

REPUBLIC OF KENYA



Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

INSURANCE REGULATORY AUTHORITY

**FOR THE YEAR ENDED
30 JUNE, 2020**

PARLIAMENT
OF KENYA
LIBRARY

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 04 MAR 2021

TABLED BY: Hon. Majority Leader

DAY: Thurs

TABLE: Hon. Amos Kimani

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INSURANCE REGULATORY AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30TH
JUNE 2020

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

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KEY AUTHORITY INFORMATION

(a) Background information

The Authority is a State Corporation established under the Insurance Act Cap 487 Laws of Kenya. The mandate of the Authority is to regulate, supervise and promote the development of the insurance industry while protecting the interests of insurance beneficiaries.

(b) Principal Activities

The principal activities of the Authority as set out in Section 3A of the Insurance Act are regulation, supervision and development of the insurance industry in Kenya.

Vision “An effective regulator of a globally competitive Insurance Industry”.

Mission “To effectively regulate, supervise and promote development and innovation in the insurance industry in order to protect insurance beneficiaries.”

In line with the 2018-2022 strategic plan, the Key Result Areas and enabling strategic objectives to drive the strategy are identified. These strategic priorities are the key policy areas informing budget formulation and program implementation. The Key result areas are:

- i. Regulation and Supervision
- ii. Policy and Market Development
- iii. Consumer Protection and Education
- iv. Institutional Capacity

(c) Key Management

The Authority is headed by a Chief Executive Officer who is also the Commissioner of Insurance as set out in Section 3E of the Insurance Act. Subject to the directions of the Board of Directors, the Chief Executive Officer is responsible for the day to day management of the affairs of the Authority with support from a key team of senior management.

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2020 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Commissioner of Insurance and Chief Executive Officer	Mr. Godfrey Kiptum
2.	Ag. Chief Manager, Technical	Mr. Kalai Musee
3.	Corporation Secretary and Chief Manager Legal Affairs	Ms. Diana Sawe
4.	Chief Manager, Policy, Research and Development	Mr. Robert Kuloba
5.	Head, Finance	CPA Esther Musyoki

(e) Fiduciary Oversight Arrangements

Section 3 B of the Insurance Act established the Board of Directors that are charged with fiduciary oversight of the Authority. In the discharge of its functions, the Board has put in place the following Committees:

- i. Technical, Research and Compliance Committee
- ii. Finance and Administration Committee
- iii. Human Resource Committee
- iv. Audit, Risk Management and Corporate Governance Committee

Further, the Insurance Act empowers the Board of Directors to delegate to any Committee of the Board the exercise of any of the powers or performance of the Authority's functions. Adhoc Committees may be established by Board resolution for purposes of executing an assignment.

(f) Physical Address

Insurance Regulatory Authority
Zep- Re Place Longonot Road
Upper Hill, Nairobi Kenya
P.O Box 43505 – 00100
Nairobi

(g) Contacts

Tel: (254)-020-4996000, Mobile: 0719 047000
Fax: (254) -020- 2710126
Email: commins@ira.go.ke
Website: <http://www.ira.go.ke>

(h) Bankers

National Bank of Kenya
Harambee Avenue Branch
P.O Box 72866- 00200
Tel 2828000
Nairobi, Kenya

NCBA Bank
Upper hill Branch
P.O Box 44599-00100
Nairobi, Kenya
Tel 4948000

KCB Ltd
Capitol Hill Branch
P.O Box 48400-00100
Nairobi, Kenya
Tel. 3270000

Co-operative Bank of Kenya Ltd
Upper hill Branch
P. O Box 48231-00100
Nairobi, Kenya
Tel. 2735092

(i) Independent Auditors

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

(j) Principal Legal Adviser

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112-00200
Nairobi, Kenya

THE BOARD OF DIRECTORS



Hon. Abdirahin H. Abdi, MGH
Chairman
MBA, BSc (Finance)
Date of Birth: 26th August, 1969

Hon. Abdi is the Chairman of the Board of Directors and is serving a second term. Under his leadership, the Authority has realized various milestones in the supervision and regulation of insurance business in the country. Before appointment to the Board, he was the Speaker of the East African Legislative Assembly (EALA) where he was a Member for 10 years. As a speaker, he presided over all Assembly meetings and rulings on all decisions that required such edict of the position.

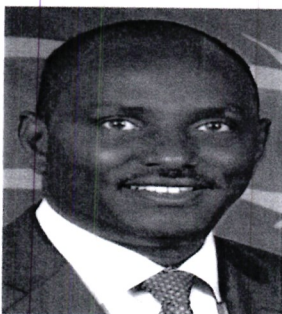
He serves in various Boards and brings on board a wealth of experience in Strategic Business and Finance Management.



Mr. Godfrey Kiptum, MBS
Commissioner of Insurance & Chief
Executive Officer
MPPM, MBA, BA, CII, FLMI,
Dip.HRM
Date of Birth: 5th August, 1970

Mr. Kiptum is the Commissioner of Insurance & Chief Executive Officer. Prior to his appointment, he was the Authority's Chief Manager for Human Capital and Administration- a position he held for 10 years and implemented various Human Resource Systems and Processes.

He sits on the Boards of the Retirement Benefits Authority and Policyholders Compensation Fund. He is also a Trustee of the College of Insurance and Executive Committee of the International Association of Insurance Supervisors.



Hon. (AMB.) Ukur Yatani, EGH
Member
MA, BA
Date of birth: 12th March, 1967

Hon. Ukur Yatani is the Cabinet Secretary, National Treasury and Planning. Earlier on, he served as the Cabinet Secretary for Labour and Social Protection. He has also previously served as Member of Parliament for North Horr constituency, Assistant Minister for Science and Technology, Governor of Marsabit County and as Kenya's Ambassador to Austria with Accreditation to Hungary and Slovakia and Permanent Representative to the United Nations in Vienna.

Amb. Yatani has over 27 years' experience in Public Administration, Politics, Diplomacy and Governance in the public sector.



Mr. Nzomo Mutuku
Member
MA, BA

Date of Birth: 9th December, 1969

Mr. Mutuku is the Chief Executive Officer of the Retirement Benefits Authority. Previously he was the Acting Director, Financial and Sectoral Affairs Department at the National Treasury and Planning where he was charged with financial sector development including financial inclusion, efficiency and stability as well as sectoral policy issues including regional integration and climate finance.

Mr. Mutuku serves in the Technical, Research & Compliance and Finance & Administration Committees of the Board.



FCPA Wyckliffe M. Shamiah
Member
MBA, BA, CPA

Date of Birth: 3rd September 1969

Mr. Shamiah is the Acting Chief Executive of the Capital Markets Authority. He was previously the Director of Market Operations. He also sits on the Financial Stability Board Regional Group of Sub-Sahara and is the Chairman of the Market Supervision and Risk Management sub-committee of the East African Securities Regulators Forum. He is a member of the ICPAK Council, a position he has held since 2009.

Mr. Shamiah serves in the Human Resource and Finance & Administration Committees of the Board.






Mr. Matu Mugo
Member
MBA, B. Com, CPA

Date of Birth: 26th November, 1972

Mr. Mugo is the Assistant Director of Banking Supervision at the Central Bank of Kenya (CBK). He represents the Governor of the CBK on the Board. At the Bank, he leads teams responsible for the review and development of policies to promote safe, affordable and inclusive financial services. He has been involved in the development of legal and regulatory frameworks for sharia compliant banking, microfinance, digital financial services, credit information sharing and agency banking.

Mr. Mugo serves in the Technical, Research & Compliance; Human Resource; and Audit, Risk Management & Corporate Governance Committees of the Board.

 <p><i>Ms. Alice M. Njoroge</i> <i>Member</i> <i>BA, ACII, ACI Arb.</i> Date of Birth: 8th January, 1968</p>	<p>Mrs. Njoroge is serving a second term on the Board and is a nominee of the Insurance Institute of Kenya. She is an insurance professional with experience spanning more than 20 years of active practice. She has held senior managerial positions in several insurance companies locally and has been involved in various industry technical committees.</p> <p>Mrs. Njoroge Chairs the Audit, Risk Management & Corporate Governance Committee of the Board and serves in the Technical, Research & Compliance; and Finance & Administration Committees.</p>
 <p><i>Ms. Joyce K. Muchena</i> <i>Member</i> <i>MA, BA, Dip. Human Rights, H. Dip. Psychological Counselling</i> Date of Birth: 15th October, 1972</p>	<p>Ms. Muchena is serving a second term as an independent member of the Board. She has over 16 years' experience in strategic planning, policy formulation, socio-political conflict analysis, human resource management and project management.</p> <p>Ms. Muchena Chairs the Technical, Research & Compliance Committee and serves in the Human Resource; and Audit, Risk Management & Corporate Governance Committees of the Board.</p>
 <p><i>Mr. Paul K. K. Cheboi</i> <i>Member</i> <i>Ph.D. Candidate, MBA, BSc, PG Dip.</i> Date of Birth: 19th March, 1968</p>	<p>Mr. Cheboi is serving a second term as an independent member the Board. He has vast experience in management of educational institutions and manufacturing companies both in the private and the NGO sectors. He has over 17 years' experience in administration, finance, planning, academic affairs, public relations, marketing and quality assurance.</p> <p>Mr. Cheboi Chairs the Human Resource Committee of the Board and serves in the Finance & Administration; and Audit, Risk Management & Corporate Governance Committees of the Board.</p>



Mr. Douglas Kailanya
Member
MBA, B. Com, CPA
Date of Birth: 28th November, 1965

Mr. Kailanya is serving a second term as an independent member of the Board. He is a professional accountant with over 20 years' experience in financial management, administration, budgeting, investment portfolio management, credit control, and enterprise debt and risk management.

Mr. Kailanya Chairs the Finance & Administration Committee of the Board and serves in the Human Resource; and Technical, Research & Compliance Committees of the Board.



Ms. Diana Sawe Tanui
Corporation Secretary and Chief
Manager Legal Affairs
LLB, Dip (KSL), CPS, FCI Arb
Date of Birth: 5th October, 1982

Ms. Diana Sawe is the Corporation Secretary and Chief Manager Legal Affairs at the Insurance Regulatory Authority (IRA). She previously worked as the Authority's Senior Legal Officer.

She is a Certified Public Secretary, an Advocate of the High Court of Kenya, an Arbitrator, a trained Governance Auditor, Commissioner for Oaths and Notary Public.



SENIOR MANAGEMENT TEAM

The key management personnel who held office during the period ended 30th June 2020 and who had direct fiduciary responsibility were;

Commissioner of Insurance & Chief Executive Officer



Mr. Godfrey Kiptum
MPPM, MBA, BA, CII, FLMI, Dip. HRM

Corporation Secretary and Chief Manager Legal Affairs



Ms. Diana Sawe Tanui
LLB, Dip (KSL), CPS(K), FCI Arb

Chief Manager Policy, Research and Development



Mr. Robert Kuloba
MA, BA

Head of Finance



CPA Esther Musyoki
MBA, BCom, CPA(K)

Ag. Chief Manager Technical



Mr. Kalai Musee
MSc, BCom, FIIK, FCII, ACI Arb

CHAIRMAN'S STATEMENT

I am delighted to present the Authority's report for the year ended 30th June 2020. I am proud of the strides that we have realized in the year under review despite the setbacks and challenges occasioned by the COVID-19 Pandemic in the second half of the year. I am glad that the insurance industry has stepped up and proactively played its rightful role in mitigating the risks and settling claims resulting from COVID-19 related losses.

We are in the 2nd year of implementing our 3rd Strategic Plan that runs from 2018-2022. The Plan sets out a five-year road map with four key results areas that define the strategic intent of the Board. Implementation of this Plan is envisaged to transform the insurance industry in Kenya from both the supply and demand fronts. As we know, the insurance industry is a crucial pillar of the financial services sector and our economy. From an infrastructural perspective, it promotes financial and social stability, mobilizes and channels savings, supports trade, commerce and entrepreneurial activity, and improves the quality of the lives of individuals. As a Board, we are committed to ensuring that the industry is stable and sound and we have put in place measures to guarantee this.

As we move into the next implementation period of our Strategic Plan, one of the major changes we expect to see is a shift in the capital regime from rule based to Risk Based Capital (RBC) requirements. This shift is not only in tandem with global best practice but also mirrors our focus of promoting maintenance of a fair, safe and stable insurance industry while protecting the insured.

Overall Financial Performance

In order to efficiently regulate the insurance sector adequate resources are required. The Authority has an adequate and sustainable revenue base to enable it comprehensively execute its mandate in accordance with the statutory requirements. Insurance premium levy income for the year under review increased from KES. 1,641,739,302 in the Financial Year 2018/2019 to KES. 1,709,189,760 in the 2019/2020 Financial Year. We are hopeful that with the initiatives we have put in place to promote development of the industry will lead to an increase in the Authority's revenue base to enable us meet and exceed our strategic objectives.

From the business point of view, it is imperative to note that COVID-19 Pandemic has affected insurance business not only in Kenya but also globally. The Authority has taken necessary steps to monitor and respond to the changing situation caused by the COVID-19 Pandemic and has remained vigilant in terms of the financial soundness and operational resilience of insurers. This is in support of the protection of policyholders and maintenance of a fair, safe and stable insurance industry. In addition, the Authority has taken measures to maintain safety of staff and clients.

The Authority is pursuing various regulatory and supervisory measures to provide operational relief to insurers while ensuring that consumer protection

remains paramount. We issued a Guidance Note to the insurance industry on supervisory expectations regarding policyholder protection, maintenance of customer services, internal controls and business continuity in April 2020. We are grateful to the industry players who, through cash donations and provision of free insurance services to frontline health workers, joined the Authority in supporting the Government's efforts aimed at mitigating the effects of COVID-19. The above challenges brought about by COVID-19 notwithstanding, the Authority's overall performance remains on track with planned activities being implemented as scheduled albeit through alternative means. Insurance industry performance, especially long-term business, is signaling growth. The Authority continues to liaise with the National Treasury and Planning to facilitate an enabling framework intended to enhance operations of the industry players. We have also implemented measures aimed at ensuring that there are no outstanding premiums owed to insurers and in the last one year, the outstanding amounts have drastically been reduced. These measures are geared towards ensuring proper administration of the insurance business of persons licensed under the Insurance Act.

The insurance industry is rapidly evolving, and just like in other sectors, it is now more driven by technology. Building on the growing popularity of FinTech (financial technology), we have developed a regulatory sandbox policy and guidance note geared towards adoption of InsureTech. The policy will facilitate testing of new ideas and innovations in the insurance industry through a Regulatory Sandbox. This is intended to drive innovation in the industry through development of new products and services with a clear potential to advance the objectives of Inclusive Insurance. To enable this the Authority has constituted a *Bima* Innovate Committee (BIC) that will oversee the selection and approval of sandbox applications from innovative applicants for testing.

Future prospects

The world is facing an increasingly complex and uncertain risk environment. The COVID-19 pandemic is one such risk that has shaken the global economy and provision of insurance against new breeds of emerging risks require co-ordination across many players within the financial ecosystem. As the pace of change within the marketplace accelerates, a major rethink of how the insurance industry operates is needed. Given the potential for sharply rising claims and ever more complex loss drivers, the Authority is keen to manage the evolving risk environment through dynamic approaches.

The insurance industry continues to evolve and it now stands on the precipice of profound change with disruptions emanating from many sides. These include demanding customers, new competitors, technological advancements and a changing set of legal requirements. Consumer expectations are shifting as consumers become more knowledgeable and enforce their rights under the laws. Insurance industry players, more than ever before, need to establish stronger customer orientations, build deeper customer relationships and deliver customized products responsive to societal needs. The advent of more nimble competitors, either in the form of InsureTech platforms or technology giants, is




increasing the pressure on incumbent insurers to retrain their focus. This is a good catalyst for development in the industry.

In the 2020/2021 financial year, we will be conducting a mid-term review of our Strategic Plan. No doubt, the lessons we have learnt in the preceding phase of the Plan will be very crucial in developing our strategies moving forward. I would like to assure all our stakeholders that we are committed to ensuring that our regulatory structures enable and promote efficiency of the insurance industry in the country.

Appreciation

Our good performance in 2019-2020 reflects the support, insight and strategic leadership provided by the Board of Directors and I wish to thank the Board members individually for their unwavering support during the year. I am also grateful to the Management and Staff for their tireless efforts and input in realizing our success.

Lastly, the Authority's success would not be possible without the continued support of all our valued stakeholders. I wish to personally, and on behalf of the Board of Directors, extend our gratitude to the National Treasury and Planning for their continued support and confidence.


Hon. Abdirahin H. Abdi, MGH
Chairman
Board of Directors – Insurance Regulatory Authority

REPORT OF THE CHIEF EXECUTIVE OFFICER

It is my pleasure to present this report highlighting the Authority's activities, accomplishments and challenges for the financial year 2019/2020. In the past year, we witnessed growth and development for both the Authority and the insurance industry as a whole. In the current period, we have experienced challenges and disruptions in normal insurance business operations brought about by the COVID-19 Pandemic. No doubt, the pandemic has brought to light some of the vulnerabilities within the industry and I am hopeful that moving forward, players are incorporating measures aimed at enhancing their resilience as they put in place recovery measures.

As one of the key pillars of the financial services sector, the insurance industry is central to the country's economic development. As both an infrastructural and commercial service, a well-functioning insurance industry plays a crucial role in economic development not just at a macro economic level but also in terms of the activities of individuals and businesses. To effectively contribute to economic growth, efficiently allocate resources, manage risk, and mobilize long-term savings, therefore, the insurance industry must operate on a financially sound basis.

The insurance industry, like other components of the financial system, is changing in response to a wide range of social and economic forces. In particular, insurance and insurance-linked financial activities are increasingly crossing national and sectoral boundaries. Technological advances are facilitating innovation. From a regulatory stand point, we are continuously upgrading our systems and practices to cope with these developments.

Operating Environment

A sound regulatory and supervisory system is necessary for maintaining efficient, safe, fair and stable insurance market and for promoting growth and competition in the sector. Such a market benefits and protect policyholders while promoting insurance. To ensure that this is realized in our market, we have issued regulations on Anti-Money Laundering, MicroInsurance, Bancassurance and Group-wide supervision among others. We have also issued guidelines on market conduct, claims settlement and corporate governance to provide a framework for conducting insurance business in the country.

There have been a number of developments taking place within our operating environment and which have been shaped by changes in regulatory frameworks, shifts in consumer wants and needs, deepening analytics, information disclosure, professional standards and more importantly rapid changes and disruptions being brought about by technology. These changes across the financial value chain are confronting the insurance industry with new questions. For instance, consumer needs have evolved, distribution channels have evolved and the internet of things is affecting how risk is underwritten and predicted.

Broadly speaking, our role as a regulator is to maintain the viability, integrity and stability of the insurance industry while ensuring public confidence in the industry in the wake of all these developments.

Future Outlook

Insurance customers, just like any other customers have become more informed and demanding. In this regard, service providers need to establish stronger customer orientations, build deeper customer relationships and deliver products to the market with more speed. With increased competition and market saturation, the future of the insurance industry is utility value. In an age of increasing customer expectations, turning customers into fans is what insurance industry players need to do. To retain loyal customers, they must offer more than a competitive product and provide an exceptional customer experience, underpinning a relationship built on trust. This provides a more enduring advantage both in terms of better customer relationships and revenue growth.

The insurance industry is evolving rapidly with reports revealing that growth will come from preventative as well as protective approaches, with a range of new services and products. The traditional approach of selling protective products is nowhere near enough for the insurer of the future. Growth will come from new service-based models, innovative products and a greater focus on prevention. Looking ahead, the shifts in consumer demands, expectations and satisfaction are likely to have a profound impact on the evolution of the insurance industry in Kenya.

While COVID-19 has disrupted business operations, the same might just be the catalyst for innovation and change insurers need. Arising from the pandemic is the unique opportunity for insurers to rethink and innovate as they adjust to respond to market dynamics and consumer needs and preferences. For instance, there may be need for new products and an upsurge for user-based insurance products.

It is not in doubt that COVID-19 has put the shift to digital commerce on fast-forward. Most probably, the most significant changes will be in the way that insurance products are sold, distributed, serviced and the usage of customer data. These changes will lead to much greater levels of personalization and so change the customer experience and value proposition. This is a welcome change considering that insurers have been accused of offering standard products without consideration to various customer needs.

Customers see insurance value as a balance of price, product features and services. They are willing to build long-term relationships and purchase multiple products—with customer-centric providers. Driven by a transformed regulatory landscape, they are demanding clarity and transparency. To surpass competition and generate significant growth, insurers must change their focus. Innovation demands a shift from short-term/tactical to long-term/strategic decision-making. Building business with strong foundations with a fit-for-purpose market operating model is likely to distinguish leaders from followers.



Appreciation

On behalf of the Management and the entire Staff, I thank the Board of Directors for its guidance and direction during the year. I express gratitude to the stakeholders for their continued support and contribution to our success.

A handwritten signature in black ink, appearing to read "G. Kiptum", is positioned above the printed name.

Godfrey Kiptum, MBS
Commissioner of Insurance & Chief Executive Officer



REVIEW OF THE AUTHORITY'S PERFORMANCE FOR THE FINANCIAL YEAR 2019/2020

The Insurance Regulatory Authority (IRA) as a State Corporation established under the Insurance Act, Cap 487 of the Laws of Kenya has a mandate to regulate, supervise and promote development of the insurance industry in Kenya. The objects and functions of the Authority are as provided for in Section 3A of the Insurance Act with the objectives of supervision set out as to: -

- a) Promote the maintenance of a fair, safe and stable insurance sector
- b) Protect the interest of insurance policyholders and beneficiaries
- c) Generally, promote the development of the insurance sector.

The Authority developed and has been implementing a strategic plan for the period 2018 – 2022. The plan is focused on guiding the Authority in providing efficient and effective services in line with the overall objectives of supervision.

The plan sets out a five-year road map with four key results areas (pillars) that define the strategic intent. The plan is anchored on the national development agenda as set out in the Kenya Vision 2030 with the following as the Key Result Areas (KRAs);

- i. *Regulation and Supervision*: ensure a safe, fair, competitive and stable insurance market
- ii. *Policy and Market Development*: promote inclusion and enhance access to insurance in Kenya
- iii. *Consumer Protection and Education*: to ensure application of up to date consumer protection policies and, an empowered populace to make informed decisions on insurance matters.
- iv. *Institutional Capacity*: to ensure effectiveness and efficiency in service delivery

The strategic plan is operationalized through annual work plans. The 2019/2020 annual work plan was based on the above pillars with the Board of Directors assessing performance on a quarterly basis. In addition, the Board of Directors also signed the 2019/2020 performance contract based on the strategic plan.

Status of Performance

Regulation and supervision: Some of the key milestones realized in KRA 1 are continuous monitoring of implementation of Risk Based Supervision (RBS). Though the Authority has not been able to generate insurance industry stability dashboard due to lack of appropriate infrastructure, the Authority measured the Capital Adequacy Ratios of insurers on a quarterly basis. To strengthen the regulatory framework, the Insurance Act was amended in 2019 by inserting a new section 204A to empower the Commissioner of Insurance to settle disputes from any insurance complaint with finality. Other key milestones include enforcement of the insurance Act and enabling regulations, Regulatory Impact Assessment study on claims management, and setting ground for conducting of Macro-prudential Surveillance through training of 12 staff.

Policy and Market Development: Some of the key milestones realized in KRA 2 are development and operationalization of a policy paper on regulatory sandboxes. We continued to build capacity in the insurance industry through providing scholarships to eight students to undertake Msc. in Actuarial Management at Cass Business School and evaluation of the impact of Actuarial scholarship program was conducted in 2019.

Under the Big Four agenda, a consultancy on medical insurance was initiated with support from FSSP. The study was aimed at identifying ways in which Private Health insurance can contribute to the provision of Universal Health Care. The study seeks to provide a road map on opportunities for private health insurance in promotion and development of health insurance in Kenya. The Authority also reviewed provisions of the medical insurance policies. To promote food security, a draft agriculture insurance policy was developed in partnership with the Ministry of Agriculture. In addition, Insurance Act amendment Bill of 2019 defined index-based insurance. Draft regulations on index-based insurance were also prepared. On infrastructure financing, a survey on infrastructure financing was done in collaboration with the World Bank Group and a policy brief on Infrastructure financing developed. The survey outlined ways in which the insurance industry can venture into infrastructure development. With regard to social insurance, NHIF was exempted from various provisions of the Insurance Act. Other social schemes will be regulated under micro insurance regulations. A policy for regulating social insurance was developed.

Consumer Protection and Education: Some of the key milestones realized in KRA 3 are insurance awareness campaigns through various platforms. Radio campaigns were conducted in 4 languages: Luhya, Kalenjin, Kikuyu and Luo. In addition, TV campaigns were conducted in both English and Kiswahili languages through Citizen TV, KBC and KTN. Further, the Authority utilized social media platforms and has more than 24, 598 followers. Print media was also used. A survey to determine the impact of consumer education activities is ongoing. The 2019 impact assessment survey made various recommendations (short term and long term) that are aimed at enhancing consumer education. One of the key recommendations of the study was review of the consumer education strategy. The strategy will be reviewed in the 2020/2021 financial year. Development of consumer education website is in progress.

To enhance information disclosure, four quarterly and one annual financial industry reports, complaints statistics and claims settlement statistics were published on the IRA website. The Authority continued to champion for fair treatment of insurance customers in the industry. As such, the Authority continued to conduct Treating Customers Fairly (TCF) inspections during routine inspections of insurance companies as per the inspection plan. A TCF survey to determine customer satisfaction is ongoing. To enhance insurance awareness among citizens, the Authority participated in Mombasa and Eldoret ASK shows held in Quarter 1 and Quarter 3 respectively. The Authority also trained a total of 391 insurance champions in 8 counties (Kisii, Kitui, Kericho, Bungoma, Elgeyo Marakwet, Nyeri, Taita taveta and Migori)

Institutional Capacity: Some of the key milestones realized in KRA 4 are as follows:

- a. To enhance capacity of the Board of Directors, training plan was implemented though implementation of the plan in Quarter 3 and Quarter 4 was affected by COVID-19 pandemic.
- b. To enhance corporate image, Corporate Social Responsibility (CSR) policy is being implemented appropriately. As part of CSR, the Authority in partnership with the Ministry of Environment and Forestry planted trees at Big Ship Conservation site, Mikindani, Tudor Creek mangrove forest, Mombasa County and Kaptagat Forest in Uasin Gishu County on 29th November 2019 and 26th June 2020 respectively.
- c. In ensuring optimal staff capacity, competencies, and productivity, the Authority has taken a number of initiatives and are in progress. The Authority reviewed its staffing structure and submitted it to State Corporations Advisory Committee (SCAC) for approval. Recruitment of staff to fill vacancies that were advertised is ongoing. In addition, the Authority implemented 80% of the 2019/2020 training plan. However, some planned trainings were not held due to COVID-19 pandemic.
- d. The Authority has also continued to implement the Quality Management System (QMS) policy to improve efficiency in customer service delivery. On resource mobilization and utilization, 77% of the budget allocated for 2019-2020 financial year was utilized. The Authority has also continued to leverage on Information Communication Technology (ICT) in service delivery and plans are in place to upgrade key systems such as the Customer Relationship Management (CRM) system.

Overall Status of Performance

Overall self-assessment of weighted score of performance based on the performance contract for the financial year 2019/2020 is 2.9040 which is Very Good compared to a weighted score of 3.0090 that was rated as Good performance realized in same period the previous financial year. This is broken down as follows:

No.	Indicator	Comment(s)
i.	Financial Stewardship and Discipline	The improvement is attributed to improvement in budget utilization which is 77%. Further, overall cumulative performance for Appropriation in Aid (A-I-A) by end of year is 7.15% achievement above target
ii.	Service Delivery	Mainly due to Application of Service Delivery Innovations and operationalization of the service delivery charter that is monitored on a quarterly basis through service delivery audits.
iii.	Core mandate	The improvement is due to a number of planned public engagement activities being undertaken

No.	Indicator	Comment(s)
		through virtual platforms.
iv.	Implementation of Presidential Directives	The Authority in partnership with the Ministry of Environment and Forestry planted trees at Kaptagat Forest on 26th June 2020. In partnership with Kenya Forest Services, planted trees at Big Ship Conservation Site, Mikindani, Tudor Creek mangrove forest, Mombasa county on 29th November 2019.
v.	Access to Government Procurement Opportunities	<p>Virtual workshop on procurement opportunities available for the youth, women and persons with disabilities held on 29th June, 2020. Statutory reports forwarded to Public Procurement Oversight Authority and Ethics and Ant-Corruption Commission as per guidelines.</p> <p>The cumulative performance Year to Date (YTD) is Kes. 55,466,096.34 against a target of Kes. 52,992.049.00 which represent 105% of the target.</p>
vi.	Promotion of Local Content in Procurement	The cumulative performance YTD is Kes. 209,954,672.36 against a target of Kes. 236,919,265.60 which represent 89% of the target. Most of the items procured were Information Communication Technology hardware and software and motor vehicles as they are not locally manufactured products.
vii.	Cross cutting	This was mainly due to a number of Performance Contract related training and workshops being held virtually.



CORPORATE GOVERNANCE STATEMENT

The Authority is a State Corporation established under the Insurance Act and whose primary activities are to regulate, supervise and develop the insurance industry in Kenya and protect the interests of policyholders and insurance beneficiaries.

a) Board Composition

The Authority's management vests in its Board of Directors as prescribed under Section 3B of the Insurance Act. The composition of the Board of the Authority in the year under review was as follows:

Name	Membership	Profession
Hon. Abdirahin H. Abdi	Chairman	Business Development Expert & Legislator
Mr. Godfrey K. Kiptum	Chief Executive Officer & Commissioner of Insurance	Management, Insurance & Human Resource
Mr. Nzomo Mutuku	Chief Executive Officer, Retirement Benefits Authority	Economics & Financial Services Regulation
Mr. Paul Muthaura (retired 01.01.2020)	Chief Executive Officer, Capital Markets Authority	Legal, Management & Finance
Mr. Wyckliffe Shamiah (appointed 01.01.2020)	Ag. Chief Executive Officer, Capital Markets Authority	Management Accounting & Regulation
Mr. Matu Mugo	Representing, Governor Central Bank of Kenya	Finance & Accounting
Mr. Solomon Kitungu (retired February 2020)	Representing, Cabinet Secretary, The National Treasury & Planning	Economics & Management
Ms. Alice M. Njoroge	Member, Nominee Insurance Institute of Kenya	Management & Insurance
Mr. Douglas Kailanya	Member	Finance, Management & Accounting
Ms. Joyce K Muchena	Member	Strategic Planning & Management
Mr. Paul K Cheboi	Member	Academic Affairs, Management & Planning

Members of the Board other than *ex-officio* members hold office for a period of three (3) years and are eligible for re-appointment for another term.

The Board Members represent an appropriate skill, experience, gender, diversity and geographical mix to facilitate effective execution of the Authority's mandate.

The Inspector of State Corporations (or his representative) may attend any meeting of the Board or Board Committees as in his opinion is necessary for the effective carrying out of the duties of his office.

There has been no removal of a serving director.

Board Committees

The Board has delegated its Authority to the standing Committees to enable it effectively carry out its mandate. The Committees of the Board have specific Terms of Reference and were constituted as follows:

- (i) Technical, Research and Compliance;
- (ii) Audit, Risk Management and Corporate Governance;
- (iii) Finance and Administration; and
- (iv) Human Resource.

The Board has a Charter in place which is subject to review in line with changing operational environment and governance requirements.

b) Board Attendance

A record of attendance of Board Meetings and Board Committee Meetings was kept during the period under review. The provisions of the Insurance Act, the State Corporations Act and the Mwongozo Code of Governance for State Corporations pertaining to attendance and absence from meetings have been adhered to.

c) Conflict of Interest

Board Members are required to disclose any conflict of interest in relation to matters that are brought before them for deliberation. The Corporation Secretary maintains a register of conflicts of interest which is updated where a conflict is declared.

d) Whistle Blowing Policy

The Authority has provided for protection of whistle blowers under its Code of Conduct and Ethics as well as its Whistleblowing Policy so as to ensure safeguard of the identity and safety of whistleblowers.

e) Statement of Compliance

The Authority conducted its business affairs in full compliance with all applicable laws, rules, regulations, relevant executive orders and circulars.

f) Board Oversight

The Board is responsible for the formulation, implementation and monitoring of the Authority's Strategic Plan thus providing appropriate strategic direction for the Authority. The Authority is implementing its Strategic Plan for the period 2018-2022 and the same is due for mid-term review in the next financial year.

The Board ensures that the Authority espouses proper corporate governance practices and is also responsible for managing the Authority's risks. The Board recognises and is committed to delivering its responsibility to all its stakeholders.

g) Board Induction and Training

The Board development programmes during the period under review were aligned to training needs. However, the same was not fully implemented owing to restrictions occasioned by the COVID-19 Pandemic.

h) Board Evaluation

The Board schedules its annual evaluation exercise in its work plan in consultation with the State Corporations Advisory Committee (SCAC) which conducted the exercise on 13th July 2020.

i) Board Remuneration

The Board is remunerated in accordance with the approved Terms and Conditions of Service prescribed under various Government Circulars.

j) Corporation Secretary

The Board of Directors is assisted by a qualified, competent and experienced Corporation Secretary. The Corporation Secretary co-ordinates the Board activities and ensures, in conjunction with the Chairman and Chief Executive Officer, that the Board meetings are held procedurally.

k) Separation of Roles

The role of the Board of Directors is separated from that of the Management; the office of the Chairperson and that of the Chief Executive Officer are held by different persons; and the office of the Chief Executive Officer and that of the Corporation Secretary are held by different persons.

l) Social Responsibility

Being conscious of the Authority's responsibility to the society, the Board of Directors is committed to operate ethically and promote corporate social responsibility and investments in accordance with its Corporate Social Responsibility Policy.

m) Board Attendance

A board meeting attendance register is maintained for all board committee and board meetings. Where a Member did not attend any meeting, an acceptable apology was duly received by the Chairman and recorded by the Corporation Secretary. The Chief Executive Officer/Commissioner of Insurance is an ex officio member of all Board Committees. The Inspector of State Corporations (or his representative) may attend any meeting of the Board or Board Committees as in his opinion is necessary for the effective carrying out of the duties. The board meetings attendance matrix is indicated below:

Name	Designation	Classification	Board	TRC	FAC	ARCC	HRC
Hon. Abdirahin Abdi	Chairman	Membership	¶	-	-	-	-
		Attendance	10/10	-	-	-	-
Mr. Godfrey Kiptum	CEO	Membership	¶	¶	¶	*	¶
		Attendance	10/10	6/6	6/6	4/4	4/4
Mr. Paul Muthaura # (retired 01.01.2020)	Member	Membership	¶	-	¶	-	¶
		Attendance	4/10	-	1/6	-	-
Mr. Wyckliffe Shamiah # (appointed 01.01.2020)	Member	Membership	¶	-	¶	-	¶
		Attendance	6/10	-	2/6	-	1/4
Mr. Matu Mugo	Member	Membership	¶	¶	-	¶	¶
		Attendance	2/10	1/6	-	3/4	2/4
Mr. Nzomo Mutuku	Member	Membership	¶	¶	¶	-	-
		Attendance	9/10	5/6	5/6	-	-
Ms. Alice Njoroge	Member	Membership	¶	¶	¶	¶	-
		Attendance	10/10	5/6	5/6	4/4	-
Mr. Douglas Kailanya	Member	Membership	¶	¶	¶	-	¶
		Attendance	10/10	5/6	6/6	-	3/4
Ms. Joyce Muchena	Member	Membership	¶	¶	-	¶	¶
		Attendance	10/10	6/6	-	3/4	4/4
Mr. Paul Cheboi	Member	Membership	¶	-	¶	¶	¶
		Attendance	10/10	-	6/6	4/4	4/4
Mr. Solomon Kitungu (retired February 2020)	Member	Membership	¶	-	¶	¶	¶
		Attendance	4/10	-	4/6	3/4	2/4

KEY:

- ¶ - This is a member of respective Committee
- * - This is not a member of the Committee but in attendance
- # - Member retired/was appointed mid-year thus no attendance in full
- TRC** - Technical, Research and Compliance Committee
- FAC** - Finance & Administration Committee
- ARCC** - Audit, Risk Management and Corporate Governance Committee
- HRC** - Human Resource Committee

MANAGEMENT DISCUSSION AND ANALYSIS

SECTION A

The Authority's operational and financial performance

The Authority regulates, supervises and promotes development of the Insurance industry in Kenya. The Authority is in a strong cash flow position capable of meeting obligations as they fall due.

SECTION B

Authority's compliance with statutory requirements

The Authority has complied with all statutory obligations including but not limited to; remittances of PAYE, NHIF, NSSF, VAT, HELB, Withholding tax etc within the stipulated timelines.

SECTION C

Key projects and investment decisions the Authority is planning/implementing

The Authority is currently carrying out the following projects;

i. Consumer education activities in all Counties.

The Authority is currently carrying out consumer education activities in counties across the country. During the 2019/2020 financial year the Authority conducted Trainings for Insurance Champions in eight counties. Opinion leaders were trained to enable them advise members of the public within their communities and organisations on insurance matters and the role of the Authority in protecting the interest of policyholders. This is aimed at increasing awareness levels on the need and benefits of insurance in the counties

The Authority developed and disseminated IEC materials during the insurance champions trainings, mobile clinics and other outreach activities conducted by the Authority. Infomercials were also developed and aired on television and local radio stations to educate the general public on insurance and to improve their understanding and appreciation of insurance as a mechanism for risk management. This is aimed at enhancing insurance awareness levels, increasing the uptake of insurance products and ultimately lead to increased insurance penetration.

ii. Innovation lab

The Authority's strategic plan 2018-2022 is centered on policy and market development for inclusion and enhanced access to insurance products and services. The Authority has developed an innovation hub "BimaLab" and has so far initiated a Regulatory Sandbox "BimaBox" to harness innovation that will

create synergies and efficiencies within the insurance sector with the purpose of financial inclusion and enhanced access to insurance products and services. Harnessing technology is one of the levers the Authority aims to use to deliver our mandate of increasing insurance penetration in Kenya.

SECTION D

Major risks facing the Authority

The Authority is mandated to regulate, supervise and promote the development of the insurance industry in Kenya. The strategic priority remains protection of the insurance policyholders and beneficiaries which is backed by a fair, safe and stable insurance industry. The following are the key risks facing the Authority:

i. Dissatisfied insurance consumers

Dissatisfaction of insurance consumers may be as a result of interruption of service delivery. The new normal involves remote working which has increased the turnaround time in service delivery as well as denied consumers the personal touch that they would otherwise have experienced in normal times where physical distancing is not required.

The Authority has responded by requiring insurers to provide platforms for selling and offering insurance services to existing and new customers including access to a dedicated telephone line to handle complaints and grievances.

Internally, the Authority has enabled remote working for staff via secure virtual private network (VPN) connections and developed a daily tracking tool to assess productivity levels. Interaction with consumers has been made possible through other means that exclude face to face meetings. This is mainly through emails, telephone calls and virtual meetings. Customers who visit the office and require face to face interaction are served through a glass partition. It is also a requirement that staff and customers have their masks properly worn at all times.

ii. Failure of insurance companies to meet obligations

The global economy has been impacted by the COVID-19 pandemic. This is likely to affect liquidity of insurers resulting in delayed payment of claims.

The Authority has responded by issuing guidance to insurers and is collecting data to assess the actual impact on their performance. The Authority continues to address complaints made against insurers in a bid to ensure consumers are treated fairly.

iii. Business interruption

The Authority relies heavily on human capital and technology to deliver its services. There has been a freeze on promotions, recruitment and capital expenditure since 2013. This has affected staffing levels which has remained at 70% of the approved establishment. It has also affected replacement of ageing equipment which is critical in effective performance of information systems.



The Authority continues to seek approvals to hire staff as well as incur capital expenditure, however, delays continue to be experienced. A waiver of the requirements of the 2013 circular would pave way for ensuring there is timely replacement of staff who leave and equipment that has outlived its usefulness.

SECTION E

Material arrears in statutory/financial obligations

The Authority pays all statutory and financial obligations when due and as such there are no arrears.

SECTION F

Financial impropriety and serious governance issues

There are no issues of financial impropriety reported by any board committee or external auditors. There are no governance issues and no conflicts of interest at the board or top management of the Authority.



CORPORATE SOCIAL RESPONSIBILITY STATEMENT

One way the Authority has strengthened the Corporate Social Responsibility (CSR) program is coming up with a CSR policy which has clearly defined the overall objectives, areas of focus, roles of the CSR committee, CSR engagement guideline and finally monitoring and evaluation of the CSR activities.

The CSR programme is run on a foundation of ethical principles, good governance and sound management. The CSR policy defines the following as the Authority's areas of focus:

- i. Health
- ii. Education
- iii. Environment
- iv. Response to national emergencies and disasters as and when necessary.

The Authority is committed to making a difference in the lives of people within the communities and has signed a Memorandum of Understanding (MoU) with the financial sector regulators, Kenya Society for the Blind and Kenya Forest Service to implement joint CSR activities for purposes of sustainability and long-term planning. We have held successful activities with the above institutions which have directly impacted the community. The support and commitment of the Board of Directors, management and all members of staff has made running the activities successful.

We believe in working as a team in the Authority where everyone is involved in the CSR activities. That way, everyone owns the process. The Authority has appointed staff members from different divisions to form a CSR Committee.

The Authority entered into a 5-year partnership with Kenya Forest Service on the implementation of the Presidential Directive on 10% Tree Cover by 2020. The partnership focuses on the restoration of the mangrove forests along the coastal shoreline, with a view of enhancing the environmental, social and economic benefit of the Mangrove ecosystems. This initiative has been successful in that members of staff have been able to participate and plant 10,000 Mangrove seedlings in the Big conservation site in Mikindani Tudor Creek Mangrove forest.

In addition, the Authority was able to support the Ministry of Environment and Forestry during their 4th Annual Kaptagat Tree planting Exercise at Sabor Forest Block-Kitany area. Over 75,000 indigenous tree seedlings were planted and the community was sensitized on matters of environment protection and conservation.



Board of Directors & Members of staff planting tree Seedlings at the Mangrove Forest, Mikindani, Mombasa



IRA CEO, Godfrey Kiptum planting a tree at the Kaptagat Forest during the Annual Tree Planting

Partnerships with other Institutions

i) Medical Camp

The Authority's health initiative is focused on supporting vulnerable groups in the society through partnerships. The Authority has entered into partnership with Kenya Society for the Blind (KSB). The Authority's area of support includes support of the education for the visually impaired through provision of assistive devices to students within identified schools, sponsorship of medical camps for the society where doctors on an open day come and offer eye related clinics, provide medication where necessary to avoid blindness, sponsorship of annual KSB Mt. Longonot Annual Charity Climb walk that seeks to create awareness on eye conditions and sponsorship of the blind walk that is held to mark the World Sight Week.

During the year in review we held a free medical camp in Malindi, Kilifi county as part of CSR. The medical camp targeted 2000 residents of Kilifi and its environs. The camp provided services in Eye Clinic (Screening & Treatment); diabetes & hypertension, cervical, breast & prostate, dental services, VCT, family planning and nutritional services. The doctors were from the Malindi sub-county hospital.

The camp was very successful and many patients were attended to.



Members of staff and doctors from Kilifi county hospitals attending to patients during the Medical camp in Kilifi.

(ii) Mt. Longonot Charity Climb

During the year under review, the Authority was able to participate in the KSB charity climb which is an annual event. This is well stipulated in the CSR policy as one of the areas of focus in Health. The community was also invited and they joined in the worthy cause.



Members of staff & community participating in the climbing of Mt. Longonot.

This impacts the community in that all the proceeds achieved during the walk assist towards purchase of assistive devices to the visually impaired students and create awareness on eye conditions.

(iii) Nairobi Hospice Annual Charity Walk

The Authority also supported the Nairobi Hospice during the year under review. The hospice offers palliative care service and education to health care professionals and non-healthcare providers. These services are offered to patients with life limiting illnesses on outpatient basis, at their homes and in the community through outreach programmes. The proceeds go towards the following activities; -

- Treatment & medication for the patients and home visits for those who are weak.
- Conducting community outreach clinics.
- Patients Group Therapy Sessions.

Promoting Education

The Authority has continued supporting actuarial students. Every year, the Authority offers a one-year scholarship to 5 actuarial students to undertake Master's degree at the Cass Business School in United Kingdom, London. This assists in capacity building in the actuarial profession. So far, the Authority has supported 47 students.

Employee Welfare

The Authority has put in place a Human Resource Policy & Procedures Manual which was developed to support service delivery, commitments and obligations of

the Authority to the targeted beneficiaries. The manual was reviewed in December 2018 and is to be reviewed as and when necessitated but at least every three (3) years so as to be in harmony with legislation and organizational or technological changes.

The Manual sets the guidelines on recruitment and selection of members of staff, management and development of human resources in the Authority. It is also the official means for the Authority to communicate its policies on human resource management related matters.

IRA is an equal opportunity employer and does not in its recruitment and selection process, discriminate on the basis of gender, race, religion, ethnicity or any other form of discrimination. The constitutional requirement on mainstreaming of gender and persons with disabilities as stipulated in Article 232 of the Constitution are also observed alongside other policies issued by the National Cohesion and Integration Commission.

In the effort to improve skills and managing careers, the Authority developed the staff career progression guidelines for fair and equitable treatment of staff. Appropriate training opportunities and facilities are also provided to all members of staff without discrimination.

The Authority recognizes that a well-functioning performance management system contributes to the overall performance and success of the organization and therefore developed and implemented a Performance Management System (PMS) to enable objective measurement and attainment of organizational targets and objectives. The PMS is an avenue for enabling the Authority measure the impact of its staff on the overall results of the Authority's performance. The performance management system is predicated upon the principle of aligning individual targets and measures with the Authority's goals and key performance indicators, measuring actual performance against set criteria and providing feedback to employees. An evaluation and review of the current system is expected to be undertaken in the financial year 2020/2021.

Sustainability strategy and profile

The Authority's top management has made sustainable efforts, broad trends in political and macroeconomic affecting sustainability priorities, reference to international best practices and this include the following:

- (i) Capitalization - The Authority has implemented Risk Based Supervision (RBS) which ensures that prices charged are linked to risk profile of the insurer.
- (ii) It lobbies for support from the government to pass laws which create enabling environment for insurer to operate.

- (iii) On macro-economic, the Authority encourages insurance companies to invest in Treasury Bills and corporate bonds and
- (iv) Passing and implementation of macro-insurance regulations.

On the best practices: -

- (i) The Authority is a member of International Association of Insurance Supervisors which has developed Insurance Core Principles (ICPs) which are adhered to.
- (ii) Signing of MoUs with other regulators for information sharing
- (iii) Benchmarking with other regulators internationally.

Market place practices

The Authority has continued to promote responsible competition practices while executing its mandate in the insurance sector. Some of the mitigating measures on issues like anti-corruption include:

- Establishing Insurance Fraud Investigation Unit (IFIU) to deal with Insurance Fraud in the industry. This was made possible by partnering with Directorate of Criminal Investigation (DCI).
- Strengthening policies, laws and regulations for mitigating corruption and fraud
- Capacity building and sensitization of stakeholders
- Information sharing with other regulators
- Having in place Insurance Regulatory Authority policy on corruption and code of conduct policy
- Designated email to report any type of corruption (ethics@ira.go.ke)

In terms of political involvement, the authority strictly adheres to the Insurance Act, ensures there is board independence and support from the parent ministry. For fair competition there is the Act and regulations which guide the operation of the Authority and Competition Authority of Kenya looks into pricing.

The Authority has had a good working relationship with its suppliers by exercising good practices. They include adhering to the Public Procurement and Asset Disposal Act, following Standard Operating Procedures, fairness in allocation of procurement opportunities, evaluation, contract management and prompt payment.

Ethical marketing and advertisement practices have been observed by following the Standard operating procedures, adhering to circulars from the parent ministry and guidance from Public Procurement and Asset Disposal Act.

To safeguard consumer rights and interests, the Authority has continued to empower them with consumer education to enable them make informed choices about insurance through outreach education, leverage on the use of ICT, designated emails to forward their complaints (complaints@ira.go.ke) and coming up with a framework of 'Treating Customers Fairly'.



Our focus on the customer remains a key priority. Although there is much to be done, we are working towards exceeding our customer expectations. Our shared value partnerships reinforce our purpose driven approach to service delivery and our commitment to transforming lives. Stakeholder engagement has enabled us to engage with our customers across the country.



REPORT OF THE DIRECTORS

The Directors submit their report together with the financial statements for the year ended June 30, 2020 which shows the state of affairs of the Insurance Regulatory Authority.

Incorporation

The Authority is a State Corporation established under the Insurance Act Cap 487 Laws of Kenya.

Principal activities

The principal activities of the Authority are to regulate, supervise and promote the development of the insurance industry in Kenya.

Results

The results of the Authority for the year ended June 30, 2020 are set out on page 35.

Directors

The members of the Board of Directors who served during the year are shown on page 4-7.

Dividends/Surplus remission

In accordance with Section 219(2) of the Public Finance Management (National Government) Regulations, 2015 regulatory entities shall remit into the Consolidated fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The Authority will remit Kes. 721,742,430 (financial year 2018/2019 Kes 764,478,404).

Auditors

The Auditor General is responsible for the statutory audit of the Authority pursuant to Article 229 of the Constitution of Kenya and the Public Audit Act, 2015.

By Order of the Board

A handwritten signature in black ink, appearing to read 'Diana'.

Ms. Diana Sawe Tanui

Board Secretary

Date: 24/09/2020



STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for the financial year ended June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Authority; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Authority; selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of the Authority's transactions during the financial year ended June 30, 2020, and the Authority's financial position as at that date. The Board of Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.


Nothing has come to the attention of the Board of Directors to indicate that the Authority will not continue to operate as a "going concern" for at least the next twelve months from the date of this statement.

Approval of the Financial Statements

The Authority's financial statements were approved by the Board of Directors on 10th September 2020 and signed on its behalf by:



Hon Abdirahin H. Abdi, MGH
Chairman



Godfrey Kiptum, MBS
Commissioner of Insurance &
Chief Executive Officer

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON INSURANCE REGULATORY AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Insurance Regulatory Authority set out on pages 35 to 65, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Insurance Regulatory Authority as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Insurance Act, 2017.

Basis for Opinion

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

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

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

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Authority's ability to continue to sustain service, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless Management either intends to liquidate the Authority or cease operations .

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

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

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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

occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority'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 Authority 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 Authority to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

29 December, 2020



**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30TH JUNE 2020**

	Notes	2020 KES.	2019 KES.
Revenue from non-exchange transactions			
Insurance premium levy	6	1,709,189,760	1,641,739,302
Grants	7	-	63,964,000
Licence fees	8	25,793,958	17,472,491
Miscellaneous income	9	141,179	1,294,170
		<u>1,735,124,897</u>	<u>1,724,469,963</u>
Revenue from exchange transactions			
Interest income	10	100,710,158	153,246,770
		<u>100,710,158</u>	<u>153,246,770</u>
Total Revenue		<u>1,835,835,055</u>	<u>1,877,716,733</u>
EXPENSES			
Board expenses	11	26,595,927	49,504,849
Employee costs	12	439,331,438	462,952,687
Development of the insurance industry	13	99,535,220	167,758,754
General expenses	14	245,879,000	235,190,932
Repairs and maintenance costs	15	5,433,812	2,853,682
Contracted services	16	39,184,731	21,004,154
Depreciation and amortisation	17	37,229,646	16,762,333
		<u>893,189,774</u>	<u>956,027,391</u>
SURPLUS FOR THE YEAR		942,645,281	921,689,342
Transfer to Consolidated Fund	18	(721,742,430)	(764,478,404)
TRANSFERRED TO GENERAL RESERVE		<u>220,902,851</u>	<u>157,210,938</u>



STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2020

	Notes	2020 KES.	2019 KES.
ASSETS			
CURRENT ASSETS			
Cash and bank balances	19	22,075,478	71,377,848
Receivable from exchange transactions	20	39,857,325	70,236,199
Investments	21	821,000,000	766,546,200
Inventories	22	<u>1,505,052</u>	<u>1,314,336</u>
		<u>884,437,855</u>	<u>909,474,583</u>
NON-CURRENT ASSETS			
Property, plant and equipment	24	154,266,371	42,329,685
Intangible assets	25	39,767,962	48,225,046
Investment	26	<u>328,220,500</u>	<u>1,294,415,863</u>
		<u>522,254,833</u>	<u>1,384,970,594</u>
TOTAL ASSETS		<u>1,406,692,688</u>	<u>2,294,445,177</u>
CURRENT LIABILITIES			
Payables from exchange transactions	27	150,046,710	88,621,346
Payable to Consolidated Fund	18	461,742,430	267,150,861
Provisions	28	<u>54,764,071</u>	<u>19,436,347</u>
		<u>666,553,211</u>	<u>375,208,554</u>
NET ASSETS		<u>740,139,477</u>	<u>1,919,236,623</u>
RESERVES			
General Reserves		40,139,477	1,919,236,623
Building Reserves		<u>700,000,000</u>	-
TOTAL		<u>740,139,477</u>	<u>1,919,236,623</u>

Hon Abdirahin Abdi, MGH
Chairman

CPA Esther Musyoki
Head of Finance
ICPAK no. 3374

Godfrey Kiptun, MBS
Commissioner of Insurance
& Chief Executive Officer

The notes on page 42 to 64 form an integral part of these financial statements



**STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30TH JUNE 2020**

GENERAL RESERVE	GENERAL RESERVES	BUILDING RESERVE	TOTAL
1 July, 2018	1,762,025,685	-	1,762,025,685
Changes in reserves for 2019			
Surplus for the year	<u>157,210,938</u>	-	<u>157,210,938</u>
Balance as at 30th June, 2019	<u>1,919,236,623</u>		<u>1,919,236,623</u>
1 July, 2019	1,919,236,626		
Changes in reserves for 2020			
Transfer to Consolidated Fund	(1,400,000,000)	-	(1,400,000,000)
Surplus for the year	220,902,851		220,902,851
Transfer to building reserve	<u>(700,000,000)</u>	<u>700,000,000</u>	<u>-</u>
Balance as at 30th June, 2020	<u>40,139,477</u>	<u>700,000,000</u>	<u>740,139,477</u>



**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2020**

	Notes	2020 KES.	2019 KES.
Cash flow from operating activities			
Cash receipts from customers		1,735,124,897	1,724,469,966
Payment to suppliers and employees		<u>(729,018,882)</u>	<u>(883,015,866)</u>
Net Cash from Operating Activities		1,006,106,015	841,454,100
Cash flow from investing activities			
Purchase of property, plant and equipment	24	(132,133,364)	(24,869,599)
Purchase of Intangible asses	25	(8,575,884)	(47,399,294)
Purchase/Sale of investments	26	966,195,366	(52,164,704)
Surplus paid to Consolidated Fund		(1,927,150,861)	(545,216,069)
Interest received		100,710,158	153,246,770
Net cash used in investing Activities		<u>(1,000,954,585)</u>	<u>(516,402,896)</u>
Net(decrease) increase in cash & cash equivalentents		5,151,430	325,051,204
Cash & cash equivalent at the beginning		<u>837,924,048</u>	<u>512,872,844</u>
Cash & cash equivalent at the end	23	<u>843,075,478</u>	<u>837,924,048</u>



**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30TH JUNE 2020**

	2020 KES BUDGET	2020 KES ACTUAL	VARIANCE %
INCOME			
Insurance premium levy	1,699,581,880	1,709,189,760	1%
Interest income	160,000,000	100,710,158	-38%
Licence fees	13,001,000	25,793,958	99%
Other Miscellaneous income	<u>3,000,000</u>	<u>141,179</u>	-95%
	<u>1,875,582,880</u>	<u>1,835,835,055</u>	<u>-2%</u>
CAPITAL EXPENDITURE	195,240,000	140,709,248	28%
OPERATING EXPENDITURE			
Board members expenses	50,000,000	26,595,927	47%
Personnel emoluments	441,760,800	327,723,725	26%
Other personnel costs	149,454,000	111,607,715	25%
Development of Insurance industry	145,000,000	99,535,220	31%
Office supplies and expenses	28,965,884	20,762,859	28%
Transport and travel expenses	47,500,000	44,019,177	7%
Public relations	80,000,000	65,822,209	18%
Utilities (Telephone, electricity and water)	6,500,000	5,037,050	23%
ICT expenses	31,674,000	15,980,249	50%
Office rent and office services	80,107,734	62,155,041	22%
Consultancy & professional services	43,423,200	40,701,548	6%
Sinking fund provision (Depreciation)	18,500,000	37,229,646	-101%
Other expenses	<u>37,000,000</u>	<u>36,019,408</u>	<u>3%</u>
TOTAL RECURRENT EXPENDITURE	1,159,885,618	893,189,774	23%
TOTAL EXPENDITURE	<u>1,355,125,618</u>	<u>1,033,899,022</u>	<u>23%</u>
SURPLUS FOR THE YEAR	<u>520,457,262</u>	<u>801,936,033</u>	<u>55%</u>

NOTES ON SIGNIFICANT VARIANCES BETWEEN BUDGET AND ACTUAL

Major variances in this context refer to expenditure items which vary from the budget by more than 10%

a) Capital Expenditure- Kes 141million (Budget- Kes.195million)

Partitioning of 3rd floor was not done as the Authority was pursuing purchase of new office premises.

b) Board expenses- Kes 27million (Budget- Kes 50million)

Monthly Directors fee was not paid as envisaged. Local travel and capacity building sub-votes are underspent as the activities planned for could not be undertaken due to the ministry of health guidelines on COVID-19 pandemic.

c) Personnel Emoluments - Kes 328million (Budget Kes 442million)

Personnel emoluments are below the budget mainly as a result of a number of established posts being vacant. The budget is for 98 members of staff while those in post are 73. Authority has been granted to recruit 24 members of staff. Shortlisting of the applications is ongoing.

Authority to recruit 3 chief managers is still pending.

d) Other Personnel Costs - Kes 112million (Budget Kes 149million)

Staff bonus of Kes. 22 million was not paid as anticipated. Authority has been sought from The National Treasury and Planning to pay the same and a response has not been received.

Staff training for the last quarter (Kes. 10million) was not implemented due to the Ministry of Health guidelines on COVID-19 pandemic.

e) Office Supplies- Kes 21million (Budget Kes 29million)

Newspapers were reduced in the last quarter due to COVID-19 guidelines. Stationery and Official entertainment sub votes were also underspent.

f) Public Relations- Kes 66million (Budget Kes. 80million)

Publicity campaigns (on NTV) were not carried out. The scheduled time coincided with the onset of COVID-19 pandemic and from a brand management point of view it was decided that the adverts be shelved as the content was not in context with the prevailing circumstances. The Authority did not participate in Kisumu and Nairobi shows as planned.



g) Development of the Insurance Industry – Kes. 100million (Budget Kes. 145 million)

Champions training in Taita Taveta and Migori counties were carried out on virtual platform. Industry researches and innovation lab activities were not carried out as planned.

h) Utilities- Kes. 5million (Budget Kes 7million)

Fixed landline router equipment broke down in July 2019 and hence there was no expenditure for the first six months of the year.

i) ICT Expenses – Kes 16million (Budget Kes 32million)

The procurement of a number of software licenses and maintenance support were not carried out (MS Navision, IDEA). Disaster recovery site was procured in March 2020 and not in July 2019 as planned.

j) Office Rent & Office Services – Kes 62million (Budget 80million)

Extra space (3rd floor) was not acquired as planned. The Authority is in the process of acquiring office premises.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2020

1. General information

Insurance Regulatory Authority is established by and derives its Authority and accountability from the Insurance Act. The Authority is wholly owned by the Government of Kenya and is domiciled in Kenya. The Authority's principal activity is to regulate, supervise and promote the insurance industry in Kenya.

2. Statement of compliance and basis of preparation

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

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

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

3. Adoption of new and revised standards

(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020

Standard	Impact
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019 The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only). Business combinations and combinations arising from non-exchange transactions are covered purely under Public Sector combinations as amalgamations.

(ii) **Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020**

Standard	Effective date and impact:
<p>IPSAS 41: Financial Instruments</p>	<p>Applicable: 1st January 2022:</p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.
<p>IPSAS 42: Social Benefits</p>	<p>Applicable: 1st January 2022</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <p>(a) The nature of such social benefits provided by the entity;</p>

Standard	Effective date and impact:
	<p>(b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.</p>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p>Applicable: 1st January 2022:</p> <p>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p> <p>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</p> <p>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</p> <p>d) Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p>
<p>Other Improvements to IPSAS</p>	<p>Applicable: 1st January 2021:</p> <p>a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks</p> <p>b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment. Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved</p> <p>c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible</p>

Standard	Effective date and impact:
	Assets. d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard

(iii) Early adoption of standards

The Authority did not early – adopt any new or amended standards in year 2020.

4. Summary of significant accounting policies

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

(a) Income recognition

i) Revenue from non-exchange transactions

Premium levy Penalties and licence fees

The Authority recognizes revenues from levies, penalties and fees when received. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Authority and the fair value of the asset can be measured reliably.

ii) Revenue from exchange transactions

Interest income

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

(b) Budget information

The budget for financial year 2019-2020 was approved by The National Treasury and Planning via letter Ref DGIPE/A/1/10 dated 30th September 2019.

The annual budget is prepared on accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the

Authority. As a result of the adoption of the accrual basis for budgeting purposes, there is no basis that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

(c) Taxes

Under regulation 219(2) of the Public Finance Management Act No. 18 of 2012, the Authority is required to remit 90% of its surplus funds to the Consolidated Fund. As a result, the Authority is exempted from paying income tax under regulation 219(3) of the same act.

(d) Investment property

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

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

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

(e) Property, Plant, Equipment, Computer Software, Depreciation and Amortisation

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 Authority 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.

Depreciation is calculated on the cost of each asset on a straight-line basis at annual rates estimated to write off the cost of the asset over its estimated useful life. Assets purchased in the first three quarters of the financial year are depreciated fully for the year while those purchased in the last quarter are not depreciated in the financial year under review.

The Depreciation rates used are as follows.

Motor Vehicle	25.00%
Partitions & Furniture	12.50%
Computer Equipment	33.30%
Other Equipment	25.00%

(f) Leases

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Authority. 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 Authority 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 Authority 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 Authority. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

(g) Intangible assets

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.

(h) Research and development costs

The Authority expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Authority can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development.

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

(i) Financial instruments
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.

Loans and receivables

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

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Authority has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

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

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

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.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

(j) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method



- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

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

(k) Provisions

Provisions are recognized when the Authority 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.

Contingent liabilities

The Authority does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements. If it has become virtually certain that an outflow of economic benefit will arise and the liability value can be measured reliably, the liability is recognized in the financial statements.

Contingent assets

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

measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

(l) Nature and purpose of reserves

The Authority creates and maintains reserves in terms of specific requirements. General reserves represent surplus held over the years. Building reserve represent an appropriation from the general reserve towards the purchase of the Authority's office premises.

(m) Changes in accounting policies and estimates

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.

(n) Employee benefits

Retirement benefit plans

The Authority operates a defined contribution pension scheme for all its eligible employees. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The scheme is funded from contributions from both the Authority and employees. The assets of this scheme are held in a separate trustee administered scheme.

The Authority also contributes to a statutory defined contribution plan, National Social Security Fund. The contributions are determined by local statute and are currently limited to Kes.200 per employee per month.

Contributions by the Authority to staff retirement benefit schemes are charged to the statement of financial performance as they fall due.

(o) Foreign currency transactions

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

(p) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

(q) Related parties

The Authority regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Authority, or vice versa. Members of key management are regarded as related parties and comprise the directors, the Commissioner of Insurance & Chief Executive Officer and senior managers.

(r) Service concession arrangements

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

(s) 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.

(t) Comparative figures

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

(u) 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, 2020.

5. Significant judgments and sources of estimation uncertainty

In preparing of the Authority's financial statements in conformity with IPSAS, management makes judgments and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of

contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Authority based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Authority. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in note 29.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

6. Insurance premium levy

	2020	2019
	KES	KES
Premium Levy	<u>1,709,189,760</u>	<u>1,641,739,302</u>
	<u>1,709,189,760</u>	<u>1,641,739,302</u>

As per section 197A (1) (2a) of the Insurance Act, Insurers are required to pay a levy on gross direct premiums written at a rate prescribed by the Cabinet Secretary. The rate is currently at 1%.

7. Grants

	2020	2019
	KES	KES
FSSP World bank grant	-	<u>63,964,000</u>
	-	<u>63,964,000</u>

The Authority received support worth Kes.63,964,000 in form of ICT equipment from Financial Sector Support Project. This is a World Bank funded project that strengthens the legal regulatory and institutional environment for improved financial stability.

8. Licence fees

Insurance companies	1,150,000	2,800,000
Brokers	3,650,000	2,904,500
Loss Assessors	1,870,302	621,000
Agents	18,217,588	10,619,991
Other intermediaries	906,068	447,000
Branches	-	80,000
	<u>25,793,958</u>	<u>17,472,491</u>

This is an annual fee paid by all licensed industry players. The licence fees for insurance and re-insurance companies was discontinued in the financial year 2018/2019. The fees charged are Kes.10,000 for brokers and medical insurance providers, Kes. 3,000 for surveyors, loss adjustors, loss assessors, investigators, risk managers, claims settling agents and Kes.1,000 for insurance agents. For annual renewals, the industry players are required to pay twice the amount if the application is received after the deadline, currently 30th September.

9. Miscellaneous income

Sale of obsolete items	<u>141,179</u>	<u>1,294,170</u>
	<u>141,179</u>	<u>1,294,170</u>

This is income from the sale of obsolete items.

10. Interest income

Treasury bonds	46,264,875	111,270,208
Treasury bills	18,412,333	37,392,767
Fixed deposits	35,009,041	3,765,422
Current accounts	<u>1,023,909</u>	<u>818,373</u>
	<u>100,710,158</u>	<u>153,246,770</u>

This comprises interest earned on investment in treasury bonds, treasury bills, fixed deposit accounts and current accounts. Interest on treasury bonds and treasury bills is recognized on a straight-line basis over the maturity period of the investments.

11. Board expenses

	2020	2019
	KES	KES
Honoraria	960,000	800,000
Sitting allowances	6,640,000	12,100,000
Seminars, travel and accommodation	17,428,451	34,544,229
Meeting, entertainment & Others	396,891	1,022,610
Telephone expenses	263,000	263,000
Medical GPA	789,585	717,010
Other expenses	<u>118,000</u>	<u>58,000</u>
	<u>26,595,927</u>	<u>49,504,849</u>

The Board Chairman receives a monthly honorarium of Kes.80,000 per month.

12. Employee costs

Basic salary	198,064,643	203,581,561
House allowances	31,634,838	33,173,833
Transport allowances	27,665,968	28,632,017
Contract/part-time staff	10,453,660	11,521,749
Special duty and extraneous allowance	15,021,667	14,294,446
Pension and gratuity	40,901,548	40,805,420
Medical	25,920,595	22,310,495
Group insurance-life and accident	2,611,719	2,997,632
Training and capacity building	65,718,684	85,437,741
Subscriptions	1,261,262	1,510,756
Internship	1,091,400	1,321,313
Staff uniforms and welfare	15,990,454	14,100,724
Staff bonus and awards	105,000	330,000
Leave allowance	<u>2,890,000</u>	<u>2,935,000</u>
	<u>439,331,438</u>	<u>462,952,687</u>

Number of employees at year end	73	75
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13. Development of the insurance industry

Seminars for insurance industry	15,410,508	54,954,676
Consumer education	38,102,724	60,640,259
Scholarship for Actuarial students	40,421,988	39,389,298
Research	<u>5,600,000</u>	<u>12,774,521</u>
	<u>99,535,220</u>	<u>167,758,754</u>

14. General expenses

	2020	2019
	KES	KES
Office supplies and expenses	20,762,860	20,006,531
Transport and travel	42,098,176	52,393,680
Public relations	65,822,210	50,644,022
ICT expenses	21,017,299	21,613,443
Bank charges	1,516,528	1,355,840
Office rent and office services	58,642,519	60,467,885
IFIU and Tribunal expenses	36,019,408	28,709,531
	<u>245,879,000</u>	<u>235,190,932</u>

15. Repairs and maintenance costs

Repair and service-office equipment	3,512,522	1,853,637
Vehicle repair and service	1,921,290	1,000,045
	<u>5,433,812</u>	<u>2,853,682</u>

16. Contracted services

Consultancy	38,184,731	20,004,154
Audit fees	1,000,000	1,000,000
	<u>39,184,731</u>	<u>21,004,154</u>

17. Depreciation and amortisation

Depreciation	20,196,678	15,709,808
Amortisation	17,032,968	1,052,525
	<u>37,229,646</u>	<u>16,762,333</u>

18. (a) Transfer to the consolidated fund

Surplus for the year	942,645,281	921,689,342
Less purchase of assets	<u>(140,709,248)</u>	<u>(72,268,893)</u>
Realised surplus funds	801,936,033	849,420,449
90% of realised surplus funds	<u>721,742,430</u>	<u>764,478,404</u>

b) Amount due to consolidated fund

90% of realised Surplus	721,742,430	764,478,404
Advance payment	<u>(260,000,000)</u>	<u>(497,327,543)</u>
Amount Due	<u>461,742,430</u>	<u>267,150,861</u>

19. Cash and bank balances

	2020	2019
	KES	KES
NBK Account No. 0100306688400	652,368	16,516,625
KCB Ltd Account No. 1202647413	15,016,505	31,706,296
NCBA bank Account no. 1000009632	5,149,524	17,858,415
CO-OP Account no.01141163618300	-	98,775
NCBA Account no. 8189570014	1,057,081	4,997,737
Petty cash	<u>200,000</u>	<u>200,000</u>
	<u>22,075,478</u>	<u>71,377,848</u>

20. Receivables from exchange transactions

Prepayments	6,010,692	6,043,683
Debtors	123,442	1,774,042
Staff imprests /advances	1,656,437	1,859,549
Deposits	25,696,754	24,841,834
Interest receivable	<u>6,370,000</u>	<u>35,717,091</u>
	<u>39,857,325</u>	<u>70,236,199</u>

21. Short term investments

Fixed deposit -KCB	30,000,000	-
Fixed deposit -Co-op	160,000,000	-
Fixed deposit -NCBA	536,000,000	-
Fixed deposit -National Bank	95,000,000	-
Treasury bills	<u>-</u>	<u>766,546,200</u>
	<u>821,000,000</u>	<u>766,546,200</u>

The effective interest rate on the Treasury bill as at 30th June 2020 was 7%.

22. Inventories

Stationery	<u>1,505,052</u>	<u>1,314,336</u>
	<u>1,505,052</u>	<u>1,314,336</u>

23. Cash and cash equivalents

This includes cash in hand, current account balances, short term fixed deposits and investments in 91 days Treasury Bills.

Cash and current account balances	22,075,478	71,377,848
Short term investments	<u>821,000,000</u>	<u>766,546,200</u>
	<u>843,075,478</u>	<u>837,924,048</u>

24. Property, plant & equipment

	Motor Vehicles	Computer Equipment	Computer Networking & Cabling	Partitions Furniture & Fittings	Equipment (Telephone, Fax, Other)	Total
	KES.	KES.	KES.	KES.	KES.	KES.
At 1 July, 2018	60,905,954	34,074,135	39,948,920	108,494,301	23,328,326	266,751,636
Add: additions during the year	-	21,949,592	-	-	2,920,007	24,869,599
Less: disposals during the year	-	-	-	-	-	-
At 30 June 2019	60,905,954	56,023,727	39,948,920	108,494,301	26,248,333	291,621,235
Depreciation:						
At 1 July, 2018	42,905,954	32,134,617	33,592,287	102,821,432	22,127,452	233,581,742
Charge for the year	6,000,000	2,755,093	3,286,076	2,731,161	937,478	15,709,808
Disposal	-	-	-	-	-	-
At 30 June, 2019	48,905,954	34,889,710	36,878,363	105,552,593	23,064,930	249,291,550
Net book value: At 30 June 2019	12,000,000	21,134,017	3,070,557	2,941,708	3,183,403	42,329,685
At 1 July, 2019	60,905,954	56,023,727	39,948,920	108,494,301	26,248,333	291,621,235
Add: additions during the year	25,027,800	105,402,181	-	946,786	738,597	132,133,364
Less: disposals during the year	-	-	-	-	-	-
At 30 June 2020	85,933,754	161,425,908	39,948,920	109,459,087	26,986,930	423,754,599
Depreciation:						
At 1 July, 2019	48,905,954	34,889,710	36,878,363	105,552,593	23,064,930	249,291,550
Charge for the year	6,000,000	8,398,946	3,070,557	1,799,195	927,980	20,196,678
Disposal	-	-	-	-	-	-
At 30 June, 2020	54,905,954	43,288,656	39,948,920	107,351,788	23,992,910	269,488,228
Net book value: At 30 June 2020	31,027,800	118,137,252	-	2,107,299	2,994,020	154,266,371

At 30th June 2020, Assets worth Kes.253,566,896 were fully depreciated. The notional depreciation charge on these assets is Kes 57,520,118. (As at 30th June 2019 the fully depreciated assets were worth Kes 248,881,530 with a notional depreciation of Kes. 56,580,120).

25. Intangible assets

Computer software

	KES.	TOTAL KES.
Cost		
At 1 July 2018	30,712,578	30,712,578
Add: additions during the year	47,399,294	47,399,294
Less: disposals during the year		
At 30 June 2019	<u>78,111,872</u>	<u>78,111,872</u>
Amortization:		
At 1 July,2018	28,834,301	28,834,301
Charge for the year	<u>1,052,525</u>	<u>1,052,525</u>
Disposal		
At 30 June,2019	<u>29,886,826</u>	<u>29,886,826</u>
Net book value:		
At 30 June 2019	48,225,046	48,225,046
At 1 July 2019	78,111,872	78,111,872
Add: additions during the year	8,575,884	8,575,884
Less: disposals during the year		
At 30 June 2020	<u>86,687,756</u>	<u>86,687,756</u>
Amortization:		
At 1 July,2019	29,886,826	29,886,826
Charge for the year	<u>17,032,968</u>	<u>17,032,968</u>
Disposal		
At 30 June,2020	<u>46,919,794</u>	<u>46,919,794</u>
Net book value:		
At 30 June 2020	39,767,962	39,767,962

26. Long term investments

These are fixed deposits under lien and Treasury Bonds.

	2020 KES	2019 KES
Treasury bonds	-	1,000,000,000
National bank	35,579,510	35,579,510
Co-operative Bank	30,098,775	-
Kenya Commercial Bank	<u>262,542,215</u>	<u>258,836,353</u>
	<u>328,220,500</u>	<u>1,294,415,863</u>

27. Payables from exchange transactions

Supplier invoices	138,533,464	87,656,859
Other payables	<u>11,513,246</u>	<u>964,487</u>
	<u>150,046,710</u>	<u>88,621,346</u>

28. Provisions

	2020	2019
	KES	KES
Audit fees	2,000,000	1,000,000
Legal fees	22,000,592	12,000,592
Contingent liability	24,086,890	4,086,890
Leave Commutation	1,097,523	
Gratuity	<u>5,579,066</u>	<u>2,348,865</u>
	<u>54,764,071</u>	<u>19,436,347</u>

29. Related party transactions

The following transactions took place with related parties

Board (Allowances & other expenses)	26,595,927	49,504,849
Top management (Remuneration)	<u>40,497,400</u>	<u>44,793,600</u>
	<u>67,093,327</u>	<u>94,298,449</u>

30. Cash generated from operations

	note		
Surplus for the year before tax		942,645,281	921,689,345
Adjusted for:			
Depreciation and amortisation	17	37,229,646	16,762,333
Gains and losses on disposal of assets		-	-
Contribution to provisions	28	35,327,724	6,535,755
Finance income	10	(100,710,158)	(153,246,770)
Finance cost		-	-
Working Capital adjustments			
(Increase)/ Decrease in inventory	22	(190,716)	786,912
(Increase)/ Decrease in receivables	20	30,188,158	(3,174,619)
Increase / (Decrease) in payables	27	61,425,364	52,101,145
Net cash flow from operating activities		1,006,106,015	841,454,101

31. Financial instruments and risk management policies

The Authority's activities expose it to a variety of financial risks including credit and liquidity risks. The Authority's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Authority does not

hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

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

(i) Credit risk

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

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the Board of Directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Authority's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the Authority's maximum exposure to credit risk without taking account of the value of any collateral obtained and is made up as follows:

	Total amount Kes	Fully performing Kes	Past due Kes	Impaired Kes
At 30 June 2020				
Receivables from exchange transactions	39,857,325	39,601,925	255,400	-
Bank balances	22,075,478	22,075,478	-	-
Total	61,932,803	61,677,403	255,400	-
At 30 June 2019				
Receivables from exchange transactions	70,236,199	69,980,799	255,400	-
Bank balances	71,377,848	71,377,848	-	-
Total	141,614,047	141,358,647	255,400	-

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the Authority has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The Board of Directors sets the Authority's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

(ii) Liquidity risk management

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

The table below represents cash flows payable by the Authority.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kes	Kes	Kes	Kes
At 30 June 2020				
Trade payables	124,095,355	3,549,576	22,401,779	150,046,710
Provisions	35,327,724	-	19,436,347	54,734,071
Total	159,423,079	3,549,576	41,838,126	204,780,781
At 30 June 2019				
Trade payables	80,621,346	8,000,000	-	88,621,346
Provisions	7,435,755	-	12,000,592	19,436,347
Total	88,057,101	8,000,000	12,000,592	108,057,693

(iii) Market risk

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

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

The Authority's audit and risk management unit is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the Authority's exposure to market risks or the manner in which it manages and measures the risk.

a) Foreign currency risk

Such exposures arise through purchase of goods and services that are done in currencies other than the local currency. The Authority does not have transactional currency exposures.

b) Interest rate risk

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

Management of interest rate risk

Although this risk is unlikely to occur, it is mitigated by placing deposits with well-established financial institutions that offer favourable interest rates and also approved by The National Treasury and Planning.

iv) Capital Risk Management

The objective of the Authority's capital risk management is to safeguard its ability to continue as a going concern. The Authority's capital structure comprises mainly reserves with no debt.

32. Contingent liabilities

One of the Authority's lawyers has been awarded by the court Kes. 265 million in legal fees. The Authority has appealed against this award. A provision of Kes. 20 million has been made for this case.

A former employee of the Authority has filed a suit against the Authority for wrongful dismissal and is seeking damages of Kes.3,227,815. A provision of Kes. 3,227,815 has been made in the accounts based on legal advice.

A consultant has also filed a suit against the Authority for services rendered. A provision of Kes. 859,075 has also been made in the accounts.

33. Operating leases

The Authority has a cancellable three operating leases of six years for office space in the second, sixth, seventh, tenth and ground floors with ZEP RE PTA. The rents are payable quarterly in advance.

34. Commitments

The Authority had issued local purchase orders and local service orders for various supplies for which goods/services had either not been received or had been partly received by 30th June, 2020.

	2020 KES.	2019 KES
Purchase/service orders	<u>44,884,404</u>	<u>32,443,761</u>
	<u>44,884,404</u>	<u>32,443,761</u>

35. Surplus remission

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The Authority is to remit Kes 721,742,430 (financial year 2019 Kes 764,478,404).

36. Events after the reporting date

There were no material adjusting and non- adjusting events after the reporting period.

37. Ultimate and holding Entity

The Authority is a State Corporation under The National Treasury and Planning. Its ultimate parent is the Government of Kenya.

38. Currency

The financial statements are presented in Kenya Shillings (KES).



**PROGRESS ON FOLLOW UP OF PRIOR PERIOD AUDITOR
RECOMMENDATIONS**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (<i>Name and designation</i>)	Status: (<i>Resolved / Not Resolved</i>)	Timeframe : (<i>Put a date when you expect the issue to be resolved</i>)
<p>There were no pending prior period auditor recommendations.</p>					

**Hon Abdirahin H. Abdi, MGH
Chairman**

**Godfrey Kiptum, MBS
Commissioner of Insurance &
Chief Executive Officer**