

REPUBLIC OF KENYA



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**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
LOCAL AUTHORITIES PROVIDENT  
FUND**

**FOR THE YEAR ENDED  
30 JUNE 2017**



ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2017

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PREPARED IN ACCORDANCE WITH THE ACCRUAL BASIS OF ACCOUNTING METHOD UNDER THE  
INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)

# Local Authorities Provident Fund

## 2016-2017 Annual Report

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# Local Authorities Provident Fund

## 2016-2017 Annual Report

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### I. Key Entity Information and Management

#### (a) Background information

Local Authorities Provident Fund (LAPFUND) was established under the law of Kenya, The Local Authorities Provident Fund Act, CAP 272, on the 5<sup>th</sup> of July 1960. At cabinet level, LAPFUND is represented by the Cabinet Secretary for National Treasury who is responsible for the general policy and strategic direction of LAPFUND

#### (b) Principal Activities

The principal activities of LAPFUND is as stipulated in CAP 272; to establish a provident fund for certain employees of local authorities; to provide for contributions to the fund by such employees and authorities, and for the administration of the fund by a Local Authorities Provident Fund Board; and for matters incidental thereto and connected therewith.

The Act provides for the establishment of the Fund and for the said Fund to be credited with:

- a. Assets transferred from other Funds
- b. Amounts contributed each month by contributors and sponsors
- c. Dividends, interest and other incomes accruing from investments of the Fund
- d. Sums contributed by the then Local Authorities(Sponsors) towards the expenses of management and administration of the Fund
- e. Such other moneys as may from time to time be received by the Board

#### (c) Key Management

LAPFUND's day-to-day management is under the Local Authorities Provident Fund Board who also double as the trustees of the Fund

#### (d) Fiduciary Management

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2017 and who had direct fiduciary responsibility were:

## Local Authorities Provident Fund

2016-2017 Annual Report

S/No	Name	Designation	Nationality
1	Mr. David Koross	Chief Executive Officer	Kenyan
2	Mr. Bernard Mbogoh	Chief Manager, Finance and Investments	Kenyan
3	Mr. Galm Guracha Jaldesa	Chief Manager, Strateg and Business Development	Kenyan
4	Ms. Veronicah Leseya	Manager, Admissions and Benefits Administration	Kenyan
5	Mr. Sylvester Mutie	Manager, Research, Strategy and Business Development	Kenyan
6	Mr. David Methu	Ag. Manager, Internal Audit	Kenyan
7	Ms. Jane Mmasi	Ag. Manager, Human Resources and Administration	Kenyan
8	Ms. Rhoda Chemashack	Ag. Manager, Supply Chain	Kenyan

### (e) Fiduciary Oversight Arrangements

LAPFUND has put in place key fiduciary oversight arrangements covering:

- i) Board Committees i.e. Audit & Governance Committee; Finance, Strategy and Investments Committee and Human Resources & Governance Committee.
- ii) Audit, Risk & Compliance Committee.
- iii) Transparency and Accountability Governance Structures.

### (f) Contacts

#### i. Headquarters

P.O. Box 79592 - 00200  
 8<sup>th</sup> Floor, ICEA Building, Kenyatta Avenue  
 Nairobi, KENYA  
 Telephone: +254 709 805000, +254 7098100  
 E-mail: [info@LAPFUND.or.ke](mailto:info@LAPFUND.or.ke)  
 Website: [www.LAPFUND.or.ke](http://www.LAPFUND.or.ke)

#### ii. Branch Offices

##### Coast

2<sup>nd</sup> Floor, Imara Building  
 Dedan Kimathi Road  
 Mombasa

##### Western

2<sup>nd</sup> Floor, Almrans Plaza  
 Oginga Odinga Street  
 Kisumu

##### South Rift

1<sup>st</sup> Floor, Polo Centre  
 Kenyatta Avenue  
 Nakuru

##### Upper North Eastern

Desert Trail Building  
 Isiolo-Marsabit Main Road  
 Isiolo

**Central**

1<sup>st</sup> Floor, Fortress House  
Kimathi Way  
Nyeri

**North Eastern**

Lilac Centre, 1<sup>st</sup> Floor  
Off Kismayu Road

**(g) Bankers**

Co-operative Bank of Kenya Limited  
Co-operative Bank House  
P.O Box 5772 – 00200  
Nairobi, Kenya

Kenya Commercial Bank  
Gateway Park, Mombasa Road/Kipande House  
P.O Box 27618 – 00506  
Nairobi, Kenya

National Bank of Kenya  
Harambee Avenue  
P.O Box 41862 – 00506  
Nairobi, Kenya

NIC Bank  
Kenyatta Avenue  
P.O Box 44599-00100  
Nairobi, Kenya

**(h) Independent Auditors**

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

**Our Vision**

To Be the Leading Retirement Benefits Scheme in Kenya, Providing Secured Retirement

**Our Mission**

To receive, prudently invest and manage members' contributions for prompt payment of benefits for secured retirement.

**Our Core Values**

In an endeavour to realize our vision and mission, LAPFUND is guided by the following core values

- i) Customer focus
- ii) Teamwork
- iii) Continuous improvement
- iv) Professionalism and integrity

## II. The Board of Directors



**Hon. Silas Muriuki Rutere**  
**Board Chairman**  
*\*\*\*Resigned in May 2017*

Hon Muriuki is the former Member of Parliament for North Imenti, Chairman Meru Parliamentary Group, Chairman Parliamentary Caucus and Member of PIC. In his early years before joining politics he was a long serving trade unionist as KNUT Meru Branch Executive Secretary and member of the National Executive Council of KNUT. Hon Muriuki has over 40years experience in Public Service.

Hon Muriuki Holds a Diploma in Special Education from the Moray House College of Education Edinburgh.



**Mr. David Koross**  
**Chief Executive Officer and Secretary to Board**

Mr. David Koross has over 20 years' experience in Pension Scheme Administration and Management. He holds a Masters in Public Policy Management Degree from Strathmore University and Bachelors of Arts degree in Economics from the University of Nairobi and.

Mr. Koross has also previously worked with RBA and as a Fund Manager with Stanlib Investment. He also previously served as a Director at the National Government Constituency Development Fund.



**Hon Lewis Nguyai**  
**Board Member**

Hon. Lewis brings a wealth of experience from various executive roles both in Public & Private Sectors spanning over 25years. He also served as Assistant Minister for Local Government and Member of Parliament of Kikuyu Constituency. Currently, he is the Executive Chairman of Finance Plan Limited and First Choice Global based in Kenya & the USA.

Hon. Lewis holds a BA majoring in Economics and Mathematics as well as a Global Executive MBA in Strategic Management offered jointly by the USIU Nairobi and Columbia University of Business School (New York).



**Mr. Elijah Kau Lopuke**  
**Board Member**

Mr Lopuke holds a Master of Arts Degree in Education Administration from the Michigan University of the USA and is currently a PHD Student at Kisii University. He has a wealth of experience of over 20 years having worked in various institutions holding different senior positions.

He is currently the Chief Officer Lands, West Pokot County.



**Mr. Yunis Haji Omar Mohamed**  
**Board Member**

Mr. Yunis holds a holds Post Graduate Diploma from the Kenya School of Law and BA LLB (Honours) from the University of Nairobi.

He is currently a sole partner in his Law Firm which specialises in Joint Ventures, Mergers and Acquisitions, Property and Real Estate and Immigration. Mr. Yunis has working experience of over 25years in the Legal and Management



**Ms. Mary Namubuya Murongoro**  
**Board Member**

Ms. Murongoro is a long serving Trade Unionist She is the National Chairperson KCGWU, National Executive Member KCGWU and Chairperson Kimilili Municipal Council Workers Union.

She holds a Diploma in Civil Engineering from the Kenya Polytechnic and a Diploma in Public Relations from the Foundation Institute of Professionals

She is also a member of LAPFUND



**Captain Obo Ruweida**  
**Board Member**  
*\*\*\*Resigned in May 2017*

Captain Obo is a qualified Pilot with experience of over 8 years.

She is currently operating a private air Charter Services Company in Kenya and South Sudan



**Mr. Simon Leboo Ole Morintat, OGW**  
**Board Member**

Mr Monritat has hands on experience of over 24years in Management of Public Affairs and Administration. Currently, he is the County Chief Officer (PS) in Charge of Public Service Management at the Nairobi City County Government. He has also served as the Deputy Town Clerk Nairobi County and Town Clerk in Various Local Authorities.

He holds MBA in Strategic Management and BA in Government and Public Administration from the Moi University Eldoret.

He is currently the Ag. County Secretary of Nairobi City County Government

Mr. Leboo has been a member of LAPFUND for the last 24 years.



**Dr. Beatrice Sabana**  
**Board Member**

Dr. Sabana holds a PHD in Business Administration from the University of Nairobi, Master of Business Administration from the University of Leeds U.K and Bachelor of Education Majoring in Business and Economics from the University of Nairobi.

Dr. Sabana has a wealth of experience in both Public and Private Sector. She is a career Educationist, Banker and Microfinance Specialist. She is the founder Director of the Kenya Private Sector Alliance, Vice Chairperson of the Kenya Institute of Management and a founding Director of the New Partnership for Africa's Development (NEPAD). She has worked with World Bank/CGAPP Funded Microfinance Capacity Building Project, carried out extensive Consultancy work in rural finance in Africa and served as the Chief Executive Officer of the Association of Microfinance Institutions

She is currently the CEC Public Service Kakamega County Government.

**III. Management Team**



**Mr. David Koross**  
Chief Executive Officer  
MPPM, BA Economics



**Mr. Bernard Mbogoh**  
Chief Manager, Finance & Investments  
BA Economics, CPA(K)



**Mr. Galm Jaldesa**  
Chief Manager, Research, Strategy and Business  
Development  
MBA, B Com Finance



**Ms. Veronica Soila Leseya – Owende**  
Manager, Benefits Administration  
Bachelor of Arts (Hons), AIIK, CPAM



**Ms Jane L. Mmasi**  
Ag. Human Resources and Administration.  
MBA – on-going, IHRM, BBM (HRM)



**Mr. David M. Thuku**  
Ag. Manager Internal Audit  
CPA (K), BSC (Applied Statistics)



**Mr. Sylvester Mutie**  
**Manager, Research, Strategy and Business Development**  
PHD Finance – ongoing  
MBA Finance, CPA (K), CPS (K), CIPS (M), B Com (Finance)



**Ms. Chemashack Ndiwa**  
**Ag. Manager, Supply Chain.**  
MSC (Finance), CPA(K), B Com(Accounting)

#### **IV. Chairman's Statement**

LAPFUND delivered a good set of financial results for the year ended 30<sup>th</sup> June 2017. We achieved this growth by implementing our strategic plan, including: growth in membership, stakeholder satisfaction, brand equity, improved technology, corporate governance and institutional capacity. In addition, our disciplined approach to cost control and our focus on prudent investment further supported this growth.

Investment environment was faced with challenges which are likely going to dampen the GDP growth in 2017. These challenges include the prolonged drought and slowdown in private sector credit growth. The World Bank forecasts Kenya's economic growth will decelerate to 5.5% in 2017 from 5.9% in the previous year. Economic growth is projected to rebound to 5.8% in 2018 and 6.1% in 2019. consistent with Kenya's underlying growth potential.

Despite the unfavourable political environment, the Board is mindful of its role as guardian of LAPFUND members and sponsors money. Apart from ensuring operating excellence, the Board remains restless in its hunt for stakeholder value and will continue to monitor each of the investments and operations to ensure that LAPFUND is their most appropriate retirement scheme. The Board has continued to develop the LAPFUND's strategy with its focus on our core mandate particularly given the context of the highly competitive environment in which we operate. The board ensures proper investment on diversified portfolio with the objective of generating high returns for shareholders.

#### **Financial Performance**

From the onset of devolution, LAPFUND has continued with an upward growth trend. In the year under review, the fund value increased by 11% to Ksh.31.1bn from Ksh.28bn in the previous year. Our concerted efforts to ensure our members receive improved returns on their retirement savings as well as timely payment of benefits. Payments of members' benefits increased by 161% to ksh 2.7bn from ksh 1bn in the previous year.

Although the year had been challenging to LAPFUND with uncertainty in the operative environment, good performance has been achieved through the dedication, passion and hard work by the staff, management and the Board. On behalf of the Board I would like to thank them for their contribution and continued support during the year



**Hon. Lewis Nguyai**  
**Director**

**V. Report of the Chief Executive Officer**

It is my pleasure and privilege to present to you the financial statements for LAPFUND for the year ended 30<sup>th</sup> June 2017.

Taking into account this financial performance coupled with the strategic initiatives that have been put in place to respond to changes in the operating environment , the Board and Management are confident that the Fund's long-term competitive position will remain sustainable.



• **Performance**

During the year under review;

- ❖ The Fund value grew to Ksh. 31.1bn as at 30<sup>th</sup> June 2017 despite the challenges in the economic and political environment in which we operate.
- ❖ Surplus declined from ksh. 4.4bn in the previous year to Ksh 3.1bn. The decline is attributed to cash outflow towards payment of Members of County Assembly Voluntary Contribution to the tune of Ksh 1.5bn.
- ❖ The scheme recorded a reduction in total revenue. This was as a result of freezing of interest charged on outstanding debts owed by the defunct Local Authorities whose recovery is doubtful.

• **Sustainability**

We have put in place strategies aimed at retaining and sustaining membership. These strategies include carrying out sensitization through member forums and expanding our outreach by opening more regional offices. Management interventions through increased drive around reducing costs and efficiency of our operations, expanding our innovation agenda and building a culture around customer focus will ensure that we are well placed to seize opportunities and deliver growth.

• **Progress on strategic priorities**

At LAPFUND, we live our values, deliver our purpose and drive responsible growth through our five strategic objectives. Our core focus is on customer satisfaction through service delivery and growth. Though the market performance was quite dismal for most of the sectors in the economy, our diversified investments enabled us to declare good returns on members' savings. The focus will continue to be on turning around the performance of our investments. This is expected to achieve the desired expanded fund value and returns to members.

## Local Authorities Provident Fund

### 2016-2017 Annual Report

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- **Future Outlook**

We anticipate the investment environment to be more challenging in 2017 due to the forth coming general elections. However, we will remain focused and committed on our strategy to continue delivering growth to our members. We will also continue to invent new products to ensure that we encourage Kenyans to embrace the culture of saving for retirement.

We continue to explore into our potential and capabilities of introducing new products.

Some of the products that we intend to introduce are:

- ❖ Post-Retirement Health Cover product for members to assist them access health services after attaining retirement age.
- ❖ Sharia Compliant Product that is based on Islamic Principles.
- ❖ M-secured; an integrated mobile money transfer platform for receiving voluntary members' contribution that allows members to access their accounts through a combination of USSD, Android and online web portal

Our investments in technology, people and new products will help us a long way in improving quality of customer service, growing membership coverage, improving investment income and timely payment of members' benefits. In the medium-term, our emphasis will be on improving members' services provision while maintaining cost-effectiveness.

We pride in having a dedicated Board that is willing to accept the substantial responsibilities in offering leadership to LAPFUND.

LAPFUND trustees and staff are keenly focused on prudent pension fund portfolio management and efficient, service-oriented delivery of valuable retirement and related benefits for its members. We are pleased to report on our performance for the year 2017. We acknowledge the substantial support received from all our stakeholders.



**David Koross**

**Chief Executive Officer**

## **VI. Corporate Governance Statement**

The Board is charged with ensuring that LAPFUND is managed in a sound manner that delivers members value within an environment of good corporate governance. It's in this spirit that the Board considers corporate governance as a key to good performance of LAPFUND.

The Board continued to review various policies and procedures used and the stewardship of LAPFUND's assets and resources with the objective of maintaining and enhancing stakeholder value in the context of LAPFUND's Vision, Mission and Values.

### **The Board of Directors**

The Board is currently comprised of 6 members. This was occasioned by the resignation of Board chairman and one non-executive member during the year under review. The Chief Executive Officer is the secretary to the board. Board members and Board Chairperson were appointed by the Cabinet Secretary, The National Treasury, through gazette notice no. 7385 and 1467, dated 2<sup>nd</sup> October 2015 and 9<sup>th</sup> March 2016 respectively, for a period of three years from the date of appointment.

The Board ensures that proper standards of corporate governance are maintained and have an oversight role over the management of LAPFUND, not only through the Board meetings but also through the various Board Committees. The Board had three ordinary meeting and two special meetings.

The Board is required to meet at least four times in every financial year to discuss the overall performance of LAPFUND. All full board meetings are convened by the Secretary to the Board upon instructions from the Chairman or upon the requisition of at least five members of the Board. All decisions are passed by a majority of present members voting with the Chairperson having the decisive vote in the event of a tie.

Board Members also enter into a Performance Contract every financial year with the government to evaluate its Performance against set targets.

### **The Committees of the Board**

Section 9 of the State Corporations Act (CAP 446) allows the Board of Directors of LAPFUND to establish the number of Board Committees consisting of Board members to deal with specific issues as the Board deems fit. The Board MUST give notice to the State Corporations Advisory Committee of such committee.

## Local Authorities Provident Fund 2016-2017 Annual Report

The purpose of these working committees is to comprehensively handle technical issues before they are presented to the Full Board for approval. The following committees have been established:

### Strategy, Finance and Investment Committee

The purpose of the Strategy, Finance and Investment Committee is to determine and advise on all matters relating to finance and investment. The Committee is constituted by the Board and their responsibilities include:

- i. Developing the Investment policy document, Reviewing the strategic asset allocation targets for prudent investment of members contributions and investment incomes
- ii. Conduct quarterly review of LAPFUND's investment structure and the asset allocations,
- iii. Reviewing and recommending an annual operating budget and annual capital budget consistent with the long-range financial plan and financial policies,
- iv. Reviewing the financial aspects of major proposed transactions, new programs and services, as well as proposals to discontinue programs or services, and making action recommendations to the board and
- v. Reviewing Financial Regulations of LAPFUND periodically and align the same to the requirements of the Public Financial Management and the regulations thereon from time to time.

The Strategy, Finance and Investment Committee are composed of the following members.

S/N	Name	Position	Nationality
1	Hon. Lewis Nguyai	Chairperson	Kenyan
2	Mr. Yunis Haji Mohamed	Member	Kenyan
3	Mr. Simon Leboo Ole Morintat, OGW	Member	Kenyan
4	Mr. David Koross	Member	Kenyan

### Human Resources and Governance Committee

#### Objectives

The objectives of the Human Resources Committee are;

- i. To oversee management assessment, succession and compensation matters in accordance with these Terms of Reference. The primary function of the Committee is to oversee, review, and recommend appropriate and effective human resource policies, strategies, processes and plans of the organization.
- ii. The Committee further ensures that the company has an effective organizational structure, competitive human resources, compensation policies and practices

- iii. Reviews and recommends for approval overall employee compensation philosophy and policies, including all bonus plans and other short and long term compensation arrangements.

The committee comprise of the following members;

S/N	Name	Position	Nationality
1	Mr. Yunis Haji Mohamed	Chairperson	Kenyan
2	Dr. Beatrice Sabana	Member	Kenyan
3	Mr. Elijah Lopuke	Member	Kenyan
4	Ms. Mary Murongoro	Member	Kenyan
5	Mr. Simon Leboo Ole Morintat, OGW	Member	Kenyan
6	Capt. Ruweida Obo	Member	Kenyan
7	Mr. David Koross	Member	Kenyan

#### **Risk, Audit & Compliance Committee**

This Committee is chaired by a non-executive member and meets on a quarterly basis. The Committee has the responsibility of assisting the Board of Directors perform its role in:

- i. Providing oversight over financial and compliance, reporting and disclosure process, results of the process and also providing additional assurance regarding the quality and reliability of both the financial and operating information;
- ii. The Committee further evaluates the adequacy and effectiveness of the management reporting and control systems used to monitor adherence to policies and guidelines and limits approved by the Board for management of risks;
- iii. Reviewing with Management and External Auditors the annual financial statements to determine whether they are complete, consistent with the information known to Committee members and reflect appropriate accounting principles.

The committee is composed of the following members

S/N	Name	Position	Nationality
1	Capt. Ruweida Obo	Chairperson	Kenyan
2	Mr. Elijah Lopuke	Member	Kenyan
3	Ms. Mary Murongoro	Member	Kenyan
4	Dr. Beatrice Sabana	Member	Kenyan
7	Mr. David Methu	Member	Kenyan

#### **Board Induction and Training**

## Local Authorities Provident Fund

### 2016-2017 Annual Report

The training programme was executed, which allowed the Board Members to be trained on their roles in assessing and managing risks that the Fund might be exposed to. The course also equipped them with risk assessment and management skills which consequently have helped oversee the good operation and performance of LAPFUND.

#### Attendance in the Board and Committee meetings

During the financial year, the attendance of individual Board members in the scheduled meetings is as shown below:

	Board	Finance, Strategy and Investments	Human Resource and Governance	Audit, Risk and Compliance
<b>Number of Scheduled Meetings</b>	<b>6</b>	<b>3</b>	<b>3</b>	<b>3</b>
1 Hon. Silas Muriuki Ruteere	6	N/A	N/A	N/A
2 Hon. Lewis Nguyai	6	3	N/A	N/A
3 Capt. Ruweida Mohamed Obo	6	N/A	3	3
4 Mary Namubuya Murongoro	6	N/A	2	3
5 Elijah Lopuke	6	N/A	3	N/A
6 Dr. Beatrice Sabana	6	N/A	2	3
7 Yunis Omar Mohammed	6	3	2	N/A
8 Simon Morintat Leboo	6	3	2	N/A

## VII. Corporate Social Responsibility Statement

Corporate social responsibility forms part of important activities of LAPFUND. The Fund ensures that all its operations are undertaken in a socially and environmentally responsible manner. The Fund has extended its hand to different needy groups and impacted positively on society and its environment. The involvement in social responsibilities enhances its values and improves its image to the public. During the year under review, The Fund supported different community based activities by way of donations.

As per the LAPFUND CSR Policy guidelines, the following are the areas of focus when carrying out any CSR activity:

- a. **Hunger, Poverty, Malnutrition and Health:** Support Member's children below 12 years to access medical, Support programme that will eradicate extreme hunger, poverty and malnutrition; support HIV/Aid and Cancers, drug/Alcohol abuse, promoting preventive healthcare and sanitation and making available safe drinking water.
- b. **Education:** Promoting education, support low income contributor access education for their children through bursary and scholarships for orphaned children, support education of children of members who died because illness or natural calamities, support special education and employment-enhancing vocational skills especially among children, women, elderly and the differently disabled, and livelihood enhancement projects; monetary contributions to academic institutions for establishing endowment funds, electrifications, electronic equipment, chairs, laboratories, etc., with the objective of assisting students in their studies.
- c. **Rural Development Projects:** Strengthening rural areas in counties we operate by improving accessibility, low cost housing to members, support entrepreneurship endeavours, farming as a business, safe drinking water, sanitation, power and livelihoods, thereby creating sustainable county homes.
- d. **Equality and Empowerment of the Minority:** Promoting gender equality and empowering women; people with disability programmes, procurement opportunities to minorities, care of orphans; caring the elderly, setting up old age homes and such other facilities for senior citizens; and adopting measures for reducing inequalities faced by socially and economically backward groups.
- e. **Environmental Sustainability:** Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agro-forestry, maintaining dams, waste management, carbon trading, conservation of natural resources and maintaining the quality of soil, air and water.

- f. **National Heritage, Art and Culture:** Protecting national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promoting and developing traditional arts and handicrafts.

During this year, LAPFUND undertook the following CSR activities:

- **Food Relief-** The Office of the Governor Baringo County made an appeal for humanitarian relief for food and drought management response due to failure of the short rains between October-December 2016. The appeal was to aid six sub-counties; Tiaty, Mogotio, Baringo South, Baringo North, Eldama Ravine and Baringo Central. We responded to the request by purchasing assorted foodstuff worth Ksh.900, 000 towards the famine relief.



*Fig.1 LAPFUND STAFF IN MOGOTIO SUB-COUNTY, BARINGO COUNTY DURING THE FOODSTUFF DISTRIBUTION.*

## Local Authorities Provident Fund 2016-2017 Annual Report

- **Support to Children’s’ Home-** Mama Fatuma Goodwill Children’s Home made an appeal for assistance during the month of Ramadhan for Iftar, Fitr, Zakat-UI-Mal and Sadaka. The children’s home, which caters for 65 in-house children and 20 on home-based care, requested for basic needs of food, shelter, education, clothing, medical care and other arising needs. LAPFUND supported them with foodstuff worth ksh. 200,000.



*Fig.2. LAPFUND STAFF AT MAMA FATUMA GOODWILL CHILDRENS HOME*

We have demonstrated our commitment to Corporate Social Responsibility, and have aligned our business values, purpose and strategy with the needs of our clients and stakeholders whilst embedding these responsible and ethical principles into everything we do.

**VIII. Report of the Directors**

The Directors submit their report together with the audited financial statements for the year ended June 30<sup>th</sup> 2017 which shows the state of LAPFUND's affairs.

**Principal activities**

The principal activities of LAPFUND continues to be to provide a fund for the employees of Local Authorities, now County Government employees, where contributions made each month by the employee and the sponsor and incomes earned from investment activities are credited

**Results**

The results for the year ended June 30<sup>th</sup>, 2017 are set out on page 1

**Directors**

The members of the Board of Directors who served during the year are shown on page v. During the year 2017, 2 directors resigned.

**Auditors**

The Auditor General is responsible for the statutory audit of LAPFUND in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board



**David Koross**  
**Chief Executive Officer**  
**Nairobi**

Date: 25/08/2017

**IX. Statement of Directors' Responsibilities**

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

The Directors are responsible for the preparation and presentation of the financial statements, which give a true and fair view of the state of affairs for and as at the end of the financial year ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (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; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

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

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

**Approval of the financial statements**

The financial statements were signed on behalf of the Board by:



Chief Executive Officer



Director



Director

# REPUBLIC OF KENYA

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Fax: +254-20-311482  
E-mail: oag@oagkenya.go.ke  
Website: www.kenao.go.ke



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON LOCAL AUTHORITIES PROVIDENT FUND FOR THE YEAR ENDED 30 JUNE 2017

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Opinion

I have audited the accompanying financial statements of Local Authorities Provident Fund set out on pages 1 to 20, which comprise the statement of financial position as at 30 June 2017, and the statement of income and expenditure, statement of changes in reserves, statement of cash flows and statement of comparative of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. In my opinion, except for the effects of the matter described in the Other Matter section of my report, the financial statements present fairly, in all material respects, the financial position of Local Authorities Provident Fund as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Local Authorities Provident Fund Act, (Cap 271) and the Retirement Benefits Authority Act 1997.

In addition, as required by Article 229(6) of the Constitution, except for the matter described in the Other Matter section of my report, I confirm that public money has been applied lawfully and in an effective way.

#### Basis for Opinion

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

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements, except for the matters described in the Other Matter section of my audit report, I have determined that there were no Key Audit Matters to report in the year under review.

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*Report of the Auditor-General on the Financial Statements of Local Authorities Provident Fund for the year ended 30 June 2017*

## **Other Matter.**

### **1. Mariakani Estate – Nairobi**

LAPFUND started collecting rent from Mariakani Estate tenants during the year under review after the court case was settled that had been pending for some time. LAPFUND is working in partnership with Nairobi City County Government to ensure all tenants pay rent to the Fund and that the recovery of the accrued rent arrears of Kshs.64, 800,000 that had been collected by the county Government is refunded.

### **2. Makasembo Estate – Kisumu**

The court case concerning the continued collection of rent by National Housing Corporation (NHC) from Makasembo Estate was not yet determined by the court at the end of the year and National Housing Corporation did not remit the collected rent for the year to LAPFUND. As in the previous year, rental income of Kshs.1, 452,000 was due from the property during the financial year 2016/2017 but was not received by LAPFUND. The total accrued rent income from the property which had been earned but not received since the transfer of the property by the defunct Kisumu Municipal Council to LAPFUND stood at Kshs.9,075,000 as at 30 June 2017. The defunct Kisumu Municipal Council failed to service undetermined debt arising from the construction of the Estate houses by National Housing Corporation and thus the reason National Housing Corporation moved in to collect rent to recover the debt.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

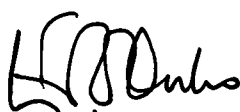
As part of an audit in accordance with ISSAIs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for purpose of giving an assurance on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

**Nairobi**

**16 March 2018**

## Local Authorities Provident Fund

### 2016-2017 Annual Report

#### XI. Statement of Financial Performance for the Year ended 30<sup>th</sup> June 2017

		2016/2017 <u>'000'</u>	2015/2016 <u>'000'</u>
<b>Revenue from non-exchange transactions</b>			
Revenue attributable to members	3	2,366,836	4,422,064
<b>Revenue from exchange transactions</b>			
Finance income - external investments	4	1,172,814	1,297,149
Other income	5	2,757	1,168
<b>Total Revenue</b>		<b><u>3,542,407</u></b>	<b><u>5,720,381</u></b>
<b>Expenses</b>			
Employee costs	6	140,562	135,182
Board Costs	7	62,904	32,047
Depreciation and amortization costs	8	632,297	1,229,315
Repairs and maintenance	9	3,414	5,755
Contracted services	10	154,820	149,794
General expenses	11	327,530	254,611
<b>Total expenses</b>		<b><u>1,321,528</u></b>	<b><u>1,806,704</u></b>
<b>Other gains/ (losses)</b>			
Unrealized gain on fair value of investments	12	217,746	(104,601)
<b>Total other gains/ (loses)</b>		<b><u>217,746</u></b>	<b><u>(104,601)</u></b>
Administrative recharges	15	689,229	577,389
<b>Surplus</b>		<b><u>3,127,854</u></b>	<b><u>4,386,465</u></b>

The notes set out on pages 6 to 21 form an integral part of the Financial Statements.

**Local Authorities Provident Fund**  
**2016-2017 Annual Report**

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**X. Report of the Independent Auditors on the Local Authorities Provident Fund**

**Local Authorities Provident Fund**  
2016-2017 Annual Report


**XII. Statement of Financial Position as at 30<sup>th</sup> June 2017**

		2016/2017 <u>'000'</u>	2015/2016 <u>'000'</u>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	13	52,831	143,468
Receivables from exchange transactions	14	524,363	466,507
Receivables from non-exchange transactions	15	661,792	512,159
Current Investments	19	3,786,781	3,637,884
		<u>5,025,767</u>	<u>4,760,017</u>
<b>Non-current assets</b>			
Motor Vehicles, Plant & Equipment	16	42,030	26,770
Intangible assets	17	1,038	1,929
Non-current investments	19	19,418,329	17,357,284
Long term receivables from non-exchange transactions	15	612,962	488,131
Long term receivables from exchange transactions	14	6,030,172	5,364,826
		<u>26,104,531</u>	<u>23,238,940</u>
<b>Total assets</b>		<u><b>31,130,298</b></u>	<u><b>27,998,957</b></u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables from exchange transactions	18	76,333	72,846
<b>Total Liabilities</b>		<u><b>76,333</b></u>	<u><b>72,846</b></u>
<b>Net Assets</b>		<u><b>31,053,965</b></u>	<u><b>27,926,110</b></u>
Reserves		57,550	57,550
Accumulated surplus		30,996,415	27,868,560
		<u><b>31,053,965</b></u>	<u><b>27,926,110</b></u>
<b>Total Net Assets and Liabilities</b>		<u><b>31,130,298</b></u>	<u><b>27,998,957</b></u>

The Financial Statements set out on pages 1 to 21 were signed on behalf of the Board of Directors by:



Chief Executive Officer  
David Koross



Director  
Lewis Nguyai

Date 25/08/2017

Date 25/08/2017

**XIII. Statement of Changes in Net Assets for the Year Ended 30 June 2017**

Attributable to members of LAPFUND	Reserve fund	Capital revaluation reserve	Accumulated surplus	Total
	<u>'000'</u>	<u>'000'</u>	<u>'000'</u>	<u>'000'</u>
<b>Balance as at 30 June 2015</b>	57,550	1,145,468	22,336,628	23,539,646
Surplus/(deficit) for the period		-	4,386,465	4,386,465
Transfers to accumulated surplus		(1,145,468)	1,145,468	-
<b>Balance as at 30 June 2016</b>	<u>57,550</u>	<u>-</u>	<u>27,868,561</u>	<u>27,926,111</u>
Surplus for the period			3,127,854	3,127,854
Transfers to accumulated surplus		-	-	-
<b>Balance as at 30 June 2017</b>	<u>57,550</u>	<u>-</u>	<u>30,996,415</u>	<u>31,053,965</u>

The reserve fund is established to take into account any potential future diminution in value of assets. It is also used for the transfer of interest to members, where the amount credited to members' balances exceeds the surplus for the year.

**Local Authorities Provident Fund**  
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**XIV. Statement of Cash Flows for the Year Ended 30th June 2017**

	2016/2017 <u>'000'</u>	2015/2016 <u>'000'</u>
<b>Cash flows from operating activities</b>		
<b>Receipts</b>		
Contributions received	4,969,267	3,893,487
Investment income	1,172,814	1,235,004
Other income	2,757	1,168
	<b>6,144,838</b>	<b>5,129,659</b>
<b>Payments</b>		
Benefits paid	2,741,907	1,049,056
Employee costs	140,562	135,182
Remuneration of board members	62,904	32,047
Purchase of goods and services	479,914	398,250
<b>Total payments</b>	<b>3,425,288</b>	<b>1,614,536</b>
<b>Net cash flows from operating activities</b>	<b>2,719,550</b>	<b>3,515,123</b>
<b>Cash flows from investing activities</b>		
Purchase of plant and equipment	32,264	31,667
Purchase of property	5,141,181	1,184,739
Net investments	<b>(2,363,258)</b>	2,235,518
<b>Net cash flows used in investing activities</b>	<b>2,810,187</b>	<b>3,451,924</b>
<b>Net increase in cash and cash equivalents</b>	<b>(90,637)</b>	<b>63,199</b>
<b>Cash and cash equivalents at 1 July</b>	<b>143,468</b>	<b>80,269</b>
<b>Cash and cash equivalents at 30 June</b>	<b>52,831</b>	<b>143,468</b>

# Local Authorities Provident Fund

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## XV. Statement of Comparison of Budget and Actual Amounts

	Note	Original budget '000'	Final budget '000'	Adjustments '000'	Actual on comparable basis '000'	Performance difference '000'	% Variance
<b>Income</b>							
Revenue attributable to members	1	5,539,351	2,766,991	(2,772,360)	2,366,836	(400,156)	(14)%
Investment Income		1,240,288	1,235,161	(5,127)	1,172,813	(62,348)	(5)%
Change in fair value of assets	2	-	(336,423)	(336,423)	217,747	554,170	35%
Other incomes	3	1,758	1,758	-	2,757	998	57%
<b>Total Income</b>		<b>6,781,397</b>	<b>3,667,487</b>	<b>(3,113,910)</b>	<b>3,760,153</b>	<b>92,665</b>	<b>3%</b>
<b>Expenses</b>							
Employee costs	4	183,198	183,198	-	140,561	42,636	(23)%
Remuneration of board members	5	30,220	33,606	3,386	62,904	(29,298)	87%
Repairs and Maintenance	6	14,528	2,831	(11,697)	3,413	(582)	21%
Contracted Services	7	270,109	248,542	(21,567)	154,820	93,722	(38)%
General Expenses		325,145	343,816	18,671	327,530	16,285	(5)%
<b>Total expenses</b>		<b>823,200</b>	<b>811,993</b>	<b>(11,207)</b>	<b>689,229</b>	<b>122,763</b>	<b>(15)%</b>
<b>Surplus for the period</b>		<b>5,958,197</b>	<b>2,855,494</b>	<b>(3,102,703)</b>	<b>3,070,924</b>	<b>(30,099)</b>	<b>8%</b>

- 1 The variance is due to Board resolution to freeze charge of 3% interest on contribution outstanding and cash outflow towards payment of MCAs voluntary contributions
- 2 Change in fair value of assets has reduced by 35% due to the improved performance of equities and Government Bonds
- 3 Other income has increased by 57% due to increase in interest income from the staff mortgages and income from disposed assets.
- 4 The decline is due to the anticipated increament of staff salaries which has not been effected since the terms of service have not been approved by SRC and pending establishment of new staff on permanent terms
- 5 The variance of 87% was due to change in travel policy and increased board activities during the financial year.
- 6 There was partitioning of offices to accommodate increased staff members on contract
- 7 There was a reduction in assets under Fund Managers management which led to decrease in professional fees during

# Local Authorities Provident Fund

## Reports and Financials Statements

For the Year Ended 30<sup>th</sup> June 2017

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### XVI. Notes to the Financial Statements for the Year Ended 30<sup>th</sup> June 2017.

#### 1. General Information

The principal activities of LAFUND as stipulated in CAP 272 is to establish a provident fund for certain employees of Local Authorities; to provide for contributions to the fund by such employees and authorities, and for the administration of the fund by a Local Authorities Provident Fund Board; and for matters incidental thereto and connected therewith.

The Act provides for the establishment of the Fund. The Fund shall be credited with:

- a. Assets transferred from other Funds
- b. Amounts contributed each month by contributors and Sponsors
- c. Dividends, interest and other incomes accruing from investments of the Fund
- d. Sums contributed by local authorities (Sponsors) towards the expenses of management and administration of the Fund
- e. Such other moneys as may from time to time be received by the Board

#### 2. Statement of compliance and basis of preparation – IPSAS 1

LAFUND'S financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of LAFUND and all values are rounded to the nearest thousand (Ksh 000). The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

#### 3. Adoption Of New And Revised Standards

- i. **Relevant new standards and amendments to published standards effective for the year ended 30 June 2017**

<b>Standard</b>	<b>Impact</b>
<b>IPSAS 33:</b>	<b>(Effective for annual periods beginning on or after January 1, 2017)</b>
First time adoption of	In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. IPSAS 33 grants transitional

## Local Authorities Provident Fund

Reports and Financials Statements  
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Standard	Impact
Accrual Basis IPSAS	<p>exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs. It allows first-time adopters three years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period.</p> <p>LAPFUND adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply to the entity.</p>
<b>IPSAS 34:</b> Separate Financial Statements	<p><b>(Effective for annual periods beginning on or after January 1, 2017)</b></p> <p>In January 2015, the IPSASB published IPSAS 34, Separate Financial Statements. IPSAS 34 prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.</p> <p><i>LAPFUND does not have any subsidiaries , joint ventures or investments and therefore the standard does not apply</i></p>
<b>IPSAS 35:</b> Consolidated Financial Statements	<p><b>Effective for annual periods beginning on or after January 1, 2017)</b></p> <p>In January 2015, the IPSASB published IPSAS 35, Consolidated Financial Statements. IPSAS 35 establishes principles for the preparation and disclosure of consolidated financial statements when an entity controls one or more entities. It requires an entity that controls one or more other entities to assess control over those entities based on the following:</p> <ul style="list-style-type: none"><li>- Its power over the other entity</li><li>- Its exposure or rights to variable benefits from involvement with the other entity</li><li>- Its ability to control the nature, timing and amount of benefits from the other entity.</li></ul> <p>Once control is assessed the controlling entity is supposed to prepare consolidated financial statements unless it meets all the criteria under section 5 of IPSAS 35.</p> <p>The entity does not have any subsidiaries , joint ventures or</p>

## Local Authorities Provident Fund

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Standard	Impact
	investments and therefore the standard does not apply
<b>IPSAS 36:</b> Investments in Associates and Joint Ventures	<b>(Effective for annual periods beginning on or after January 1, 2017)</b> In January 2015, the IPSASB published IPSAS 36, Investments in Associates and Joint Ventures. The Standard prescribes for the accounting for investments in associates and joint ventures and to set out requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard shall be applied by all entities with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest. LAPFUND does not have investments in associates or joint ventures and therefore the standard does not apply
<b>IPSAS 37:</b> Joint Arrangements	<b>(Effective for annual periods beginning on or after January 1, 2017)</b> In January 2015, the IPSASB published IPSAS 37, Joint Arrangements. IPSAS 37 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly. LAPFUND does not have an interest in a joint arrangement and therefore the standard does not apply
<b>IPSAS 38:</b> Disclosure of Interests in Other Entities	<b>(Effective for annual periods beginning on or January 1, 2017)</b> In January 2015, the IPSASB published IPSAS 38, Disclosure of Interests in Other Entities. IPSAS 38 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with, its interests in controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows. LAPFUND does not have an interests in other entities and therefore the standard does not apply

- ii. **New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017**

## Local Authorities Provident Fund

Reports and Financials Statements  
For the Year Ended 30<sup>th</sup> June 2017

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<b>Standard</b>	<b>Effective date and impact:</b>
<b>IPSAS 39:</b> Employee Benefits	<b>Applicable: 1<sup>st</sup> January 2018</b> The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.
<b>IPSAS 40:</b> Public Sector Combinations	<b>Applicable: 1<sup>st</sup> January 2019:</b> 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 which are covered purely under Public Sector combinations as amalgamations.

### iii. Early adoption of standards

LAPFUND did not early – adopt any new or amended standards in year 2017.

## 4. Summary of significant accounting policies

### a) Revenue recognition

#### i) Revenue from non-exchange transactions – IPSAS 23

##### **Member Contributions and fines**

LAPFUND recognizes revenues from member contributions and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. 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 entity and the fair value of the asset can be measured reliably.

##### **Transfers from other government entities**

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

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**Reports and Financials Statements**  
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**ii) Revenue from exchange transactions – IPSAS 9**

**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 each period.

**Rental income**

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

**b) Benefit Payable.**

Benefits payable are accounted for in the period in which they fall due.

**c) Budget information – IPSAS 24**

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences 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.

**d) Taxes – IAS 12**

LAPFUND is a registered Retirement Benefit Scheme and is exempt from income tax

**e) Investment property – IPSAS 16**

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 property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition.

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

## **Local Authorities Provident Fund**

### **Reports and Financials Statements**

**For the Year Ended 30<sup>th</sup> June 2017**

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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.

#### **f) Property, plant and equipment – IPSAS 17**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual 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 repairs and maintenance are charged to the statement of changes in net assets during the financial period in which they are 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.

Land is not depreciated. Depreciation on other property, plant and equipment is recognized so as to write off the cost of assets less their residual values over their useful life using the straight line method.

#### **g) Intangible assets – IPSAS 31**

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

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

#### **h) Financial instruments – IPSAS 29**

##### **Financial assets**

##### ***Initial recognition and measurement***

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

**Local Authorities Provident Fund**  
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***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 LAFUND 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***

LAFUND 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:

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

***Amortized Costs***

LAFUND has been amortizing the interest of the outstanding debt of the sponsors. Considering the current situation, this is not prudent since most counties have not been paying the debt especially the ones for the defunct Local Authorities. The Entity is retrospectively changing this policy by writing off all the interests through impairment.

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### **i) Provisions – IPSAS 19**

Provisions are recognized when LAFUND 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 Entity 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***

LAFUND does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

### ***Contingent assets***

LAFUND 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 Entity 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.

### **j) Nature and purpose of reserves**

The reserve fund is established to take into account any potential future diminution in value of assets. It is also used for the transfer of interest to members, where the amount credited to members' balances exceeds the surplus for the year.

### ***Reserves***

LAFUND has reserve fund which was established to take into account any potential future diminution in value of assets and also used for transfer of interests to members in case member's balances exceeds the surplus for the year. The entity has found it prudent to

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transfer these reserves to accumulated surplus which the Entity has recognized as retrospective change of accounting policies.

**k) Changes in accounting policies and estimates – IPSAS 3**

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

**l) Employee benefits – IPSAS 25**

**Retirement benefit plans**

LAPFUND provides retirement benefits for its 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 contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

**m) Foreign currency transactions – IPSAS 4**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. 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.

**n) Related parties Transactions – IPSAS 20**

LAPFUND regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence, or vice versa. During the year, LAPFUND had several transactions with related parties.

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#### i. Loans due from related parties

	Kes '000'
Loans advanced to management	<u>85,727</u>

Loans to management carry 3% interest. Difference between interest charged by LAFUND and the statutory rate as per Sec 27(1) b of Income Act of 2004 is compensated by taxed loan benefit received. The loans advanced to management are recovered through their salaries.

#### ii. Contributions due from County Government, Water Companies and other Companies

	Kes '000'
County Government	11,446,718
Water Companies	695,877
Other Companies	<u>139,158</u>
<b>Total</b>	<b><u>12,281,753</u></b>

#### iii. Remuneration of Board Members

	Kes '000'
	<u>62,909</u>

#### iv. Receipts from related parties.

	Kes '000'
County Governments, water companies and other companies	4,966,838
Staff Repayment Loans	<u>4,210</u>
<b>Total</b>	<b><u>4,971,048</u></b>

Management personnel are described as those persons having authority and responsibility for planning, directing and controlling LAFUND.

#### o) Service concession arrangements – IPSAS 32

LAFUND 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, LAFUND 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, LAFUND also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

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**p) Cash and cash equivalents**

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

**q) Comparative figures**

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

**r) Significant judgments and sources of estimation uncertainty – IPSAS 1**

The preparation of LAPPFUND's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

***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. LAPPFUND based its assumptions and estimates on parameters available when the consolidated 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 LAPPFUND. 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:

- i. The condition of the asset based on the assessment of experts employed by LAPPFUND
- ii. The nature of the asset, its susceptibility and adaptability to changes in technology and processes

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- iii. The nature of the processes in which the asset is deployed
- iv. Availability of funding to replace the asset
- v. Changes in the market in relation to the asset

***Provisions***

***Provisions*** were raised and management determined an estimate based on the information available.

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.

Assumptions were used in determining the provision for rehabilitation of landfill sites. Landfill areas are rehabilitated over years and the assumption was made that the areas stay the same in size for a number of years.

Provision is made for the estimated cost to be incurred on the long-term environmental obligations, comprising expenditure on pollution control and closure over the estimated life of the landfill. The provision is based on the advice and judgment of qualified engineers.

The estimates are discounted at a pre-tax discount rate that reflects current market assessments of the time value of money.

The increase in the rehabilitation provision due to passage of time is recognized as finance cost in the statement of financial performance.

The cost of on-going programs to prevent and control pollution and rehabilitate the environment is recognized as an expense when incurred.

**s) Financial Instruments: Disclosures- IPSAS 30**

Risk is the unpredictability of future asset value, and specifically, the chance that the value of assets may decrease or increase in value. Investment principles and practical experience both support the notion that expected returns are proportional to market risk taken.

The Board recognizes that the assumption of risk is necessary to meet LAFUND's objectives, i.e. there are no risk free assets which are sufficient to generate LAFUND's required rate of return. The Board also recognizes that LAFUND's risk management does not require the elimination of risk, but the balancing of risk and expected return. Risk in itself is intrinsically neither good nor bad as it is a resource used to generate investment returns.

## **Local Authorities Provident Fund**

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#### **Recognized Risks**

The Board recognizes a number of risks involved in the investment process of LAFUND assets:

**i) Under-performance risk**

There is the risk that the Fund Manager will fail to meet the return benchmarks set by the Board. This will be addressed by the Trustees undertaking regular performance reviews of the Fund Manager and taking necessary action where performance is not satisfactory.

**ii) Risk of volatile returns**

This will be addressed by diversification of LAFUND investments across various asset classes and among different shares/stocks in each asset class. However, the Board also recognizes the need for focused diversification necessary to achieve superior returns to the average market return.

**iii) Liquidity risk**

There is the risk that LAFUND will be unable to realize its assets to meet liability payments as they fall due. This will be addressed by ensuring that LAFUND maintains an adequate proportion of its assets in marketable securities and that LAFUND invests to ensure adequate matching of its liabilities.

**iv) Currency risk**

Given that LAFUND liabilities are denominated in Kenya Shillings, there is the risk that exchange rate fluctuations will impact directly on the value of Fund assets as denominated in Kenya Shillings. In the absence of appropriate hedging strategies, LAFUND will need to limit its exposure to offshore investments.

#### **Asset/liability miss-match risks**

**i) Basis risk**

This risk arises where LAFUND's liabilities cannot be perfectly matched. The Board manages this risk by defining a strategic portfolio which is the portfolio of assets which mostly replicates the expected liability cash flows.

**ii) Strategic investment risk**

This is the risk arising from the failure of the selected long term investment strategy to deliver the level of expected return or risk characteristics necessary to meet the Board's objectives. The Board manages this risk by setting appropriate long and short term risk

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measures and limits. These are monitored regularly if the level observed or experienced risk is inconsistent with these limits the investment strategy will be reviewed.

**t) Subsequent events – IPSAS 14**

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

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2016/2017	2015/2016
	<u>'000'</u>	<u>'000'</u>
<b>3 Revenue attributable to members</b>		
Contributions	4,969,267	4,654,005
Less: Benefits to members		
Terminal benefits	2,707,296	1,015,876
Group life benefits	34,611	33,180
<b>Net Contributions due</b>	<u>2,227,360</u>	<u>3,604,949</u>
Levies on outstanding contributions	139,476	817,115
<b>Revenue attributable to members</b>	<u>2,366,836</u>	<u>4,422,064</u>
<b>4 Finance income - external investments</b>		
<b>Fixed income</b>		
Government Bonds	639,306	748,413
Treasury Bills	200,469	81,026
Fixed deposits	42,625	161,998
Corporate bonds	82,355	109,532
Commercial paper	-	-
	<u>964,755</u>	<u>1,100,969</u>
<b>Dividend income</b>		
Investments in quoted equities	160,308	134,958
	<u>160,308</u>	<u>134,958</u>
<b>Gain on sale of investments</b>		
Gain on sale of treasury bonds	-	-
(Loss)/Gain on sale of quoted shares	10,882	(94)
	<u>10,882</u>	<u>(94)</u>
<b>Property Income</b>		
Rental incomes	36,869	61,316
	<u>36,869</u>	<u>61,316</u>
<b>Total finance income – external investments</b>	<u>1,172,814</u>	<u>1,297,149</u>
<b>5 Other income</b>		
Sale of tenders	-	1
Interest on loans to staff	2,171	1,011
Deposit Refunds & Adverts in the Fund Magazine	41	155
Disposal of assets	545	-
<b>Total other income</b>	<u>2,757</u>	<u>1,168</u>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2016/2017 <u>'000'</u>	2015/2016 <u>'000'</u>
<b>6 Employee costs</b>		
Salaries and wages	78,898	71,527
Contributions to Pension	13,789	13,470
Contributions to medical aids	13,178	12,987
Commuter and other allowances	15,845	17,552
Housing benefits and allowances	18,852	19,646
<b>Total employee costs</b>	<b><u>140,562</u></b>	<b><u>135,182</u></b>
<b>7 Remuneration of board members</b>		
Chairman allowances	850	340
Meeting costs	6,896	5,994
Medical aid contributions	1,094	569
Travel, conferences and other costs	54,064	25,144
<b>Total board members' remuneration</b>	<b><u>62,904</u></b>	<b><u>32,047</u></b>
<b>8 Depreciation, amortization and provision costs</b>		
Plant and equipment	17,004	24,861
Intangible assets	891	2,602
<b>Total depreciation</b>	<b><u>17,895</u></b>	<b><u>27,463</u></b>
Administrative recharges amortized	474,927	384,737
Provision for doubtful debts	139,476	817,115
<b>Total amortization costs and provisions</b>	<b><u>614,402</u></b>	<b><u>1,201,852</u></b>
<b>Total depreciation, amortization and provisions</b>	<b><u>632,297</u></b>	<b><u>1,229,315</u></b>
<b>9 Repairs and maintenance</b>		
Equipment	945	1,318
Vehicles	1,340	2,254
General Office Repairs	1,129	2,184
<b>Total repairs and maintenance</b>	<b><u>3,414</u></b>	<b><u>5,755</u></b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2016/2017	2015/2016
	<u>'000'</u>	<u>'000'</u>
<b>10 Contracted services</b>		
Investment management fees	24,961	31,162
Custodial fees	18,800	18,936
Property valuations	1,830	20,315
Debt collection fees	47,761	29,553
Performance contracting costs	61,468	49,829
<b>Total contracted services</b>	<u><b>154,820</b></u>	<u><b>149,794</b></u>
<b>11 General expenses</b>		
Audit fees	850	1,154
Corporate and public relations	48,778	48,330
Fees and levies	5,000	5,000
Investment procurement costs	8,848	5,835
Legal Expenses	12,366	4,304
Member Education & Recruitment Costs	103,857	80,496
Office running costs	63,916	50,729
Telecommunication	3,862	7,829
Employee development	72,101	44,272
ICT Costs	6,989	5,990
Bank Charges	963	671
<b>Total general expenses</b>	<u><b>327,530</b></u>	<u><b>254,611</b></u>
<b>12 Unrealized gain/(loss) on fair value of investments</b>		
Property investments	-	672,577
Government bonds investments	164,029	(15,868)
Quoted shares investments	53,717	(761,310)
<b>Net unrealized loss</b>	<u><b>217,746</b></u>	<u><b>(104,601)</b></u>

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	2016/2017	2015/2016
	<u>'000'</u>	<u>'000'</u>
<b>13 Cash and cash equivalents</b>		
Cash in Bank	52,365	143,147
Cash-on-hand	132	301
Cash on transit	334	20
<b>Total cash and cash equivalents</b>	<b><u>52,831</u></b>	<b><u>143,468</u></b>

**13(a) Cash and cash equivalents**

<b>a) Current Account</b>	<b>Account Number</b>		
Kenya Commercial Bank - Operations Account	<i>114 921 2292</i>	5,328	8,324
Co-operative Bank - Collection Account	<i>011 361 982 45401</i>	29,275	118
Kenya Commercial Bank - Collection Account	<i>111 489 8767</i>	89	93,914
National Bank of Kenya - Collection	<i>010 020 090 3700</i>	10,529	23,190
NIC Bank	<i>100 206 3316</i>	3,546	9,432
<b>Sub- Total</b>		<b><u>48,766</u></b>	<b><u>134,978</u></b>
<b>Staff Car Loan/Mortgage</b>			
Co operative Bank Operation	<i>011 361 982 45400</i>	3,599	8,368
<b>Sub - Total</b>		<b><u>3,599</u></b>	<b><u>8,368</u></b>
<b>b) Others</b>			
<b>Cash in transit</b>			
Mpesa Pay bill	<i>512 934</i>	334	20
<b>Sub- Total</b>		<b><u>334</u></b>	<b><u>20</u></b>
<b>Cash-in-hand</b>			
Petty Cash Nairobi Office		25	62
Petty Cash Kisumu Office		19	19
Petty Cash Nyeri Office		49	1
Petty Cash Mombasa Office		27	12
Petty Cash Nakuru Office		9	3
Petty Cash Isiolo Office		4	4
<b>Sub- Total</b>		<b><u>132</u></b>	<b><u>101</u></b>
<b>Total cash and cash equivalents</b>		<b><u>52,831</u></b>	<b><u>143,468</u></b>

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**14 Receivables from exchange transactions**

<b>Current receivables</b>		
Contributions due	524,363	466,507
<b>Total current receivables</b>	<b>524,363</b>	<b>466,507</b>
<b>Non-current receivables</b>		
Contributions due	12,281,753	11,419,075
Less: impairment allowance	(5,727,219)	(5,587,743)
	<b>6,554,535</b>	<b>5,831,332</b>
Current portion transferred to current receivables	(524,363)	(466,507)
<b>Total non-current receivables</b>	<b>6,030,172</b>	<b>5,364,826</b>
<b>Total receivables</b>	<b>6,554,535</b>	<b>5,831,332</b>

**15 Receivables from non-exchange contracts**

<b>Current receivables</b>		
Administrative re-charges due	689,229	577,389
Less: impairment allowance	(137,846)	(115,478)
<b>Total current receivables</b>	<b>551,383</b>	<b>461,911</b>
Staff loans	109,111	48,873
Other debtors	1,298	1,374
<b>Total current receivables</b>	<b>661,792</b>	<b>512,159</b>
<b>Non-current receivables</b>		
Administrative re-charges due	3,440,501	2,751,272
Less: impairment allowance	(2,276,156)	(1,801,229)
	<b>1,164,345</b>	<b>950,043</b>
Current portion transferred to current receivables	(551,383)	(461,911)
<b>Total non-current receivables</b>	<b>612,962</b>	<b>488,131</b>
<b>Total non-current receivables</b>	<b>612,962</b>	<b>488,131</b>
<b>Total receivables</b>	<b>1,274,754</b>	<b>1,000,290</b>

## Local Authorities Provident Fund

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### 16 Property, plant and equipment

	Motor Vehicle	Computer and Equipment	Furniture and Fittings	Total
Cost	'000'	'000'	'000'	'000'
At 1 July 2015	26,172	107,824	116,012	250,009
Additions	-	13,647	18,020	31,667
Disposals	-	-	-	-
<b>At 30 June 2016</b>	<b>26,172</b>	<b>121,471</b>	<b>134,033</b>	<b>281,676</b>
Additions	24,754	2,697	4,813	32,264
Disposals	(293)	(5,863)	-	(6,156)
<b>At 30 June 2017</b>	<b>50,633</b>	<b>118,305</b>	<b>138,846</b>	<b>307,784</b>
<b>Depreciation and impairment</b>				
At 1 July 2015	24,653	98,291	107,100	230,045
Depreciation	1,519	10,007	13,335	24,861
Disposals	-	-	-	-
<b>At 30 June 2016</b>	<b>26,172</b>	<b>108,298</b>	<b>120,435</b>	<b>254,906</b>
Depreciation	-	7,026	9,978	17,004
Disposals	(293)	(5,863)	-	(6,156)
<b>At 30 June 2017</b>	<b>25,879</b>	<b>109,461</b>	<b>130,414</b>	<b>265,754</b>
<b>Net book values</b>				
At 30 June 2017	24,754	8,844	8,432	42,030
At 30 June 2016	-	13,173	13,597	26,770

### 17 Intangible assets - software

<b>Cost</b>	
At 1 July 2015	25,563
Additions	-
<b>At 30 June 2016</b>	<b>25,563</b>
Additions	-
<b>At 30 June 2017</b>	<b>25,563</b>
<b>Amortization and impairment</b>	
At 1 July 2015	21,032
Amortization	2,602
<b>At 30 June 2016</b>	<b>23,634</b>
Amortization	891
<b>At 30 June 2017</b>	<b>24,525</b>
<b>Net book values</b>	
At 30 June 2017	1,038
At 30 June 2016	1,929

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	2016/2017	2015/2016
	<u>'000'</u>	<u>'000'</u>
<b>18 Trade and other payables from exchange transactions</b>		
Trade payables	54,735	61,927
Benefits payable	2,361	7,345
Other payables	<u>19,237</u>	<u>3,574</u>
<b>Total trade and other payables</b>	<b><u>76,333</u></b>	<b><u>72,846</u></b>

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19 Investments

	Property	Government Bonds	Treasury Bills	Fixed deposits	Corporate and commercial paper	Quoted shares	Unquoted shares	Total
	'000'	'000'	'000'	'000'	'000'	'000'	'000'	'000'
<b>Fair value</b>								
At 1 July 2015	5,594,857	6,262,892	783,738	843,503	882,236	3,675,048	11,720	18,053,995
Additions	512,163	1,464,834	1,507,501	9,080,192	9,752	688,240	-	13,262,682
Maturity/Disposals	-	(978,785)	(866,321)	(8,191,809)	(95,427)	(84,530)	-	(10,216,872)
Change in fair value	672,577	(15,868)	-	-	-	(761,346)	-	(104,637)
<b>At 30 June 2016</b>								
Total investments	6,779,597	6,733,074	1,424,918	1,731,886	796,561	3,517,412	11,720	20,995,167
Total current investments	-	443,814	1,424,918	1,731,886	37,266	-	-	3,637,884
Total non-current investments	6,779,597	6,289,261	-	-	759,294	3,517,412	11,720	17,357,284
Additions	5,141,181	578,069	3,107,545	9,464,610	109,400	1,487,054	-	19,887,860
Maturity/Disposals	-	(3,221,485)	(2,213,640)	(10,138,555)	(127,899)	(2,194,085)	-	(17,895,664)
Change in fair value	-	164,029	-	-	-	53,717	-	217,747
<b>At 30 June 2017</b>								
Total investments	11,920,778	4,253,687	2,318,823	1,057,941	778,062	2,864,099	11,720	23,205,110
Total current investments	-	322,552	2,318,823	1,057,941	87,465	-	-	3,786,781
Total non-current investments	11,920,778	3,931,135	-	-	690,597	2,864,099	11,720	19,418,329

Property investments include an amount of Kshs 1,135,876,000.00 which comprises of development of Shopping Centre, Nursery School and 131 units Maisonettes (LAPFUND Gardens) in Mavoko Sub County, Machakos County which are on sale. The amount is net of costs, deposits and fully bought units.

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#### **20. Financial Risk Management**

LAPFUND's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company'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 company 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 company's financial risk management objectives and policies are detailed below:

##### **(i) Credit risk**

The entity 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 directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment. The board of directors sets the company'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 entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

##### **(iii) Market risk**

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity 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 entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk

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exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department 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 entity's exposure to market risks or the manner in which it manages and measures the risk.

#### **a) Foreign currency risk**

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

LAPFUND at the end of the period did not have any carrying amount of foreign currency denominated monetary assets and monetary liabilities

#### **b) Interest rate risk**

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

##### *Management of interest rate risk*

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

##### *Sensitivity analysis*

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

#### **Capital Risk Management**

The objective of the entity's capital risk management is to safeguard the Board's ability to continue as a going concern.

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### 21. Related Party Balances

#### a) Nature of related party relationships

Entities and other parties related to the entity include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

The entity is related to

- i) The National Government;
- ii) The Parent Ministry;
- iii) County Government
- iv) Water Companies
- v) Others - Companies related to County Governments
- vi) Key management;
- vii) Board of directors;

#### c) Key management remuneration

	2017	2016
	Kshs	Kshs
Directors'	62,909	32,047
Key management compensation	<u>41,838</u>	<u>46,769</u>
<b>Total</b>	<b><u>104,747</u></b>	<b><u>78,816</u></b>

#### 1. Events after the reporting period

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

#### 2. Ultimate and Holding Entity

LAPFUND is a State Corporation under the Ministry of The National Treasury. Its ultimate parent is the Government of Kenya.

#### 3. Currency

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

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**XVII. Progress on Follow up of Auditor Recommendations**

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

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Time frame
a. Makasemb o Estate Kisumu	As reported in the previous years, the Fund did not collect rent during the 2015/2016 financial year from its property situated in Makasemb Estate Kisumu because the National Housing Corporation (NHC) continued to collect rent without remitting the proceeds to LAFUND. This was as a result of failure by the defunct Kisumu Municipal Council to service undetermined debt arising from construction of the houses in the estate by the National Housing Corporation. As in the previous year, rental income totalling Kshs 1,452,000.00 was due from the property during the 2016/2017 financial year but was not received by LAFUND. The total accrued rent form the property which had been earned but not received since the transfer of the property by the defunct council to LAFUND stood at Kshs 9,075,000 as at 30 <sup>th</sup> June 2017	LAPFUND has taken a two approach to resolve the matter: i) Instituted a recovery measure of the rental income loss and control of the estate through the legal system. The matter is currently in Court waiting determination. ii) Initiated a tripartite negotiation between National Housing Corporation, County Council of Kisumu and ourselves to resolve the dispute. The results of the negotiations are yet to be concretized.	Bernard Mbogoh Chief Manager - Finance and Investments	Not resolved	30 June 2017
b. Mariakani Estate Nairobi	Similarly, as reported in the Previous year, the Nairobi City County continued to collect rent during 2016/2017 financial year in respect of thirty blocks of eight flats in Mariakani Estate Nairobi which had been transferred to LAFUND in April 2013 by the defunct Nairobi City Council under a debt swap agreement. Rental income for 2016/2017 totalling Kshs 28,510,000.00 was therefore not received by LAFUND, thus resulting to total accrued rental income from the property of Kshs 122,110,000.00 as at 30 June 2017	The case that was pending in court, case No. 76 of 2015 Republic vs. County Government of Nairobi, Registrar of Titles, Local Authorities Provident Fund, Roba Duba & Others ex-parte Mariakani Welfare Association was settled in court and immediately thereafter, we made arrangement to start remitting the rental income to our bank account. From the month of October 2016, we have received Kshs 290,000 from the few who are remitting the monthly rentals to us. We are now in partnership with Nairobi City County Government pursuing measures to ensure all tenants are paying rents as it falls due.	Bernard Mbogoh Chief Manager - Finance and Investments	Not resolved	30 June 2017

  
 Chief Executive Officer  
 Date: 25/06/2017

  
 Director  
 Date: 25/06/2017