total Finance Costs	356,139	259,182

NOTE 10 Board Charges

	2014	2013
	(KShs)	(KShs)
Sitting Allowance	5,798,000	
Travelling & Accommodation	3,424,164	
Board Training	4,315,036	
Other Board expenses	1,454,634	
Board Bonus 2012-13	1,800,000	16,308,398
Total Board Charges	16,791,834	16,308,398

NOTE 11 Income Tax Computation

		2014		2013
	Shs	Shs	Shs	Shs
Profit/ (loss) per accounts		123,067,337		75,632,574
Add:				
Depreciation	27,114,808		10,721,947	
Donation (Benevolent)	85,875		0	
Pension /provident fund costs	24,166,100		20,120,000	
Capital items expensed	10,338,374		5,513,726	
Increase in General Provision Staff Bonus	<u>6,671,801</u>	<u>68,376,958</u>	<u>2,105,950</u>	<u>38,461,623</u>
Less:				
Wear & tear allowance	(22,431,195)		-9,085,819	
Software allowance	(1,998,520)		-380,107	
Decrease in General Provision- S Gratuity	(904,100)		-904,100	
		<u>(25,333,815)</u>	<u>-5,984,627</u>	<u>-16,354,653</u>
Taxable profit/ (Loss Carry Forward)		<u>166,110,480</u>		<u>97,739,544</u>
Tax Payable @ 30%		49,833,144		29,321,863
Tax Paid				
1st instalment	22,689,772			
2nd instalment	9,000,782			
3rd instalment	11,462,398		5,030,258	
4th instalment	<u>6,680,192</u>	<u>49,833,144</u>	<u>24,291,605</u>	<u>29,321,863</u>
Unpaid Tax as at 30 June ,2014				

NOTE 12 Cash & Cash Equivalentents

	2014	2013
	(KShs)	(KShs)
RBA Rent Guarantee Deposit	4,896,534	4,896,534
KCB Car Loan Security Account	30,892,543	17,525,142
S & L Mortgage Deposits	205,413,637	176,927,639
NIC Car Loan Deposit	9,233,518	9,070,945
HFCK Mortgage Deposits	25,732,647	25,732,647
KCB - Milimani (Main Account)	68,612,665	20,772,686

KCB - Milimani (Revenue A/C)	181,153,754	175,217,427
Barclays Bank (Office Account)	5,554,335	5,536,190
Investment in 91 Treasury Bills	302,981,700	303,827,600
Total Cash and cash Equivalents	834,471,332	739,506,810

NOTE 13 Reimbursement receivable for staff on Secondment

	2014 (KShs)	2013 (KShs)
Staff seconded at Treasury 2012-13	34,164,300	11,629,000
	<u>34,164,300</u>	<u>11,629,000</u>

NOTE 14 Prepayment

	2014 (KShs)	2013 (KShs)
Prepayment	1,959,819	8,874,551
Provision for doubtful debts	(919,647)	(919,647)
	<u>1,040,172</u>	<u>7,954,904</u>

NOTE 15 Interest Receivable on T-Bills and Bank Deposits

	2014 (KShs)	2013 (KShs)
Interest receivable	1,674,525	3,067,664
Interest receivable on bank deposit	578,878	
	<u>2,253,403</u>	<u>3,067,664</u>

NOTE 16 Property Plant And Equipment

	MOTOR VEHICLE (KShs)	OFFICE EQUIPMENT (KShs)	FURNITURE FITTING (KShs)	TOTAL (KShs)
COST/VALUATIONS:-				
1-Jul-13	22,506,847	31,559,012	32,001,334	86,067,193
Additions in the year	5,981,360	4,535,385	399,000	10,915,745
ICT Assets financed by world bank through FLSTAP		63,900,000		63,900,000
Disposal in the year	-			

30-Jun-14	28,488,207	99,994,397	32,400,334	160,882,938
DEPRECIATION:				
1-Jul-13	14,506,498	17,456,416	8,521,244	40,484,158
Charge for the year	3,495,427	20,634,495	2,984,886	27,114,809
Depriciation w/back on disposal				
At June 30, 2014	18,001,925	38,090,911	11,506,131	67,598,967
NET BOOK VALUES:-				
30-Jun-14	10,486,282	61,903,486	20,894,203	93,283,971
30-Jun-13	8,000,349	14,102,596	23,480,090	45,583,035

PROPERTY PLANT AND EQUIPMENT AT THE YEAR ENDED 30 JUNE 2013

	MOTOR VEHICLE (KShs)	OFFICE EQUIP- MENT (KShs)	FURNITURE FITTING (KShs)	TOTAL (KShs)
COST/VALUA- TIONS:-				
1-Jul-12	17,191,349	23,081,862	13,331,048	53,604,259
Additions in the year	5,315,498	9,081,649	18,756,286	33,153,433
Disposal in the year	-	(604,499)	(86,000)	(690,499)
30-Jun-13	22,506,847	31,559,012	32,001,334	86,067,193
DEPRECIATION:				
1-Jul-12	11,839,715	13,155,371	5,203,444	30,198,530
Charge for the year	2,666,783	4,700,865	3,354,299	10,721,947
Depreciation w/back on disposal	-	(399,821)	(36,498)	(436,319)
30-Jun-13	14,506,498	17,456,416	8,521,244	40,484,158
NET BOOK VAL- UES:-				
30-Jun-13	8,000,349	14,102,596	23,480,090	45,583,035
30-Jun-12	5,351,634	9,926,491	8,127,604	23,405,729

NOTE 17 RBA Trust Fund and Staff Benevolent

	2014	2013
	(KShs)	(KShs)
RBA Trust Fund b/f	7,375,226	5,526,196
Trust Fund paid	(103,148)	(453,062)
Additional Trust Fund Received in year	573,175	2,302,092
Total RBA Trust Fund	7,845,253	7,375,226

RBA Benevolent fund

	2014	2013
	(KShs)	(KShs)
RBA Trust Fund b/f	942,750	918,450
Benevolent fund paid out	-	(166,800)
Add : Contribution	183,600	191,100
RBA Benevolent fund	1,126,350	942,750
	8,971,603	8,317,976

NOTE 18 Employer Obligation

	2014	2013
	(KShs)	(KShs)
Staff Bonus 2012-13	11,148,800	4,476,999
Staff Gratuity (Contract Staff)	4,130,300	5,034,400
Board Members Bonus 2012-13	1,800,000	1,800,000
Total Employer Obligation	17,079,100	11,311,399

NOTE 19 CREDITORS AND ACCRUED PROVISIONS FOR GOODS AND SERVICES

	2014 (KShs)	2013 (KShs)
Board expenses		-
Rent and Rates	607,046	-
Office Equipment	1,535,280	-
Tribunal expenses	-	1,429,097
Audit fees	750,000	750,000
Insurance and maintenance of motor vehicle Expenses	-	150,762
Non current assets	-	2,429,418
Hire of Equipment	-	25,520
Partitioning and repairs	-	2,235,865
Pension industry development	20,685,640	148,848
Medical Expenses	604,746	3,292,858
Professional Services Expenses	6,172,889	2,216,745
Official Travelling on duty Expenses	64,600	50,700
Office Running Expenses	266,100	1,005,120
Telephone and other Communication Expenses	155,342	50,000
ICT Equipment	914,243	1,880,123
Research and Development Expenses	-	2,174,586
Total	31,755,886	17,839,641

These are accruals for goods and services not paid as at 30.6.2014

NOTE 20 GENERAL FUND

	2014 (KShs)	2013 (KShs)
As at 1.7.2013	718,830,769	618,199,499
Provision for financial commitment written back	-	24,998,696
Net surplus of the year	73,234,193	75,632,574
Revaluation surplus written back to general fund	5,984,627	
As at 30.6.2014	<u>798,049,589</u>	<u>718,830,769</u>

NOTE 21 CAPITAL FUND

	2014 (KShs)	2013 (KShs)
As at 1.7.2013	45,457,000	45,457,000
Additional Govern- ment grants through FLTAP in the year	63,900,000	-
As at 30.6.2014	109,357,000	45,457,000

NOTE 22 Receivables

	2014 (KShs)	2013 (KShs)
Staff on seconded at Treasury 2012-13	34,164,300	11,629,000
Prepayment	1,959,819	8,874,551
Provision for doubtful debts	(919,647)	(919,647)
Interest receivable on investments	1,674,525	3,067,664
Interest receivable on bank deposits	578,878	-
	37,457,875	22,651,568

NOTE 23 ASSET REVALUATION SURPLUS FUND

	2014	2013
	(KShs)	(KShs)
As at 30.6.2013	5,984,627	5,984,627
Revaluation surplus written back to General fund	(5,984,627)	
As at 30.6.2014	-	5,984,627