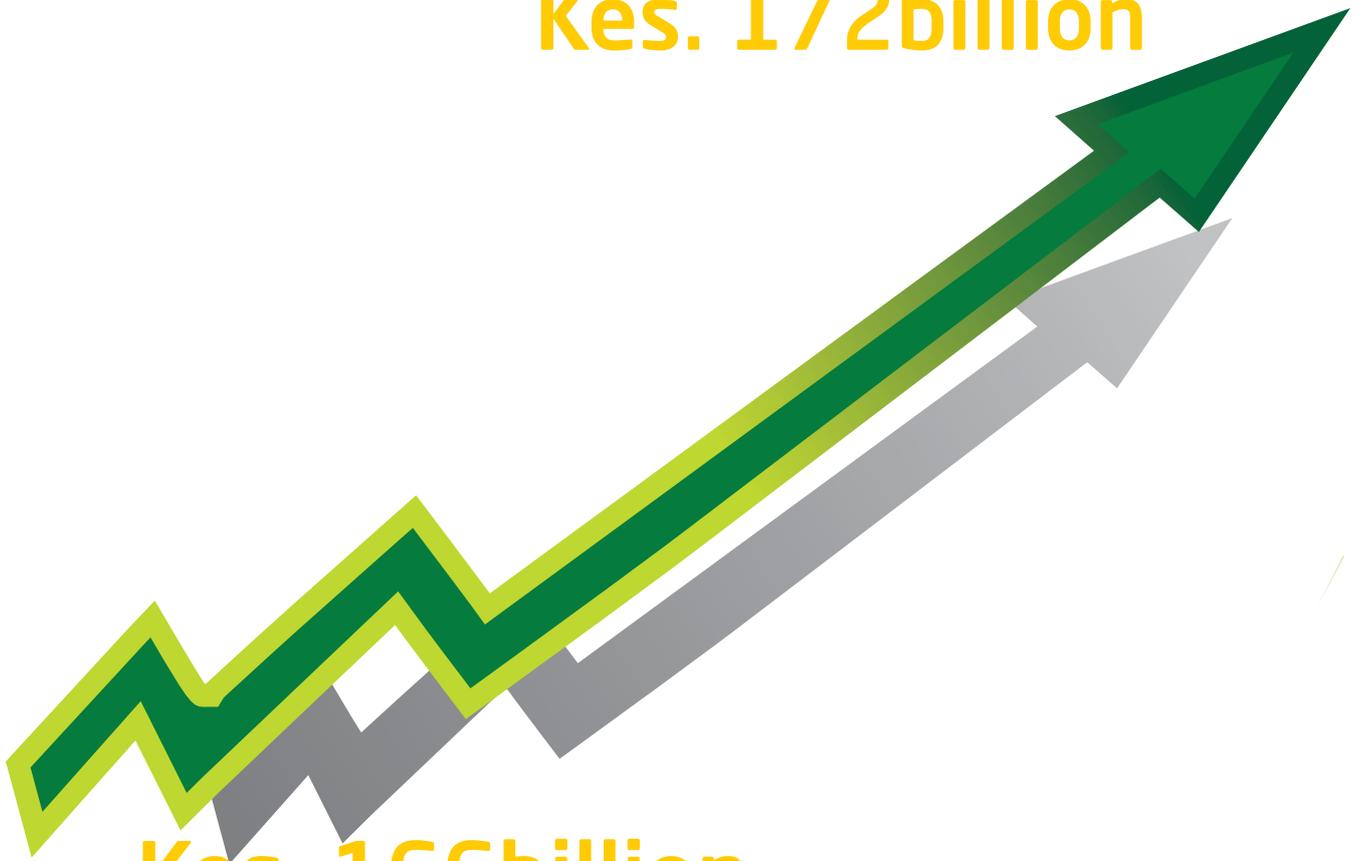


Annual Report & Financial Statements  
for the Year ended 30<sup>th</sup> June 2016

**Kes. 172billion**



**Kes. 166billion**

ISO 9001: 2015 Certified



# TABLE OF CONTENTS

<b>Corporate Information</b>	<b>1</b>
<b>Members of The Board of Trustees</b>	<b>3</b>
<b>Senior Management Team</b>	<b>5</b>
<b>Chairman's Statement</b>	<b>6</b>
<b>Taarifa ya Mwenyekiti</b>	<b>7</b>
<b>Report of the Managing Trustee / CEO</b>	<b>8</b>
<b>Taarifa ya Afisa Mkuu Mtendaji</b>	<b>9</b>
<b>Corporate Governance Statement</b>	<b>10</b>
<b>Statement on Corporate Social Responsibility</b>	<b>15</b>
<b>Report of the Trustees for The Year Ended 30 June 2016</b>	<b>17</b>
<b>Statement of Trustees' Responsibilities</b>	<b>18</b>
<b>Report of the Auditor General</b>	<b>19</b>
<b>Statement of Changes in Net Assets Available For Benefits</b>	<b>24</b>
<b>Statement of Net Assets Available For Benefits</b>	<b>25</b>
<b>Statement of Cashflows</b>	<b>26</b>
<b>Statement of changes in accumulated member funds</b>	<b>27</b>
<b>Notes to The Financial Statements</b>	<b>28</b>

# CORPORATE INFORMATION

## 1. Principal Activity

NSSF was incorporated as a provident fund in 1965 through an Act of parliament, the NSSF Act, Chapter 258 Laws of Kenya, as a department in the then Ministry of Labour. It was thereafter transformed into a state corporation in 1987 on amendment of this Act. The enactment of NSSF Act no 45 of 2013 transformed the provident fund into a pension fund with the mandate to register members, receive their contributions, prudently invest the funds thereof and pay out benefits to eligible members or their dependants.

## 2. Board of Trustees

The Fund is governed by a Board of Trustees constituted as per the NSSF Act No. 45 Of 2013 (section 6), with representation from the most representative workers' organization, most representative employers' organization and the Government of Kenya (through the Ministry of East Africa Community (EAC), Labour & Social protection and The National Treasury). The composition of the Board of Trustees is meant to accommodate the views and aspirations of the three social partners in policy formulation and running of the organization. During the year 2015/2016 the members of the Board of Trustees were as follows:-

(a) Hon. Gideon M. Ndambuki, EGH	<b>Chairman</b>
(b) Mrs. Jacqueline Mugo, OGW, MBS	<b>Trustee</b>
(c) Dr. Khadijah Kassachoon, CBS	<b>Trustee</b>
(d) Mr. Francis Atwoli, EBS, MBS, NOM (DZA)	<b>Trustee</b>
(e) Ms. Damaris Wanjiru Muhika	<b>Trustee</b>
(f) Mr. Mutua Kilaka CBS, SS	<b>Trustee (Alternate to PS National Treasury)</b>
(g) Ms. Teresa Maina	<b>Trustee</b>
(h) Mr. Patrick O. Ogola	<b>Trustee</b>
(i) Eng. Erastus K. Mwangera CBS, EBS, OGW	<b>Trustee</b>
(j) Dr. Anthony O. Omerikwa	<b>Ag. Managing Trustee / CEO NSSF</b>

## 3. Senior Management

The members of the senior management team were as follows:-

(a) Dr. Anthony Omerikwa	-	Ag. Managing Trustee / CEO
(b) Mr. Joseph Kimote	-	General Manager (Research and Strategy)
(c) Mr. Austin Ouko	-	Ag. General Manager (Corporate Affairs / Corporation Secretary)
(d) Mr. Moses Cheseto	-	Ag. General Manager (Finance & Investment)
(e) Mr. Pius Metto	-	Ag. General Manager (Social Security)

## 4. Main Lawyers

**Wetangula, Adan, Makokha & Co Advocates,**  
12th Floor Bruce House,  
P. O. Box 10741-00100, Nairobi.

**Ngatia & Associates Advocates,**  
Bishops Gardens Towers, 2nd Floor, 1st Ngong Ave,  
P.O. Box: 56688-00200, Nairobi.

**Cootow & Associates Advocates,**  
NSSF House, 11th Floor, Pent House, Nkrumah Road,  
P. O. Box 16858 – 80100, Mombasa.

## 5. Main Bankers

**Kenya Commercial Bank of Kenya Limited,**  
Moi Avenue,  
P.O. Box 48400, 00100, Nairobi.

**National Bank of Kenya.**  
P. O. Box 45151 – 00100, Nairobi.

**Cooperative Bank of Kenya limited**  
P. O. Box 45151 – 00100, Nairobi.

## 6. Registered Office,

National Social Security Fund,  
NSSF Building Bishops Road,  
P.O. Box 30599, 00100, Nairobi.

**Tel:** 2729911

**Toll Free No:** 0800 2212744

**Email:** info@nssfkenya.co.ke

**Website:** www.nssf.or.ke

**Twitter:** nssf\_ke

**Facebook:** nssfkenya

## 7. Auditors Office of the Auditor General,

**Anniversary Towers, University way**

P.O. Box 30084-00100, Nairobi.

**Tel:** 254-20-342330 / 2227383

Oag@Oagkenya.go.ke

## 8. Fund Managers

**Icea Lion Asset Management Ltd.,**

Icea Lion Centre,  
Riverside Park, Chiromo Road, Westlands,  
P.O. Box 46143-00100,  
Nairobi.

**GenAfrica Investment Management Ltd,**

14 Riverside Business Park, 1st Floor,  
P.O. Box 79127-00200,  
Nairobi.

**Stanlib Kenya Limited,**

CfC House, Nyerere Road,  
P.O. Box 30550-00100,  
Nairobi.

**Old Mutual Asset Management (K) Ltd,**

Old Mutual Building, Mara/Hospital Road,  
P.O. Box 11589-00400,  
Nairobi.

**Britam Asset Management (K) Ltd,**

Britam Centre,  
Mara/Ragati Road Junction, Upperhill  
P.O. Box 30375-00100, Nairobi.

## 9. Custodians

**Standard Chartered Securities Services Kenya,**

48 Westlands Road,  
P.O. Box 40984-00100 GPO, Nairobi.

**Kenya Commercial Bank Custody Services,**

P.O. Box 30664-00100, Nairobi.

## 10. Actuary

**Alexander Forbes Financial Services,**

Landmark Plaza  
Argwings Kodhek Road  
P.O. Box 52439-00200,  
Nairobi.

## 11. Our vision

To be a trusted centre of excellence in the provision of Social Security.

## 12. Our mission

To provide social security to members through enhanced coverage, efficient registration and collections, prudent fund management, competitive benefits and exemplary governance.

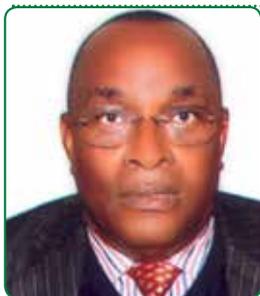
## 13. Our core values

- Integrity
- Innovation
- Customer Focus
- Teamwork
- Accountability

## 14. Corporate behaviour

The vision of NSSF which is anchored on excellence in performance has influenced corporate behaviour by setting a high performance culture among the Board Members, Management and Staff, through monitoring of performance against targets, measuring and rewarding high performance. In an effort to maintain the strategic direction of the Fund, the corporate behaviour is enhanced by adherence to the core values. NSSF attained ISO 9001:2015 Certification in order to enhance service delivery to our esteemed customers. Various strategies have been implemented in line with the Strategic Plan 2014-2019 geared towards inculcating high performance behavioural culture at all levels.

## MEMBERS OF THE BOARD OF TRUSTEES



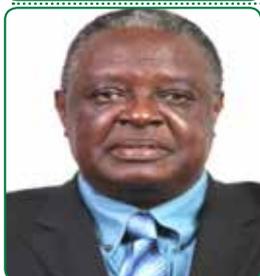
### **Hon. Gideon Ndambuki, EGH - Chairman**

Appointed Chairman on 31/05/2016. Born in 1947. Holds an MBA and BSC degrees in business administration from Emporia state university (USA); Holds certificates in banking from Bank of America and small business management from Emporia university. Has experience in banking; Hotel Industry and Public sector (having served in Ministries of Planning, Economic and National Development, Higher Education and Lands as well as Office of the President).



### **Dr. Kamau Thugge, PhD-Economic, Master in Economics, BA Economics**

Born in 1959. He is the Principal Secretary of National Treasury and he has served in various capacities both in Government and Private Sector. He holds a Bachelor of Arts in Economics from Colorado Collage, USA, Master in Economics from Johns Hopkins University, USA and a Doctor of Philosophy (PhD) in Economics from Johns Hopkins University, USA



### **Mr. Mutua Kilaka, CBS, SS**

Born in 1952 he is an Alternate Trustee representing the National Treasury. Experienced in the Public Sector having served the Provincial administration and National Government as Financial Secretary. He is currently the Principal Administrative Secretary at the National Treasury.



### **Dr. Khadijah Kassachoon, CBS**

She is the Principal Secretary for Labour in the Ministry of East African Community, Labour and Social Protection. Born in November 1969. She is currently undertaking a PhD in Business Management from the University of Nairobi. She holds a Masters of Business Administration – Majoring in International Business. She also holds a Bachelor of Veterinary Medicine from the University of Nairobi. She has also served as a Principal Secretary in the State Department of Livestock and State Department of Health. She also has private sector experience gained at KENAS and UNIDO.



### **Eng. Erastus Mwangera CBS, EBS,OGW**

Appointed trustee on 12/01/2014. Was born in 1949. Holds a BSc Civil Engineering and registered as an Engineer. He is a fellow of the institute of Engineers. Has more than forty years' experience in engineering and public sector having served as a permanent Secretary in various Ministries



### **Mrs. Jacqueline Mugo, OGW, MBS**

Born in 1957 appointed Trustee (FKE), on 16/9/2015. Has vast experience in labour matters between employers and employees and currently serving as Executive director of the Federation of Kenya employers



**Mr. Francis Atwoli, EBS, MBS, NOM (DZA)**

Born in 1949 and appointed Trustee on 16/09/2015, he has extensive training in labour movement history. Was trained in Turin college of International Labour Organisation in advanced industrial relations practices / labour economics / collective bargaining techniques / international labour laws / trade union organisation. Has vast experience in labour relations gained in COTU where he is currently serving as Secretary General and from other labour related institutions including the ILO, KPAWU and The Pan African Labour organisation of Africa trade union unity



**Ms Damaris Wanjiru Muhika**

Appointed trustee on 02/02/2015. Was born in 1977. PhD. Student (Finance) – JKUAT; MBA (Africa Nazarene university); Bachelor of commerce (Africa Nazarene university); CPA; Diploma in Industrial Relations (USIU). Experienced in labour matters, currently serving as programs coordinator COTU. She is also involved in Lecturing in finance and accounting. Member of the Association of Women Accountants of Kenya.



**Mr. Patrick O. Ogola**

Appointed trustee on 25/06/2015. Born in 1978. Holds a Bachelor of Laws; Diploma in Law – Kenya school of law. A member of the International Bar association and Kenya industrial property Institute. He is an expert in intellectual property and also a Commissioner of oaths and notary public. Has experience in legal practice having worked with Ogola & Mujera Advocates, Daley & Figgs Advocates, Mohammed Madhani & Co. Advocates, Kemboy and Ogola Advocates. He is additionally experienced in drafting and negotiating commercial instruments



**Ms. Teresa Maina**

Born in 1966 and appointed Trustee on 31/05/2016. Holds an MBA (University of Nairobi); MA-International Relations; BA (University of Nairobi); HND in Human Resource (Institute of Human Resource Management). Experienced in Human Resource Management gained from Human Capital Resource Centre, Consolidated Bank, Kenya Aerotech and East Africa Portland Cement.



**Dr. Anthony Omerikwa**

Born in 1977 and appointed CEO / Managing Trustee in acting capacity on 16/04/2015. He holds a PhD; Ed.s; MSc HRD; BA Economics; and Dip Management Information Systems. Experienced in the Public Sector having worked in various Government Agencies.

## SENIOR MANAGEMENT TEAM



**Dr. Anthony Omerikwa**

Born in 1977, he holds a PhD; Ed.S; MSc HRD; BA Economics; and a Diploma in Management Information Systems. As the accounting officer of the Fund, he is In charge of all staff in the Fund and responsible for: strategic leadership; Strategy formulation; implementation of Fund's mandate and Board decisions; corporate policies; and advising the Board from time to time.



**Mr. Joseph Kimote General Manager, (Strategy, Research & Development)**

Born in 1971, he holds an MBA in Strategic Management, Project Management; and a BA (Economics). He is responsible for strategy formulation and implementation; research; Monitoring and Evaluation; Performance contracting; business process improvement; organizational development; quality management system and business continuity development



**Mr. Moses Cheseto, Ag. General Manager, (Finance & Investments)**

Born in 1974. Holds an MA in Planning; a BA in Land Economics. He is responsible for the identification & implementation of Finance & Investment strategic objectives/ policies; Management Finance & Investment portfolio; Formulation of strategies to maximize return on members' funds; and development and review Financial/ Investment policies. He is a registered real estate valuer and full member of Institute of Surveyors of Kenya Lead expert in Environmental Impact and Assessment Audit (EIA).



**Mr. Pius Metto Ag. General Manager, Social Security**

Born in 1967. Holds a Master of Business Administration and a Bachelor of Education. He is charged with formulating policies and strategies to increase member coverage; developing strategies for market penetration; ensuring completeness of revenue from both mandatory and voluntary contributors.



**Mr Austin Ouko, Ag. General Manager Corporate Affairs/ Corporation Secretary**

Born in 1981. He holds a Master of Laws (LLM); a Bachelor of Laws (LL.B); a Postgraduate Diploma (KSL); an Advanced Diploma in Business Administration; and a Diploma in Management Information Systems. He is charged with carrying out the Trustees' instructions; Help ensure that the Fund complies with the law and its own constitutional rules; Prepare and maintain the associated Fund's documents; and formulation of the Fund's Corporate strategy and operating plans.

# Chairman's Statement



I take great pleasure to present the Annual Report and Financial Statements for the year ended 30 June 2016.

## Operating Environment

Kenya maintained a stable economic environment and fiscal discipline despite the heightened security concerns due to acts of terrorism which continue to put a dent on the country's investment environment.

In 2015/2016, the Kenyan economy grew by 5.9% from 5.6% in 2014/2015. The marginal growth was attributed to growth in infrastructure, slow growth in manufacturing and bearish Nairobi Securities Exchange (NSE). We expect 2017 Gross Domestic Product (GDP) growth to stand at 6.1%, mainly predicated on increased government spending and resource absorption capacity in the counties. However, the government remains optimistic that the country will record a 6.1% growth in 2016.

## Financial Results

I am therefore delighted to note that in line with our tagline "Growing you for Good" The Fund recorded a surplus of Kes 5.27 billion as compared to Kes 13.20 Billion in 2014/2015. Our Net asset base grew from Kes. 165.5 billion in 2014/2015 to Kes 172.09 billion in 2015/2016, an equivalent of 3.1% increase. The

growth in the surplus is as result of increased collection of members' contributions, prudent investment and operational efficiency.

## Outlook

The economy is expected to grow at between 5.8% - 6.5% in 2016, according to projections by the World Bank and the International Monetary Fund (IMF). The National Social Security Fund (NSSF) will endeavour to leverage on its strength and the conducive business environment to continue championing the socio-economic welfare of our people to deliver sustainable performance and contribute to the Nation's economic development

## Conclusion

Finally, I wish to express my sincere appreciation for the teams that have contributed to make these great strides over the years. I wish to thank my fellow members of the Board of Trustee, the management and staff of NSSF for their commitment to hard work, the Government through the line Ministry of East Africa Community, Labour and Social Protection, Employers, Employees, our customers for their continued support and last but not least to all our development partners and other stakeholders who have kept faith in us throughout this journey.

**"I am therefore delighted to note that in line with our tagline Growing you for Good The Fund recorded a surplus of Kes 5.27 billion"**

**Hon. G. M. Ndambuki**  
**CHAIRMAN BOARD OF TRUSTEES**

## Tarifa ya Mwenyekiti

Ni furaha yangu kuwasilisha ripoti ya mwaka na taarifa ya kifedha ya mwaka unaomalizikia tarehe 30 Mwezi Juni 2016.

### Mazingira ya oparesheni

Kenya ilidumisha mazingira yafaayo ya kiuchumi na hali bora ya kifedha licha ya hali ya wasiwasi wa kiusalama kutokana na visa vya ujambazi ambavyo viliendelea kutia doamazingira ya uekezaji nchini.

Katika kipindi cha mwaka wa 2015/2016, uchumi wa taifa hili ulistawi kwa aslimia tano nukta tisa (5.9%) ikilinganishwa na kiwango cha tano nukta sita (5.6%) cha mwaka wa 2014/2015. Ustawi huu haba uliambatanishwa naustawi wa miundo msingi, ukuaji haba wa utengenezaji wa bidhaa na kutarajiwa kupungua kwa thamani katika Soko la Hisa la Nairobi (NSE). Tunatarajia ukuaji wa pato la jumla la taifa mwaka huu wa 2017 kufikia kiwango cha aslimia sita nukta moja kwa mia (6.1%), sababu kuu ikiwa ni tarajio la ongezeko la matumizi ya serikali na uwezo wa utumizi wa raslimali katika Kaunti. hata hivyo, ni matarajio ya serikali ya ukuaji wa uchumi kufikia aslimia sita nukta moja mwaka wa 2016.

### Hali ya Kifedha

Hivyo basi ni furaha yangu kuona kwamba chini ya moto wetu wa Kukustawisha daima Hazina iliafikia faida ya ziada ya shilingi bilioni tano nukta ishirini na saba (sh5.27b) ikilinganishwa na shilingi bilioni kumi na tatu nukta ishirini (Ksh 13.30b) katika kipindi cha mwaka wa 2014/15. Jumla ya mali yetu ilipanda kutoka shilingi bilioni mia moja sitini na tano nukta sita (SH165.6B) mwaka wa 2014/2015 ikiwa ni ukuaji wa kiwango cha tatu nukta moja kwa mia (3.1%). Ustawi huo umetokana na kuongezeka kwa ukusanyaji wa mchango wa wanachama, uekezaji bora, nautendaji kazi wazi.

### Mtazamio

Kiwango cha uchumi kinatarajiwa kustawikwa kiwango cha tano nukta nane (5.8%) kwa mia hadi kiwango cha sita unusu (6.5%), hii ni utabiri wa Benki ya Duniana Shirika la Fedha Duniani (IMF). Hazina ya kitaifa ya malipo ya uzeeni ya (NSSF) itajibidiisha kuwianisha udhabiti wake na mazingira bora ya biashara kuendelea kuwajibikia maslahi ya kiuchumi na kijamii ya watu wetu hivyo basi kuchangia ustawi wa kiuchumi wa nchi yetu.

### Tamati

Ni kimalizia ningependa kutoa shukrani zangu za dhati kwa makundi yote yaliyofanikisha ufanisi huu katika miaka iliyopita. Ningependa kuwapongeza wanachama wezangu katika Bodi ya Wadhamini, Usimamizi na wafanyi kazi wa Hazina ya NSSF kutokana na utendaji wao wa kazi kwa bidii, serikali kupitia kwa Wizara ya Jumuiya ya Afrika Mashariki, Leba na Kijamii, Waajiri, wafanyi kazi, wateja wetu kwa msaada wao na pia kwa washirika wetu wa kimaendeleo na washikadau wengine ambao wametuumini wakati wote wa safari hii.



**Mwenyekiti wa Bodi ya Wadhamini**  
**MWENYEKITI WA BODI YA WADHAMINI**

# CEO / MANAGING TRUSTEE STATEMENT



## Performance

I'm pleased to present the Fund's performance for the year ended 30 June, 2016. This gives me and my staff great joy and confidence in our understanding that you walk through a path but implement a plan. The strategic path set by the Board of Trustees is yielding the intended result. Member contributions and return on investment showed growth in the year 2015/2016 as compared to last financial year.

This growth is a reflection of deliberate effort by the Board of Trustees and management of NSSF in modernising and professionalizing the operations of the Fund. The Fund has a huge responsibility to contribute to the achievement of the vision 2030 set by the national government, through provision of sustainable and comfortable retirement benefits to all Kenyan workers and voluntary members.

## Financial Results

During the year, **member contributions grew by 9.6% from Kes. 11.75 billion in 2015 to Kes. 12.88 billion in 2016.** Benefits paid to members increased by **1%** from Kes. 3.09 billion paid in 2015 to **Kes.3.12 billion** paid in 2016. Similar to the previous year, the net return on investment continued to decline from **Kes.10.71 billion** in 2015 to **Kes. 1.03 Billion** in the year 2016 due to a steady decline in activity at the Nairobi Securities Exchange (NSE) which controls a sizeable share of our investments portfolio.

Total operating expenses decreased by **10.1% to Kes. 5.51 billion** in 2016 from **Kes.6.17 billion** in 2015. Provisions for doubtful assets in the financial statements declined to **Kes 441.1 Million** from the previous year's **Kes 1.1 billion.**

## Overall Performance

**A net increase in Scheme Funds of Kes. 5.27 billion was achieved in 2015/2016** compared to **Kes. 13.20 billion** achieved in 2015. The Fund's net assets, therefore, increased by **3.1% from Kes. 165.58 billion** in 2015 to **Kes.172.09 billion** in 2016.

## Investments

We continue to participate at the Nairobi Securities Exchange through our fund managers. As a result, we have been able to achieve a well-diversified and balanced investment portfolio that will maximise the return on investment for our members. Am pleased to report that, the Fund complied with the portfolio mix as required by the Retirement Benefit Authority.

## Technology

The focus in 2015/2016 was to implement e-service products to drive efficiency, and offer better customer service in the areas of Employer/Member registration and Employer contribution systems. In the near future, members will be able to access their account information online through mobile applications and integrated networks through internet. Further, various strategies have been implemented to facilitate online payment of contributions in addition to the Mpesa option already in use.

## Customer Focus

The Fund has continued to implement the best management practice initiated in 2014/2015 financial year by applying performance planning and appraisal systems, regular performance reviews, and ISO surveillance audits.

The Balanced Score Card performance management system is fully entrenched in our performance monitoring and measurement. The Fund has further enhanced its customer focus by being among the first countries in Africa to achieve ISO 9001:2015 certification.

## Conclusion

The improved performance of the Fund during the year has been due to the support of all our dedicated contributors, employers and tripartite business partners who include The National Government, COTU and FKE. We thank them for their continued support and look forward to cordial working relations in 2016/2017.

I would also like to express my gratitude to the Board of Trustee, Senior Management Team, Staff and the business partners for their hard work, dedication and commitment to the Fund during the year. This commitment has gone a long way in ensuring that the Fund continues to prosper for the benefit of all our stakeholders.

## Taarifa ya Afisa Mkuu Mtendaji

### Utendaji

Ni furaha yangu kuwasilisha ripoti ya mwaka na taarifa ya kifedha ya mwaka unaomalizikia tarehe 30 Mwezi Juni 2016.

### Mazingira ya utendaji

Kenya ilidumisha mazingira yafaayo ya kiuchumi na hali bora ya kifedha licha ya hali ya wasiwasi wa kiusalama kutokana na visa vya ujambazi ambavyo viliendelea kutia doa mazingira ya uwekezaji nchini.

Katika kipindi cha mwaka wa 2015/2016, uchumi wa taifa hili ulistawi kwa asilimia 5.9 ikilinganishwa na asilimia 5.6 mwaka wa 2014/2015. Ustawi huu haba uliambatanishwa na ustawi wa miundo msingi, ukuaji haba wa utengenezaji wa bidhaa na kutarajiwa kupungua kwa thamani katika Soko la Hisa la Nairobi (NSE). Tunatarajia ukuaji wa pato la jumla la taifa mwaka huu wa 2017 kufikia kiwango cha asilimia 6.1, sababu kuu ikiwa ni tarajio la ongezeko la matumizi ya serikali na uwezo wa utumizi wa rasilimali katika kaunti. Hata hivyo, ni matarajio ya serikali kuwa ukuaji wa uchumi utafikia asilimia 6.1 mwaka wa 2016.

### Hali ya Kifedha

Hivyo basi ni furaha yangu kuona kwamba chini ya kauli mbiu yetu **Kukustawisha daima** Hazina iliafikia faida ya ziada ya shilingi bilioni 5.27 ikilinganishwa na shilingi bilioni 13.20 katika kipindi cha mwaka wa 2014/15. Jumla ya mali yetu ilipanda kutoka shilingi bilioni 165.5 mwaka wa 2014/2015 hadi shilingi bilioni 172.09 mwaka wa 2015/2016 ikiwa ni ukuaji wa asilimia 3.1. Ustawi huo umetokana na kuongezeka kwa ukusanyaji wa mchango wa wanachama, uwekezaji bora, na utendakazi wazi.

### Mtazamio

Uchumi unatarajiwa kuimarika kwa kati ya asilimia 5.8 hadi asilimia 6.5, hii ni utabiri wa Benki ya Dunia na Shirika la Fedha Duniani (IMF). Hazina ya kitaifa ya malipo ya uzeeni ya (NSSF) itajibidiisha kuwianisha udhabiti wake na mazingira bora ya biashara kuendelea kuwajibikia maslahi ya kiuchumi na kijamii ya watu wetu hivyo basi kuchangia ustawi wa kiuchumi wa nchi yetu.

### Tamati

Nikimalizia ningependa kutoa shukrani zangu za dhali kwa makundi yote yaliyofanikisha ufanisi huu katika miaka iliyopita. Ningependa kuwapongeza wanachama wenzangu katika Bodi ya Wadhamini, Usimamizi na wafanyikazi wa Hazina ya NSSF kutokana na utendaji wao wa kazi kwa bidii, serikali kupitia Wizara ya Jumuiya ya Afrika Mashariki, Leba na Kijamii, waajiri, wafanyikazi, wateja wetu kwa msaada wao na pia kwa washirika wetu wa kimaendeleo na washikadau wengine ambao wametuamini wakati wote wa safari hii.



**Mwenyekiti wa Bodi ya Wadhamini**

**Dr. Anthony O. Omerikwa**

**KAIMU AFISA MKUU/MENEJA MKUU MDHAMINI**

# CORPORATE GOVERNANCE STATEMENT

The Fund is committed to the highest standards of corporate governance and business ethics. Recognizing that good corporate governance is key to the enhancement of our business performance, the Board of Trustees seek to discharge their duties and responsibilities in the best interest of the Fund, its shareholders, customers, business partners and the wider community. Our corporate values and ethics are entrenched in our corporate strategic plan (2014-2019) and business objectives and are focused on transforming and accelerating growth in value for the benefit of all our stakeholders.

The Board of Trustees has delegated the authority for day-to-day management of the Fund to the CEO/ Managing Trustee. However, it retains overall responsibility for the Fund's financial performance, compliance with laws and regulations, and monitoring of its operations as well as ensuring efficient and effective management of the business.

## Board of Trustees

The Board of Trustees comprises nine Trustees' and the CEO/Managing Trustee as the ex-official, each of whom brings a wide range of skills and experience, independent judgement and a considerable knowledge to the board's discussions. The members of the Board of Trustees are drawn from:-

- (a) Principal Secretary in the Ministry for the time being responsible for matters relating to East African Community, Labour, Social Protection;
- (b) Principal Secretary responsible for matters relating to the National Treasury;
- (c) Seven persons appointed by the Cabinet Secretary as follows -
  - (i) Two persons, one of whom shall be of opposite gender, nominated by the most representative employers' organization with knowledge and experience in matters relating to employers to represent employers in Kenya;
  - (ii) Two persons, one of whom shall be of opposite gender, nominated by the most representative workers organization by virtue of their knowledge and experience in matters relating to employees to represent employees in Kenya;
  - (iii) Three persons one of whom shall be of opposite gender, not being public officers nor employees or directors of any public company, appointed by the Cabinet Secretary by virtue of their knowledge and experience in matters relating to administration of scheme funds, actuarial science, insurance, accounting and auditing or law. The Cabinet Secretary appoints the Chairperson from amongst these three Trustees.

## Board Meetings Attendance & Trustees

## Remuneration

The Board of Trustees hold meetings on regular basis as per the Board's annual timetable while special meetings are called when deemed necessary. The activities of the Board are controlled by the Board Charter.

During the year the Board held **5 (five)** full Board meetings and **16 (Sixteen)** Committee meetings. The attendance of the Committee meetings by the board members is as shown below;

Name (Member)	Full Board / Attendance (No.)	Board Committee Attendances (No.)	Total (Kes)
<b>Current</b>			
Mr. Gideon Ndambuki.	1	--	35,000.00
Eng. Erastus Mwongera	4	8	420,000.00
Mr. Khadijah Kassajoon	1	2	105,000.00
Mr. Mutua Kilaka	3	4	245,000.00
Mr. Patrick O. Ogola	5	7	420,000.00
Mrs. Jacqueline Mugo	5	11	560,000.00
Mr. Francis Atwoli	4	10	490,000.00
Ms. Damaris Muhika	4	9	455,000.00
Ms. Teresa Maina	1	0	35,000.00
<b>Former Board Members</b>			
Mr. Kariithi Karimi	2		70,000.00
M/s Susan Mochache	3	7	350,000.00
Ms Lynn Mengich	2	6	280,000.00
Mr. Ali Noor Ismail		3	105,000.00
<b>Total Remuneration</b>			<b>3,570,000.00</b>

*\*Board Allowances paid include amounts paid while attending official functions for the Fund.*

## Committees of the Board

The Board of Trustees has set up three (3) principal Committees namely:

1. Audit and Risk Committee
2. Finance, Investments and Social Security;
3. Human Resource, Legal and Strategy; and

These committees meet under well-defined Terms of Reference set up by the Full Board. This is intended to achieve efficient decision making by the Board of Trustees in discharging its duties and responsibilities.

## Finance, Investments and Social Security Committee members

1. **Eng. Erastus Mwongera** - **Chairman**
2. Mr. Francis Atwoli
3. Mr. Patrick O. Ogola
4. Dr. Khadijah Kassachoon
5. Mr. Mutua Kilaka

## Responsibilities

Besides directing the investment, financial and IT function of the Fund, the committee assists the Board in fulfilling its core mandate: customer care, marketing, registration, contributions, benefits payment, Product development and investment policy oversight. Other responsibilities include review and approval of budgets, periodic performance, review and approval of financial statements, review and guide on ICT strategy and review and approval of accounting policies' and procedures.

### No. of meetings held:

The committee held 6 meetings during the year.

### Attendance

Name (Members)	Attendance (No.)
Eng. Erastus Mwangera	6
Mr. Patrick Ogola	-
Dr. Khadijah Kassachoon	1
Mr. Francis Atwoli	4
Mr. Mutua Kilaka	2
<b>Previous members</b>	
Mr. Ali Noor Ismail	2
Mrs. Jacqueline Mugo	4
Ms. Damaris Muhika	6
M/S Susan Mochache	2

### Human Resource, Legal and Strategy Committee members

1. Ms. Teresa Maina - Chairperson
2. Mr. Francis Atwoli
3. Eng. Erastus Mwangera
4. Mr. Patrick O. Ogola
5. Mrs Jacqueline Mugo

### Responsibilities

The committee reviews and recommends matters relating to Human Resource development, legal cases and the overall corporate strategy of the fund. Their responsibilities include review and guidance on Human Resource policies, legal cases. The committee also monitors strategic changes and oversees good corporate governance.

### No. of meetings held:

The committee held a total of 7 meetings including one special one.

### Attendance

Name (Members)	Attendance (No.)
Eng. Erastus Mwangera	5
Mr. Patrick Ogola	5
Mrs. Jacqueline Mugo	7
Mr. Francis Atwoli	4
Ms. Teresa Maina	-
<b>Previous members</b>	
Mr. Ali Noor Ismail	1
Dr. Khadijah Kassachoon	1
Ms. Susan Mochache	5
Ms. Lynn Mengich	4

## Audit and Risk Committee members

1. Ms Damaris Muhika - Chairperson
- 2 Mr. Mutua Kilaka
3. Dr. Khadijah Kassachoon
4. Teresa Maina
5. Mrs Jacqueline Mugo

## Responsibilities

As per Mwongozo 2015 and Treasury circular No. 16/2005 the Audit Committee is the only mandatory committee of the board. The committee is entrusted with the responsibility of ensuring overall compliance, governance and risk management.

Specific role include reviewing and approving the board charter, internal and external audit findings and preventive measure, systems and internal controls. The committee may also initiate specific special/investigation of any allegations on corruption and accountability.

## No. of meetings held;

The committee held 3(three) meetings

## Attendance

Name	Attendance (No.)
Mr. Mutua Kilaka	2
Dr. Khadijah Kassachoon	-
Teresa Maina	-
Mrs. Jacqueline Mugo	-
<b>Previous members of the committee</b>	
Mr. Francis Atwoli	2
Ms. Damaris Muhika	3
Ms Lynn Mengich	2
Mr. Patrick Ogola	2

## Annual General Meetings

The Fund held its third Annual General Meeting (AGM) on 5th August, 2016 as part of its corporate governance practice and to comply with the law and regulations as set out by the Retirement Benefits Authority (RBA).

## Accountability and Audit

The board of trustees oversees accountability and audit function through its Audit and Risk Committee by reviewing and approving the internal and external audit findings, preventive measures, systems and internal controls. The committee initiates special investigation on allegations on corruption and accountability.

## Capacity Building for Board of Trustees

During the year, trustees were trained in Mwongozo code of conduct and on corporate governance

## Internal Controls

The board of trustees has put in place adequate internal controls to ensure there is no loss or pilferage of Funds resources. Risk mitigation strategies are incorporated into the control structures that include a functional internal audit department.

## Enterprise Risk Management

The Board of Trustees and Management is cognisant of the fact that all risks cannot be eliminated completely. However, the Fund will endeavour as much as possible within the available resources to manage risks to acceptable levels in all its activities.

The Fund is committed to embedding risk management principles and practices into:

- Strategic and operational plans;
- Decision making process;
- All levels of the Fund;
- On major projects undertaken; and
- On major transactions entered into with third parties

## Key Exposure Risks

Based on the enterprise risk management framework, the following key exposure risks have been identified and strategies put in place to manage them:

- (a) Corporate Governance risk due to frequent changes in the Board of Trustees and the office of the Chief Executive.
- (b) General economic downturn leading to low numbers of new business, downsizing, increase in closure of business.
- (c) Market risks caused by:
  - (i) Price risks due to decline in stock market prices, and volatility in the exchange rates.
  - (ii) Interest rate volatility affected by shifts in market forces, Government policies, and intervention in the money market.
- (d) Court cases affecting business especially the petition on the Fund to collect contribution as per the NSSF Act 2013.

## Board Evaluation Results

Board evaluation has not yet taken place but it's under consideration. The evaluation is required for purposes of complying with Mwongozo and best practice.

## Key Stakeholders

The key stakeholders are members of the fund and the employers. The members contribute monthly prescribed amount to the Provident Fund and the Pension Scheme in accordance with the NSSF Act and on voluntary basis through various employers. The members expect various benefits from the Fund depending on the amount contributed and paid in compliance with predetermined terms. All members have the same influence on the sustainability of the Fund.

## Factors which affected the Financial Performance

The court cases against the implementation of certain key clauses in the NSSF Act No. 45 of 2013 and the effect of terrorism especially in the coastal region where most hotels closed business were operating below capacity. This affected negatively the amount of contributions received. Further changes in the Nairobi Securities Exchange (NSE) and overall investment environment affected the investment return.

## Senior Management in Acting Appointments

Among the top management team, there were a total of 4 staff within the period under review who served in acting capacity in various senior managerial positions. The recruitment process has been initiated for the vacant posts.

# STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) is an integral component in the NSSF Strategic Plan 2014-2019. In as much as we deliver our social security mandate, the Fund aspires to positively reposition and engage in the society within which we operate. The five key focus areas within the CSR Policy are Education, Public Health, Sports, Environmental Conservation, and Entrepreneurship among the youth and supporting the elderly.

NSSF commitment to corporate social responsibility proves that there are tremendous opportunities for innovation and growth in tackling social problems as part of its core business objectives. We also understand that addressing societal pain points through innovative initiatives, serves to unlock the economic transformation of entire communities. Our long term strategy is to engage in strategic CSR which we believe will not only benefit our stakeholders but will also reinforce the Fund's corporate strategy and leverage on key focus areas.

## CSR Activities during the Year ended 30 June 2016

As a caring corporate, the Fund supported various CSR activities during the year, among them;

- (i) **Matatu Welfare Association (MOA)**  
This is the leading and largest business membership organisation in public transport in Kenya and the whole of East Africa. The Fund sponsored their Public Service Vehicles / Matatu Congress and Expo that took place on 11th -13th November 2015, for Kes 750,000.00
- (ii) **SOYA Awards 2015**  
The fund sponsored Kes 1 Million towards the SOYA Awards Gala night held on 15 January, 2016 at the Kenyatta International Convention Centre, Nairobi.
- (iii) **Beyond Zero Campaign**  
NSSF participated in the First Lady's Half Marathon 2016 on 6th March 2016 at Nyayo Stadium.
- (iv) **Heritage of faith and hope children rehabilitation based at Mlolongo in Athi River**  
The Fund supported the construction of permanent kitchen by contributing Kes 500,000.00 to the worthy cause
- (v) **Little sisters of the poor, nyumba ya wazee**  
The Fund donated Kes 500,000.00 to this charitable home which has been in existence since 1985 and accommodates 70 poor elderly people.
- (vi) **AIC Kavanzou secondary school in Makueni County**  
NSSF contributed toward completion of the school science laboratory by donating Kes 500,000.00
- (vii) **Sponsorship towards treatment, education and distribution of shoes to children infested with jiggers**  
in Busia County, Amagoro Constituency Fund staff participated in the event by removing jiggers, sensitizing the community, going for home visits and distribution of shoes to schools as depicted partly in the pictures here below;



*“Sponsorship towards treatment, education and distribution of shoes to children infested with jiggers”*



## REPORT OF THE TRUSTEES FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2016

### Principal activities

The principal activity of the Fund continues to be provision of social security to members through enhanced coverage, efficient registration and collections, prudent fund management, competitive benefits and exemplary governance.

### Results for the Year

The Trustees hereby submit their report together with the unaudited Financial Statements for the year ended 30 June, 2016 which shows the state of the Fund's affairs. The results of the Fund for the year ended 30 June, 2016 are set out on pages **24-61**.

### Membership

The schemes active membership was as follows:

#### Active membership

##### Members as at 30 June 2015 (Restated)

Paid during the year

Non-contributing members

Deferred members

New entrants during the year

##### Members as at 30 June 2016

#### No. of active members

2,138,320

(28,838)

(829)

-

298,674

2,407,327

### Active Employers

#### As at 30 June 2015

Additions(New Active)

Less (closures/Inactive)

Active Employers 30 June 2016

#### No. of active members

72,876

491

-

73,367

### Interest to Members

Section 2 of the NSSF Act 2013, Laws of Kenya requires that investment income be credited to the accounts of individual members, at such rates as the Board may, in consultation with the Actuary or such other qualified person, determine and approve at least annually, having regard to the income on the Fund's assets. In the year ended 30 June 2016, the Board of Trustees approved interest of 6.0 % after actuarial valuation of the Fund by Alexander Forbes Financial Services.

### Trustees

The members of the Board of Trustees who served and changes during the year are shown on page 11.

NSSF Act No. 45 of 2013 Section 6 stipulates that membership of the board shall comprise of nine members. Section 11(1) of the Act further states that the board shall hold not less than 4 (four) meetings in every financial year for the conduct of its business and not more than four months shall elapse between the date of 1 (one) meeting and the date of the next. During the year under review, there were a total of 5 (five) full board meetings and 16 (Sixteen) committee meetings of the Board of Trustees.

The Board of Trustee is committed to implement fully the provisions of the Mwongozo Code of Conduct for State Corporations which was issued in January 2015.

### Auditors

The Auditor General is responsible for the statutory audit of the Fund in accordance with Section 84 of the Public Finance Management (PFM) Act, (Revised) 2015, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.



**By order of the Board of Trustees**

**Dr. Anthony Omerikwa**

**Ag. CEO/Managing Trustee**

## STATEMENT OF TRUSTEES' RESPONSIBILITIES

The National Social Security Fund Act No.45 of 2013 requires the Trustees to prepare Financial Statements for each financial year which include, a balance sheet (statement of assets available for benefits) showing in detail the assets and liabilities of the Fund, a statement of income and expenditure (statement of changes in net assets available for benefits) and such other statements that the Trustees may deem necessary. It also requires the Trustees to ensure that the Fund keeps proper books of account and other books and records in relation to the Fund, and, to all the undertakings of the Fund's investments.

The Trustees take responsibility for the annual Financial Statements which have been prepared using appropriate accounting policies, supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and in the manner required by the National Social Security Fund Act 2013 as well as the Retirement Benefits Act 1997. The Trustees are of the opinion that the Financial Statements give a true and fair view of the state of the financial affairs of the Fund and of its operating results. The Trustees further take responsibility for keeping proper books of accounts. The Trustees hereby confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Funds Financial Statements as well as the adequacy of the systems of internal control in all operations of the Fund.

The Trustees certify that to the best of their knowledge and belief the information furnished to the Auditors for the purpose of the audit was correct and complete in every respect.

Nothing has come to the attention of the Trustees to indicate that the Fund 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 Funds Financial Statements were approved by the Board of Trustee's on 29 September 2016 and signed on its behalf by:



.....  
**Dr. Anthony Omerikwa**  
**AG.CEO/MANAGING TRUSTEE**



.....  
**Hon. G. M Ndambuki**  
**CHAIRMAN BOARD OF TRUSTEES**

Date.....25/5/2017.....

Date.....25/5/2017.....

# REPUBLIC OF KENYA

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Website: www.kenao.go.ke



P.O Box 30084-001100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON NATIONAL SOCIAL SECURITY FUND FOR THE YEAR ENDED 30 JUNE 2016

#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the National Social Security Fund set out on pages 24 to 61, which comprise the statement of net assets available for benefits as at 30 June 2016, and the statement of changes in accumulated members funds and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

#### **Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

The 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.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those, risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

---

*Report of the Auditor-General on the Financial Statements of the National Social Security Fund for the year ended  
30 June 2016*

## **Basis for Qualified Opinion**

### **1. Unremitted Members Contributions**

Employers are required under Section 8(a) of the NSSF Act, 2013 to remit into the Fund contributions deducted from members in full and in time. However, examination of twenty (20) sampled employer files maintained in nine (9) NSSF branches disclosed that contributions totalling Kshs.754,995,366.55 had not been remitted in the stipulated time period.

Management has however taken action by issuing demand letters and making alternative payment arrangements with employers such as instalment payments before considering legal action.

In view of the foregoing, demand letters should be sent to all the other defalters not included in the sample taken in order to enforce compliance.

### **2. Members' Contribution Held in a Suspense Account**

As previously reported, the financial statements as at 30 June 2015 reflected an amount of Kshs.748,000,000 that was held in a suspense account due to lack of proper details of the members from their employers. During the financial year 2015/2016, the contributions held in a suspense account increased by Kshs.16,000,000 from Kshs.748,000,000 to Kshs.764,000,000.

No explanation has been provided in the respective Note 43 to the financial statements as to why the suspense account balance increased instead of reducing and mechanisms to clear the balance.

### **3. Irregular Disposal of Undeveloped Land – Mavoko**

Note 27 to the financial statements reflect disposal proceeds figure of Kshs.126,000,000 in respect of sale of undeveloped land in Mavoko Municipality. Information available indicates that land measuring 69.16 acres was subdivided into seven (7) plots measuring 9 88 acres and disposed-off at Kshs.18,000,000 each.

According to documents availed for audit in support of the sale, the plots were sold to AMS Properties Limited on the basis of an agreement dated 21 November, 2011 at a total cost of Kshs.126,000,000. However, only Kshs.12,600,000 or 10% was paid vide Miscellaneous Receipt M010022315 dated 23 August, 2011. The balance of Kshs. 113,400,000 which was to be paid within 90 days from the date of execution of the agreement has not been settled more than five (5) years later.

No reasons have been provided for the failure to terminate the sale agreement upon the expiry of the 90 days execution period provided for in the contract agreement. The Fund risks loss of the land and additional claim on the paid 10% Deposit.

### **4. Hazina Plaza Mombasa Lease - LR. NO.MSA/BLK XX/328 & 329**

Hazina Plaza formally known as Polana Hotel is located at the Heart of Mombasa Island and was purchased by the Fund at a cost of Kshs 450 Million from M/s Cannon Investments Ltd in 1994. However, the sale agreement and details of the actual payments were not provided for audit review. The Plaza is built on land measuring ninety thousand square feet (90,000). On it stands a nine storey building with a plinth area of approximately 115,589 sq ft.

The plaza was leased to M/s Azania Hotels Ltd on 1 November 1994 and operated as a four star hotel at an annual rent of Kshs.60 Million. The hotel has however reportedly remained partially closed since 2001 due to failure by the then tenant to meet rent obligations. Correspondences available indicate that the building was later advertised for sale on 3 September 2009 at a reserved price of Kshs.300 million however the bids received were below the reserve price.

On 25 May 2010, during the 11 meeting of the Operations and Investment Committee of the Board, it was agreed that the premises be leased to M/s Techno Holdings Ltd at a monthly rent of Kshs 2.25 million or 27 million annually net of all taxes with an escalation cost of 10% after every two (2) years

According to the lease agreement entered between the Fund and M/s Techno Holdings Ltd, the lessee was to pay a total of Kshs.164,837,000 to the fund for the hire of the building as a hotel for a period of ten (10) years from 1 August 2010 to 30 July 2020.

Although the building was handed over to M/s Techno Holdings Ltd on 29 April 2014, later on 27 January, 2016 during the 169th Board of Trustees meeting, the firm was granted a two year grace period commencing 2 May, 2014 when they formerly got vacant possession. Rent payment was therefore effective from 1 May 2016 which was also extended by a further six (6) months to 31 December 2016 by the Board of Trustees to allegedly enable the firm complete the undocumented buildings repairs. Further, the lease did not engage any contract variations in terms of grace period or cost of repairs.

Audit inspection at the site carried out in September, 2016 confirmed that the building had rent due of Kshs.323,585,144 between 1 November 1994 and 30 October 2014 and only Kshs.66,500,000 had been paid leaving a balance of Kshs.239,500,000 outstanding. No reasons have been provided for the failure to demand and collect the outstanding rent of Kshs.239,500,000

In view of the forgoing, the fund has not realised value for money from the investment of Kshs.450 million in Hazina Plaza Mombasa since 1994 nor has prudent financial management been exercised in the contract.

## **5. Milimani Plots – Kisumu**

The financial statements for the year ended 30 June 2016 reflect Kshs. 19,908,756,000 as the total value of developed land under statement of net assets available for benefits. Included in this figure is Kshs.178,000,000 being value for LR.KISUMU/MUN/8/258 in Milimani Estate, Kisumu County. The land originally belonged to the Municipal Council of Kisumu and was on 26 November 2012 swapped to offset a debt of Kshs.150 million owed to the Fund.

The land is situated in Milimani estate in Kisumu Municipality and measures 0.7740 Ha. in size. Within the land is a flat comprising of eight two bedroom apartments and three separate maissonettes of three bedrooms each with a servant quarter.

Audit inspection of the NSSF plots carried out in September 2016 revealed, that the houses were fully occupied by NSSF staff and information obtained indicated that only Kshs.66,000 was being received as rental income from the houses but no documents were provided to support this figure. Despite lack of rental income from these houses over the years, the fund continues to provide security and other services.

No explanation has been given for the failure to review the rent payable since taking over the property. Consequently, value for money has not been realised since the year 2012 from the investment worth Kshs.178,000,000.

### **Qualified Opinion**

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of National Social Security Fund as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with National Social Security Fund Act, No. 45 of 2013.

### **Other Matter**

#### **1. Budget Control and Performance**

##### **1.1 Income**

The Fund had budgeted to collect income totalling Kshs.44,086,349,000 during the year ended 30 June 2016 as follows:

Item	Budget Kshs. '000'	Actual Kshs. '000'	Excess/(Shortfall) Kshs. '000'	Excess / (Shortfall)%
Contribution Receivable	23,317,132	12,874,685	(10,442,447)	(45%)
Benefits Payable	(3,407,504)	(3,121,006)	286,498	8%
Investment Income	13,125,035	13,048,067	(76,968)	(0%)
Realised gain on Sale of Investment	651,913	(18,038)	(669,951)	(102%)
Unrealised gain on Sale of Investment	10,750,237	(11,785,920)	(22,536,193)	(210%)
Investment Management Expenses	(358,000)	(279,468)	78,532	22%
Other Income	37,500	63,233	25,733	69%
<b>Total</b>	<b>44,086,349</b>	<b>10,781,553</b>	<b>(33,334,796)</b>	<b>(76%)</b>

However, the actual income realized amounted to Kshs. 10,781,553,000 resulting to under collection of Kshs.33,334,796,000 or 76%. The shortfall was mainly attributed to decline in net return on investment from the budgeted Kshs. 10,750,273,000 to a negative of Kshs.11,785,920,000 or Kshs.22,536,193,000 (210%) shortfall occasioned by poor performance of equities at the Nairobi Stock Exchange and non-implementation of the NSSF Act, No. 45 of 2013 which had introduced new contribution rates by between 12% and 180% leading to a shortfall of Kshs.10,442,447,000 or 45%. The non-implementation of the Act was due filing of court cases objecting to the increases.

The fund further realized a shortfall of Kshs.669,951,000 in sale of investment instead of the budgeted Kshs.651,913,000 thus performed negatively by Kshs.18,038,000 also attributed mainly to the poor performance at the Nairobi stock exchange

## 1.2 Expenditure

The actual expenditure for the year amounted to Kshs.5,509,264,000 against the approved budget of Kshs 8,251,255,000 thus resulting to an under expenditure of Kshs.2,741,991,000 or 33% as follows:

Item	Budget Kshs. '000'	Actual Kshs. '000'	(Over)/Under Kshs. '000'	(Over)/Under %
Staff Costs	3,352,545	3,420,644	(68,099)	(2%)
General Administrative	(3,407,504)	(3,121,006)	286,498	8%
Other Income	3,400,000	441,052	2,958,948	87%
<b>Total</b>	<b>8,251,255</b>	<b>5,509,264</b>	<b>2,741,991</b>	<b>33%</b>

The under expenditure of Kshs.2,741,991,000 was largely attributed to provision of unrecoverable assets where Kshs.3,400,000,000 was budgeted for against actual provisioning of Kshs.441,052,000 resulting to overprovision by 2,958,948,000 or 87%. The actual provision was attributed to less claims by contractors than expected with regard to stalled projects.

An over expenditure of Kshs 148,858,000 or 10% also occurred under general administrative costs of which Kshs.1,498,710,000 was budgeted but actual expenditure amounted to Kshs.1,647,568,000. No explanation has been provided for the over expenditure of Kshs.148,858,000 as required.

## 2.0 Unresolved Prior Year's Issues:

### 2.1 Illegal Transfer of National Social Security Land in Upper Hill Nairobi - LR No. 209/11642

As previously reported, title deed for undeveloped parcel of land belonging to the Fund -LR.209/11642 measuring (approximately) 0.2100 hectares located at Upper Hill, Nairobi - next to Milimani law Courts purchased on 20 April 1996 at a cost of Kshs 20,000,000, was irregularly revoked and reallocated to the Judiciary.

In the circumstances, the Fund risks losing workers pensions funds invested in the property currently valued at Kshs. 115,000,000 if the land is not reinstated to NSSF.

## **2.2 Nyayo Estate Embakasi Phase Six Contract No. 18/2012/2013**

As previously reported, the construction of 324 units at Nyayo Embakasi at a total cost of Kshs.2,155,407,742 by M/s China Jiangxi International Kenya Limited had stalled. The construction works which according to the contract signed on 21 February 2013 were to take seventy eight (78) weeks from 2 June 2013 to 30 November 2014 had by 30 June 2016 not been completed.

As at 30 June 2016, only fifty two (52) units had been constructed. Although the failure to proceed with the construction was attributed to failure by the Nairobi City County to grant relevant approvals to enable construction of the remaining two hundred and seventy two (272) units, no efforts appear to have been made to ensure completion of the project. The contract period also expired on 30 November 2014.

By the time of stoppage, the contractor had been paid an advance fee of Kshs.215,540,744.22 against a bank guarantee from the Standard Chartered Bank which expired on 30 September 2015.

In the circumstances, the Fund stands a risk of losing the Kshs.215,540,744.22 already paid and additional losses on delayed completion of the project.

## **2.3 Stalled Construction of Hazina Trade Centre – Nairobi**

The statement of net assets available for benefits reflects total amount of Kshs.4,860,634,000 which includes a figure of Kshs.1,681,749,000 in respect of assets under construction relating to completion of the Hazina Trade centre, Nairobi.

As previously reported, the construction of Hazina Trade centre, Nairobi at a total cost of Kshs.6,715,218,188 by the contracted firm M/s China Jiangxi International Kenya Ltd had stalled. The construction works which were to be undertaken in 155 weeks from 17 June 2013 to July 2016 had by 30 June 2016 not been completed.

Completion of the building was approved by the board on 31 August 2010 to include an additional 36 floors and the contract was competitively awarded on 26 February 2013 to M/s China Jiangxi International Kenya Ltd at a contract sum of Kshs.6,715,218,188.

However, an audit inspection carried out on 14 January 2016 revealed that the work had stalled after reaching 15th floor or at 38%. The reasons given for stalling of the project was that the columns inside Nakumatt Lifestyle Supermarket needed to be reinforced and strengthened for other floors to be added but Nakumatt Holdings Limited, the tenants, had denied the contractor access to the basement floors contrary to the provisions of the lease agreement signed in 2003.

At the time of the stoppage of builders works, a total of Kshs 1,912,043,004 had been paid to the contractor as at 30 June 2016. The continued stalemate may lead to escalation of costs and contractual claims emanating from the delay.

In view of the foregoing, NSSF should take legal action against the tenant to secure completion of the building to safeguard members' contributions.



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

12 July 2017

## STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR YEAR ENDED 30<sup>TH</sup> JUNE, 2016

	Note	2016 Kes' 000	As Restated 2015 Kes' 000
<b>Dealings with Members</b>			
Contributions Receivable	3	12,874,685	11,748,588
Benefits Payable	4	(3,121,006)	(3,091,470)
<b>Net Surplus from dealings with members</b>		<b>9,753,679</b>	<b>8,657,118</b>
<b>RETURN ON INVESTMENTS</b>			
Investment Income	5	13,048,067	10,953,271
Investment Management Expenses	6	(279,468)	(412,553)
Fair value gain on revaluation of Investments	7	(11,785,920)	(449,340)
Gain on realisation of investments	8	(18,038)	475,907
Other Income	9	63,233	146,811
<b>Net returns on investments</b>		<b>1,027,874</b>	<b>10,714,096</b>
Staff cost	10	3,420,644	3,326,362
General administrative cost	11	1,647,568	1,732,979
Provisions	12	441,052	1,109,943
<b>Total operating cost</b>		<b>5,509,264</b>	<b>6,169,284</b>
<b>Increase/(decrease) in net assets for the year</b>		<b>5,272,290</b>	<b>13,201,930</b>
As previously reported		165,580,764	153,028,834
Prior year adjustment		1,233,244	(650,000)
<b>As restated</b>		<b>166,814,008</b>	<b>152,378,834</b>
<b>Net Assets as at 30 June</b>		<b>172,086,297</b>	<b>165,580,764</b>

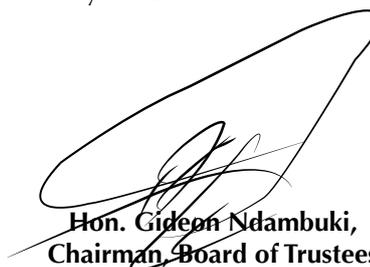
## STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AS AT 30 JUNE 2016

	Note	2016 Kes' 000	As Restated 2015 Kes' 000
<b>ASSETS</b>			
Cash and bank balances	13	334,566	177,979
Call Deposits	14	5,147,890	4,983,550
Fixed Deposits	15	3,015,800	7,469,830
Commercial Papers	16	-	10,000
Government Securities - (Treasury bills)	17	3,459,382	1,187,170
Government Securities - (Treasury bills)	18	52,735,961	38,368,526
Corporate bonds	19	8,995,873	8,525,382
Accrued Income	20	3,240,555	2,382,682
Stores and Supplies	21	36,412	31,691
Receivables and Prepayments	22	3,264,757	2,386,449
TPS Loans	23	7,368,245	8,375,899
Long-term deposits	24	531,587	430,232
Quoted Stocks	25	49,901,026	57,037,979
Unquoted Stocks	26	1,672,681	1,672,681
Undeveloped investment property	27	9,816,628	9,432,128
Developed investment property	28	19,908,756	19,394,856
Assets under construction	29	4,860,634	4,473,072
Intangible Assets-(ICT Software)	30	173,705	363,202
Property, plant and equipment	30	338,398	519,655
		<b>174,802,857</b>	<b>167,222,962</b>
<b>LIABILITIES</b>			
Payable and accruals	31	(2,716,559)	(1,642,198)
<b>NET ASSETS</b>		<b>172,086,297</b>	<b>165,580,764</b>
<b>REPRESENTED BY</b>			
<b>FUND BALANCE</b>		<b>172,086,297</b>	<b>165,580,764</b>

The financial statements on pages 24 to 61 were approved and authorised by the Board of Trustees on 25/6/2017. Signed on their behalf by:



**Dr. Anthony Omerikwa**  
Ag. CEO/Managing Trustee



**Hon. Gideon Ndambuki,**  
Chairman, Board of Trustees

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2016

	Note	2016 Kes' 000	2015 Kes' 000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net increase in assets		5,157,290	13,201,930
<b>Adjustments:</b>			
Depreciation on PPE	11	211,091	218,088
Amortisation of intangible assets	11	189,497	189,497
Increase / (decrease) in provisions	12	556,052	1,109,943
Reversal of accrued contributions			(209,041)
Fair value gain / (loss) on revaluation	7	11,785,920	449,340
<b>Operating surplus / (deficit) before working capital changes</b>		<b>17,899,849</b>	<b>14,959,757</b>
<b>Changes in Working Capital:</b>			
Decrease/(increase) in inventories	21	(4,721)	(14,582)
Decrease/(increase) in debtors & prepayments	22	(889,535)	101,189
Decrease/(increase) in accrued income	20	(857,874)	(615,243)
Increase/(decrease) in payables and accruals	31	(300,680)	414,859
		(2,052,810)	(113,777)
<b>Net cash flows generated from operating activities</b>		<b>15,847,039</b>	<b>14,845,980</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase/sale of equities	25	(3,604,231)	(2,319,786)
Purchase/sale or redemption of treasury bonds	18	(16,524,390)	(1,699,880)
Purchase/sale or redemption of treasury bills	17	(2,272,213)	598,682
Purchase/sale or redemption of corporate bills	19	(834,651)	(5,195,356)
Placement of deposits with financial institutions	15/16	4,040,190	(6,230,838)
Development of land and buildings		(211,559)	(2,287,022)
Proceeds from sale of plots/houses		682,458	-
Receipts from TPS scheme	23	3,063,776	1,364,125
Purchase/sale of PPE	30	(29,831)	(187,279)
<b>Net cash flows from investing activities</b>		<b>(15,690,451)</b>	<b>(15,957,354)</b>
Net increase/(decrease) in cash and cash equivalents		156,588	(1,111,374)
Cash and cash equivalents as at 1 July		177,979	1,289,353
<b>Cash and cash equivalents as at 30 June</b>		<b>334,566</b>	<b>177,979</b>

## STATEMENT OF CHANGES IN ACUMULATED MEMBERS' FUNDS AS AT 30<sup>TH</sup> JUNE 2016

Items	Members' Funds Kes'000	Accumulated Reserves Kes'000	Reserve Fund Kes'000	Total Kes'000
<b>Balance as at 30 June 2014</b>	<b>92,979,706</b>	<b>50,752,063</b>	<b>9,297,064</b>	<b>153,028,833</b>
		( 650,000)		(650,000)
Net Increase/(Decrease) in Surplus		13,201,930	-	13,201,930
Adjustment to member funds as per actuarial valuation	58,038,894	( 48,741,829)	(9,297,064)	1
<b>Balance as at 30 June 2015</b>	<b>151,018,600</b>	<b>14,562,164</b>	<b>-</b>	<b>165,580,764</b>
Prior Year Adjustments		1,233,244		1,233,244
Net Increase in Surplus		5,272,290		5,272,290
<b>Balance as at 30 June 2016</b>	<b>151,018,600</b>	<b>21,067,697</b>	<b>-</b>	<b>172,086,297</b>

### \*Prior Year Adjustments

- (i) Court cases involving Mutula Kilonzo, Kes 293,836,000 B. M. Musau Kes 29,250,000 and Kes 7,278,000. The above court cases are still in court and neither the date of determination of the cases nor the outcome is unknown. As per IAS 37 such contingent liabilities should only be disclosed in the financial statements and as such cannot be accrued. In the previous years financial years the above cases were erroneously accrued as sundry creditors in contravention of IAS 37. The provisions on the above cases were reversed in compliance with IAS 37.
- (ii) Kenya Revenue Authority owed Fund a tax refund of Kes. 904,904,000 against which a provision had been made due to a counterclaim by KRA. The counter claim has since been ruled against by the high court hence reversal of the provision.

### Sundry creditors/Debtor

Reversed Debtor	Note	Reason for reversal of accrual in prior years	Kes '000
Mutula Kilonzo	31	Court case erroneously accrued	293,836
B.M Musau	31	Court case erroneously accrued	29,250
Okoth, Okendo& Kiplagat	31	Court case erroneously accrued	7,278
Benefits sundry debtor	22	Balance of benefits paid twice in error whose recovery is doubtful	(2,024)
Kenya Revenue Authority		Tax refund	904,904
<b>Total</b>			<b>1,233,244</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2016

## 1. Significant accounting Policies

### (a). Statement of Compliance

The Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS). The principal accounting policies adopted are set out below: Adoption of new and revised International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC), The National Treasury guidelines and the Code of Conduct for State Corporations (Mwongozo, 2015)

(i) New and amended standards and interpretations in issue but not yet effective in the year ended 30th June 2016. At the date of authorisation of these Financial Statements, various revised standards and interpretations were in issue but not yet effective. The Trustees anticipate that the adoption of these standards, interpretations and amendments when effective, will have no material impact on the Financial Statements of the Scheme.

#### (ii) Early adoption of standards

The Scheme did not early-adopt new or amended standards in 2016. Amendment to an existing standard and issue of a new standard will become mandatory for the Fund's accounting periods beginning 1st January 2017, but which the Fund has not early-adopted:

The principal accounting policies adopted in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

### (b). Basis of Preparation

The Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRSs) under the historical cost convention as modified by the revaluation of certain assets. The provisions of IFRS' International Accounting Standard (IAS) No. 26 – Accounting & Reporting by Retirement Benefit Plans used in the preparation of the Financial Statements. Further, the Financial Statements comply with the Public Finance Management Act, 2015, Retirement Benefits Authority Act 1997 and the Retirement Benefits Authority Regulations 2000, both as amended and Income Tax (NSSF Exemption) Rules 2002.

The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### (c) Accounting for Contributions and Benefits

Contributions from employers/employees and benefit payments to members are accounted for on accrual basis in the year due.

Interest payable on members accumulated contributions (standard contributions plus interest) is accrued annually in accordance with section 19(2) and (3) of the National Social Security Fund Act (2014 – 12.5 % and 2015 – 3.0%). The interest for the year 2016 is under consideration to the board of trustees by the Actuary, Alexander Forbes. The distribution of interest for 2015/2016 will be done, once the actuarial report is received from Alexander Forbes Financial Services and approved by the Board of Trustees.

### (d) Revenue Recognition

#### (i) Dividend Income

Dividend income from investments is recognized in the Statement of Changes in Net Assets, when the Fund's right to receive payment as a shareholder have been established or declared in the Annual General Meeting.

#### (ii) Interest on Deposits with Financial Institutions (Finance Income)

This comprises interest receivable from bank deposits with financial institutions and is recognised in the Statement of Changes for Net Assets on a time proportion basis using the effective interest rate method. It is accounted for on accrual basis.

#### (iii) Interest / Discounts on Treasury Bills and Treasury Bonds

Interest on Treasury Bills and Bonds is credited to income on a straight-line basis over the maturity period of the investment instruments.

#### (iv) Coupon Interest on Government Securities

Coupon interest on Government Securities is accounted for on accrual basis.

#### (v) Rental Income

Rental Income is recognised in the Statement of Net Assets, as it accrues using the effective lease agreements.

#### (vi) Other Income (Miscellaneous Income)

This is recognised as it accrues.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## Vii) Tenant Purchase Scheme and loan Advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Fund provides loans, money or services directly to debtors with no intention of trading the receivables. All loans and receivables fall under this category and are stated at amortized costs. Receivables which do not carry interest rate are stated at their invoice price.

## (e) Property, Plant and Equipment(PPE)

### (i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses arising on disposal of an item of property and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the item and are recognised net within 'other operating income' in profit or loss.

Low value assets up to Kes. 10,000.00 are recognised as assets during the year but are fully expensed during the year of purchase

### (ii) Depreciation and impairment of property, plant and equipment

Investment assets and capital work in progress are not depreciated. Asset under construction relates mainly to the cost of ongoing but incomplete works on building and ICT projects.

Depreciation is recognised in the income statement on a straight-line basis to write down the cost of each asset or the revalued amount to its residual value over its estimated useful life. The annual rates in use are:

Particulars	%
Freehold and Long Term Leasehold Land	Nil
Low Value Assets	100
Motor Vehicles	20
Computer and Microfilming Equipment	33.33
Amortization of Intangible Assets	33.33
Office Furniture	10
Office Equipment	12.5
Fittings and Furnishings	20

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

A full depreciation charge is recognised both in the year of asset purchase and in the year of disposal.

**(i) Subsequent costs**

Subsequent expenditure is capitalized only when it is probable that future economic benefits of the expenditure will flow to the Fund. Recurrent repairs and maintenance costs are expensed as incurred.

**(f) Intangible assets**

Intangible assets comprise purchased computer software licenses, which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than the estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

**(g) Finance and operating leases**

Leases which confer substantially all the risks and rewards of ownership to the entity are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognised in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

**(h) Investments**

**(i) Quoted Equities**

Equities are stated at market value. Differences between cost and market value are debited/ (credited) to the revenue account. Upon sale of the investment, the surplus/ (deficit) relating to the transaction is dealt within the revenue statement.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange (NSE) or other regional and international securities exchanges. Quoted investments are stated at fair value.

**(ii) Unquoted Equities**

Unquoted equities are stated at cost/valuation less provision for any permanent diminution in value.

**(ii) Fixed Interest Investments (Bonds) Treasury Bills and Bonds and Government Bearer Bonds**

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK), long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss account.

Treasury bills and bonds and Government bearer bonds which are held to maturity, are stated at amortized value.

**(i) Investments Property (Land, Buildings and Plots)**

Land and buildings and undeveloped land/plots are stated at valuation/fair value. Investment properties under construction are measured at cost. Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the entity, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external valuers. Changes in fair values are included in profit or loss in the income statement.

**(j) Inventories**

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

**(k) Trade and other Receivables**

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted, but recognised as miscellaneous income once recovered after write off.

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

### (l) **Taxation**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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

### (m) **Cash and Cash Equivalents**

For purposes of presentation in the cash flow statement, cash and cash equivalents comprise bank balances, short-term deposits maturing within 3 months.

### (n) **Borrowings**

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any cost of issue and any discount or premium on settlement. Finance charges, including premiums payable on settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

## 2. **Critical Accounting Estimates and Judgements in Applying the Fund's Accounting Policies**

In the process of applying the Scheme's accounting policies, Trustees have made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

### (i) **Impairment and un-collectability of Financial Assets**

At the end of each reporting period, the Scheme reviews the carrying amounts of its financial assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognised in the statement of changes in net assets available for benefits whenever the carrying amount of the asset exceeds its recoverable amount.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(ii) **Trade and other payables**

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

(iii) **Valuation of Assets**

Valuation of Investments in land and buildings, and undeveloped land was done during the year by professional valuers and a report issued based on balances as at 30 June 2016. The professional valuers were Ms Crystal Valuers, Ebony and Value zone. The valuations were carried out in September 2016.

(iv) **Retirement Benefits Obligations**

Full time Fund employees are eligible for retirement benefits under a defined contribution plan. Contributions to the defined contributions plan are expensed through the statement of changes in net assets, as they are incurred. Any difference between the amount expensed and the annual contributions recorded to the statement of changes in net assets and the annual contributions paid is recorded in the Statement of Net Assets under other liabilities/assets. The staff retirement pension scheme is administered independently by Eagle Africa. The rates of contributions are 8% staff and 16 % Employer.

The Fund staff also contribute to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme administered as per The National Social Security Act No. 45 of 2013. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at 16% of basic salary per employee per month.

(v) **Foreign Currencies**

Monetary assets and liabilities expressed in foreign currencies are translated into Kenya shillings at the rates of exchange ruling at year end. Transactions during the year in foreign currencies are translated at the rates ruling at the dates of the transactions. Gains and losses on exchange are included in the statement of changes in net assets available for benefit.

(vi) **Actuarial Valuation 30 June 2016**

An actuarial valuation was carried out by Alexander Forbes Limited in 2016 and a report issued on balances as at 30 June 2016. The valuation was done on an attained Age method. The actuarial report indicates that the value of liabilities of the scheme as at 30 June 2016 was **Kes. 155.75 billion** compared to the value of assets amounting to **Kes. 171.17 billion (per draft financial statements)** giving rise to a surplus of **Kes.15.41 billion** resulting to a **Funding level of 109.9%**.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

The valuation for 2016 is currently being undertaken by Alexander Forbes Financial Services.

**(vii) Provision for Staff Leave Pay**

Employees' entitlement to annual leave is recognised as it accrues to the employees. A provision is made for the estimated liability for annual leave at the reporting date.

**(viii) Comparative Figures**

Comparative figures for the previous financial year have been represented to conform to the required changes in presentation.

**(ix) Subsequent Events**

There have been no events subsequent to the financial year end with a significant impact on the Financial Statements for the year ended 30 June 2016.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Kes' 000	2015 Kes'000
<b>3. CONTRIBUTIONS</b>		
Pension Contribution	11,804,607	10,274,779
Old provident Fund	262,436	465,088
New Provident Fund	400,066	421,977
Fines and penalties	470,488	586,745
	<b>12,937,597</b>	<b>11,748,588</b>
<b>Add:</b> Accruals at end of the year	591,602	654,515
<b>Less:</b> Accruals at start of the year	654,515	445,474
	<b>12,874,685</b>	<b>11,748,588</b>
<b>4. BENEFITS</b>		
Age benefit	1,610,765	1,441,496
Survivors benefit	356,265	374,194
Invalidity benefit	24,119	29,610
Withdrawal benefit	1,113,124	1,226,619
Emigration benefit	12,652	15,565
Funeral grant	4,083	3,985
	<b>3,121,006</b>	<b>3,091,470</b>
<b>5. INVESTMENT INCOME</b>		
Interest Income	8,507,772	6,605,204
Rent income (note 33)	1,153,903	1,033,679
Dividend Income (note 34)	2,412,046	2,218,755
Interest on TPS loans	966,991	1,080,102
Other investment income	7,356	15,531
	<b>13,048,067</b>	<b>10,953,271</b>
<b>6. INVESTMENT MANAGEMENT EXPENSE</b>		
Fund managers' fees	140,964	168,551
Custodian fees	44,395	68,276
Actuarial & investment management fees	35,471	26,143
Land rent & rates	56,252	85,143
Asset valuation expense	2,387	64,440
	<b>279,468</b>	<b>412,553</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Kes' 000	2015 Kes' 000
<b>7. FAIR VALUE GAIN / LOSS ON REVALUATION</b>		
Corporate bonds	(231,281)	(102,254)
Treasury bonds	(2,156,955)	(630,647)
Quoted equities	(10,741,184)	(1,400,439)
Undeveloped investment property	716,500	654,000
Developed investment property	627,000	1,030,000
	<b>(11,785,920 )</b>	<b>(449,340 )</b>
<b>8. GAIN/LOSS ON REALISATION OF INVESTMENTS</b>		
Corporate bonds	(1,214)	-
<b>Treasury bonds</b>	<b>(26,055)</b>	<b>4,163</b>
Quoted equities	9,231	471,744
	<b>(18,038)</b>	<b>475,907</b>
<b>9. OTHER INCOME</b>		
Profit on sale of PPE	-	11,459
Sale of Tender forms	39,516	42,372
Interest on staff loans	14,656	12,121
Fines and penalties	6,476	4,512
Other miscellaneous receipts	2,588	76,347
	<b>63,235</b>	<b>146,811</b>
<b>10. STAFF COST</b>		
Salaries and Allowances	2,789,176	2,826,891
Pension and Gratuity	286,009	162,507
Medical Expenses	226,155	220,511
Staff Welfare	40,365	31,780
Insurance	31,438	13,753
Provision for Leave pay and Gratuity	47,500	70,920
	<b>3,420,644</b>	<b>3,326,362</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 11 .GENERAL ADMINISTRATIVE COST

	<b>2016</b>	<b>2015</b>
	<b>Kes' 000</b>	<b>Kes' 000</b>
Trustee' Emoluments	22,683	34,712
Travelling Costs	136,897	127,557
Transport Costs	43,232	38,682
Rent Expense	218,219	184,963
Printing, Stationery and Photocopying	39,208	38,080
Postage, Telephone and Internet Expenses	62,384	80,756
Electricity, Water, Security and Conservancy	53,912	51,431
Training Expenses	42,597	48,183
Repairs and Maintenance	96,766	87,973
Hospitality Material and services	1,538	1,691
Consultancy and Professional Expense	24,252	61,355
Legal Expense	57,082	122,385
Audit Fees	-	5,684
SS Policy Development	51,616	200,309
General Insurance	29,003	29,077
Advertising and Publicity	-	9,297
Corporate Social Responsibility	14,305	8,838
Finance Expense	2,538	1,922
Project Claims	80,998	44,252
Rationalization Expense	21,608	46,545
Other Administrative Expense	91,117	101,700
Depreciation	211,091	218,088
Amortisation	189,497	189,497
Bad debts erroneous billing reversal	157,025	-
	<b>1,647,568</b>	<b>1,732,977</b>

### 12. PROVISIONS

Corporate bond	<b>132,200</b>	-
Accrued Income	1,096	-
Doubtful interest (Chase / Imperial bank)	37,030	-
Fixed Deposits	259,500	-
Investment property	-	160,000
Tax receivable	-	904,904
Bad and doubtful debts(Rent Billings)	11,226	45,039
	<b>441,052</b>	<b>1,109,943</b>

### 13. CASH AND BANK BALANCES

Cash balances	4,473	4,107
Bank balances	330,092	173,872
	<b>334,566</b>	<b>177,979</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Kes' 000	2015 Kes' 000
<b>14. CALL DEPOSITS (Held to Maturity)</b>		
Commercial Bank of Africa	218,500	472,100
CFC Stanbic bank	39,600	-
Cooperative bank	380,690	328,000
Diamond Trust bank	430,500	7,800
Equity bank	598,900	220,000
Kenya Commercial bank	605,100	757,650
Family Bank Ltd	-	108,700
Housing Finance	-	29,300
National bank	2,050,000	2,050,000
NIC bank	424,600	10,000
BRITAM	-	400,000
STANLIB MMF	400,000	600,000
	<b>5,147,890</b>	<b>4,983,550</b>
<b>15. FIXED DEPOSITS (Held to Maturity)</b>		
Commercial Bank of Africa	449,000	283,500
Cooperative bank	1,294,300	3,871,000
Diamond Trust Bank	242,500	608,000
Equity bank	259,500	843,000
Family Bank Ltd	80,000	143,300
Housing Finance	120,000	370,000
I&M bank	40,500	-
Kenya Commercial Bank	310,000	584,500
NIC bank	150,000	367,000
Development bank	-	33,600
Chase bank	70,000	265,930
Imperial bank*	259,500	100,000
	<b>3,275,300</b>	<b>7,469,830</b>
Less: Provision for doubtful deposits	(259,500)	-
	<b>3,015,800</b>	<b>7,469,830</b>
<b>Maturity analysis:</b>		
Already due	329,500	-
Maturing within 90 days	2,179,800	7,089,830
Maturing over 90 days	766,000	380,000
	<b>3,275,300</b>	<b>7,469,830</b>

**\*Fixed deposit held at Imperial bank**

Imperial Bank of Kenya Ltd was placed under statutory management by the Central Bank of Kenya on 13 October 2015. At the time, the Fund through its fund managers held fixed deposits totalling Kes.259, 500,000.00. A provision for the entire amount has been made in the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 Kes' 000	2015 Kes' 000
<b>16. COMMERCIAL PAPER</b>		
Athi River Mining Ltd	-	10,000
	-	<b>10,000</b>
The Athi River Mining commercial paper matured during the period. There was no new investment in this instrument during the year ending 30 June 2016.		
<b>17. TREASURY BILLS (Held to maturity)</b>		
Balance at the beginning of the year	1,187,170	1,785,852
Additions	3,554,379	1,329,112
Proceeds on maturity/disposals	1,282,166	1,927,794
<b>Balance at the end of the year</b>	<b>3,459,382</b>	<b>1,187,170</b>
<b>18. TREASURY BONDS (Available for sale)</b>		
Balance at the beginning of the year	38,368,526	36,668,646
Additions	23,990,050	10,596,627
Proceeds from disposal	7,465,660	8,266,100
Gain/(loss) on disposal	(26,055)	4,163
<b>Add: Fair value gain/(loss)</b>	<b>(2,156,955)</b>	<b>(630,647)</b>
	<b>52,735,961</b>	<b>38,368,526</b>
<b>19. CORPORATE BONDS</b>		
Balance at the beginning of the year	8,525,916	3,430,027
Additions	1,616,600	5,595,641
Proceeds from disposal/redemption		397,498
Gain/(loss) on disposal	781,949	-
<b>Add: Fair value gain/(loss)</b>	<b>(1,214)</b>	<b>(102,254)</b>
	<b>(231,281)</b>	<b>8,525,916</b>
<b>Less: Provision for doubtful bonds</b>	<b>9,128,753</b>	-
	<b>(132,200)</b>	<b>8,525,916</b>
	<b>8,995,873</b>	<b>8,995,873</b>

Provision relates to Imperial bank bond. Imperial bank was put under statutory management by Central Bank of Kenya (CBK) on 18/10/2015.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	<b>2016</b> <b>Kes' 000</b>	<b>2015</b> <b>Kes' 000</b>
<b>19a. CORPORATE BONDS</b>		
ABC Bank -Fixed medium term note	100,000	100,000
Centum- Floating Note	74,965	75,000
Centum- Fixed Note	225,248	265,256
Barclays Bank Kenya - FXD (MTN)/2008/7Yr	-	75,805
East African Breweries Ltd--FXD01/2015/3 T1	698,095	698,095
Kengen-Infrastructure bond	407,392	525,294
Housing Finance-FXD 2010/7yr bond	1,014,860	951,386
Housing Finance-FXD 2012/7yr bond 2nd Tranche	235,641	247,400
Consolidated bank- FXD(SN)/2012/7Yr	381,796	381,796
Consolidated bank- FXD(SBN)/2012/7Yr	40,000	50,000
Shelter Afrique-FXD2/2012/3Yr 2nd Tranche	-	3,364
Shelter afrique-FXD 1/13/05Yr	283,400	327,000
I&M-Fixed bond	392,933	325,000
Britam-Fixed bond 1st Tranche	257,738	256,038
UAP-5YR fixed bond	75,021	81,284
NIC bank-Medium term note	979,262	988,727
CIC Insurance Group Ltd-Medium term note	848,479	872,525
CBA Bank- Fixed medium term note	1,172,331	1,071,992
FXDCHASE2015	496,278	534,658
CNTB.BD.08.06.20/13	40,237	-
Centum-Equity linked bond	156,894	156,419
CFC Stanbic-Multicurrency medium term note	650,671	538,339
RealPeople-5YR fixed bullet note	174,740	-
FM -FXD 5.5YR BOND	290,570	
Imperial Bank- 5.25YR FXD BOND	132,200	
	<b>9,128,753</b>	<b>8,525,382</b>
<b>20. ACCRUED INCOME</b>		
Dividend (20a)	750,940	473,197
Rent	25,557	-
Interest (20b)	2,464,058	1,909,485
	<b>3,240,555</b>	<b>2,382,682</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

<b>20(a) ACCRUED DIVIDEND INCOME</b>	<b>2016 Kes' 000</b>	<b>2015 Kes' 000</b>
Bamburi Cement	398,346	341,440
Kenya Commercial Bank	185,870	-
Jubilee Holdings Limited	160	-
Nairobi Securities Exchange	605	621
Nation Media Group	68,824	68,824
Kenya Re-insurance Corporation	16,387	18,511
TPS Eastern Africa Limited	485	-
CFC Stanbic Holdings	22,694	16,654
The Co-operative Bank of Kenya	43,447	24,468
Umeme	14,121	-
Uchumi Supermarket	1,096	1,096
Scangroup	-	1,584
	752,035	473,197
<b>Less: Provision for Doubtful Income</b>	<b>(1,096)</b>	<b>-</b>
	<b>750,940</b>	<b>473,197</b>

The provision relates to dividend declared by Uchumi Ltd in September 2014 which is yet to be received

<b>20(b) ACCRUED INTEREST INCOME</b>		
Deposits	544,642	-
Treasury bills	188,224	-
Treasury bonds	1,453,376	1,909,485
Corporate bonds	277,816	-
	<b>2,464,058</b>	<b>1,909,485</b>

<b>21. STORES AND SUPPLIES</b>		
General office stationery	29,012	25,802
Office and computer accessories	4,522	3,822
Tools and electrical accessories	1,152	571
Safety materials and clothing	77	76
Hospitality materials	1,650	1,420
	<b>36,412</b>	<b>31,691</b>

The stores and supplies represents the value of items of stationery and other materials held in store as at 30 June 2016. A stock take to ascertain the value is carried at the end of every financial year and reconciliation carried out.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 22. RECEIVABLES AND PREPAYMENTS

	<b>2016</b>	<b>2015</b>
	<b>Kes' 000</b>	<b>Kes' 000</b>
Rent and TPS debtors	155,097	283,783
Sundry debtors (note 22a)	338,128	242,166
Deposits and advances	988,122	963,466
Prepayments	150	150
Staff debtors (note 22b)	300,073	274,916
Prepaid rent	26,548	-
Benefit debtors	2,024	-
Contributions debtors (22c)	591,602	654,515
Tax receivables	919,277	12,492
	<b>3,321,022</b>	<b>2,431,488</b>
Less: Provision for bad debts (22d)	(56,265)	(45,039)
	<b>3,264,757</b>	<b>2,386,449</b>

### 22(a).SUNDRY DEBTORS

Bounces cheques	34,777	23,551
ECASSA debtors-	9,212	9,212
Mutula Kilonzo	5,015	5,015
Lloyd Masika Ltd	4,787	4,787
City Council of Nairobi	2,474	2,474
Staff pension debtor	4,588	4,588
Service Charge Debtors(22a)i	277,276	192,539
	<b>338,128</b>	<b>242,166</b>

### 22a. (i)SERVICE CHARGE DEBTORS

Opening	192,539	-
Addition	84,737	192,539
Reduction	-	-
	<b>277,276</b>	<b>192,539</b>

### 22b. STAFF DEBTORS

Commuted pension	2,645	2,645
Staff mortgage loans	6,401	6,401
Other loans	4,221	4,412
Advances	8,150	4,159
Imprest	1,705	5,412
Staff Car loans	276,951	251,887
	<b>300,073</b>	<b>274,916</b>

Staff debtors' balances represent the various loans, advances and imprest to staff members outstanding as at 30 June 2016. The staff car loans are advanced at an interest rate of 4% for a maximum of six years. The interest earned is recognised as other miscellaneous income.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 22c. CONTRIBUTION DEBTORS

	2016 Kes' 000	2015 Kes' 000
Outstanding for less than 30 days	591,602	654,515
Outstanding for more than 30 days	591,602	654,515
	<b>277,276</b>	<b>192,539</b>

### 22d. Provision for bad debts

ECASSA debtors	9,212	9,212
City Council of Nairobi	2,474	2,474
Mutula Kilonzo	5,015	5,015
Lloyd Masika Ltd	4,787	4,787
Bounces cheques	34,777	23,551
<b>Total provision</b>	<b>56,265</b>	<b>45,039</b>

### 23. TPS LOANS

TPS Loans-held by NSSF Employees	1,397,315	1,451,214
TPS Loans-held by Public	5,970,930	6,924,685
	<b>7,368,245</b>	<b>8,375,899</b>

### 24. LONGTERM DEPOSITS

Savings and Loan Ltd (Security deposit)	56,894	56,894
Savings and Loan Ltd (Revolving Funds)	14,029	14,029
Housing Finance	314,725	310,227
National Bank of Kenya	145,939	49,081
	<b>531,587</b>	<b>430,232</b>

Long-term deposits are made of staff mortgage security deposits and balances of mortgage revolving funds bank accounts. The Fund has a mortgage scheme for its staff advanced at 5% interest rate. All cadres of staff enjoy the facility according to the Human Resource Policy.

### 25. QUOTED EQUITIES

Balance at beginning of the year	57,037,979	56,376,282
Purchases	5,770,218	7,883,113
Sales	2,165,986	5,813,305
Realised gain	9,231	471,744
Fair Value gain/(loss) on valuation	(10,741,184)	(1,408,112)
<b>Balance at end of the year (Note 35)</b>	<b>49,901,026</b>	<b>57,037,979</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. UNQUOTED EQUITIES	No. of Units	2016 Kes' 000	2015 Kes' 000
Consolidated Bank Ltd			
i. 4% Kes. 20 Cumulative preference shares	8,050,000	86,694	86,694
ii. Kes. 20 Ordinary shares	2,225,000	161,000	161,000
UAP Holdings Ltd		249,987	249,987
National Bank N/Cum pref shares	235,000,000	1,175,000	1,175,000
		<b>1,672,681</b>	<b>1,672,681</b>

27. UNDEVELOPED LAND		2016 Kes' 000	2015 Kes' 000
Opening balance		9,389,128	8,938,128
Additions		-	-
Disposal		(126,000)	-
Gain/(loss) on disposal		-	-
Gain/(loss) on revaluation		713,500	654,000
		9,976,628	9,592,128
<b>Less: Provision(Forest Edge plot LR. 209/20840)</b>		<b>(160,000)</b>	<b>(160,000)</b>
<b>Schedule(Note 36)</b>		<b>9,816,628</b>	<b>9,432,128</b>

The disposed undeveloped land relates to pieces of land in Mavoko.

28. DEVELOPED LAND		2016 Kes' 000	2015 Kes' 000
Opening balance		19,569,656	20,613,582
Additions		-	-
Disposal Proceeds		(290,900)	2,248,726
Gain/(loss) on disposal		-	-
Gain/(loss) on revaluation		630,000	1,030,000
		<b>19,908,756</b>	<b>19,394,856</b>
<b>Less: Provision</b>		<b>-</b>	<b>-</b>
<b>Schedule (Note 37)</b>		<b>19,908,756</b>	<b>19,394,856</b>

The disposed developed land relates to land in Nyayo Embakasi.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 29. ASSETS UNDER CONSTRUCTION

	<b>2016</b>	<b>2015</b>
	<b>Kes' 000</b>	<b>Kes' 000</b>
Mavoko Project	1,806	1,806
Tassia Scheme	37,295	37,295
Parking Silo	695,388	632,634
Hazina Trade Centre	1,681,749	1,678,194
Kitisuru Roads	36,433	18,648
Milimani Flats	1,879,633	1,685,570
Field Office Refurbishment	12,419	1,298
SPSS Software	1,879	1,879
Nyayo Embakasi	217,349	215,593
SSH Mombasa Refurbishment	29,254	29,254
SSH Block C Refurbishment	75,824	69,047
SSPAS Reimplementation	95,929	69,851
SAP project costs	26,319	26,319
Hazina Estate South B	5,684	5,684
Electronic Shelves	57,309	-
View park Towers Roof Repairs	6,364	-
	<b>4,860,634</b>	<b>4,473,072</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 30. PROPERTY, PLANT & EQUIPMENT MOVEMENT

Cost/Valuation	Motor Vehicle		ICT	Furniture	Equipment	Fittings	Software	Totals
	Kes'000	Kes'000						
Opening carrying value	408,854	1,193,814		238,373	285,515	43,774	568,490	2,738,820
Additions During the year	-	5,021		14,597	8,839	1,375	-	29,831
<b>TOTALS(30th June 2016)</b>	<b>408,854</b>	<b>1,198,835</b>		<b>252,970</b>	<b>294,354</b>	<b>45,148</b>	<b>568,490</b>	<b>2,768,651</b>
<b>Depreciation</b>								
As at 30 June 2015	342,118	925,135		150,545	232,808	39,115	205,288	1,895,009
Disposal	-	-		-	-	-	-	-
Charge for the year	37,370	144,921		14,780	12,522	1,498	189,497	400,587
<b>TOTALS 30th June 2016</b>	<b>379,487</b>	<b>1,070,056</b>		<b>165,325</b>	<b>245,330</b>	<b>40,614</b>	<b>394,785</b>	<b>2,295,596</b>
<b>NBV As at 30 June 2016</b>	<b>29,367</b>	<b>128,779</b>		<b>87,645</b>	<b>49,024</b>	<b>4,535</b>	<b>173,705</b>	<b>473,055</b>
<b>NBV As at 30 June 2015</b>	<b>66,736</b>	<b>268,650</b>		<b>87,817</b>	<b>52,693</b>	<b>4,658</b>	<b>363,202</b>	<b>843,811</b>

(b) Property, Plant and Equipment include the following items that are fully depreciated:

Description	Cost or valuation	Normal annual depreciation
	Kes. '000	Kes. '000
Motor vehicles including motor cycles	776,322	13,957
Computers and related equipment	279,133	-23,292
Office Equipment,	216,535	17,323
Furniture	101,207	12159
Fittings	36,327	1,816
<b>Total</b>	<b>1,409,525,</b>	<b>66,509</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 31. PAYABLES AND ACCRUALS

	2016 Kes' 000	2015 Kes' 000
Payables due to Vendors	210,425	250,059
House Purchase deposits	529,430	468,957
Sundry creditors and accruals (note 31 a)	1,618,328	522,280
Statutory deductions	34,262	34,344
Unclaimed benefits	276,614	295,118
Provisions for leave pay and gratuity (note 33)	47,500	71,440
	<b>2,716,559</b>	<b>1,642,198</b>

### 31(a). ANALYSIS OF SUNDRY CREDITORS AND ACCRUALS

#### Legal fees Payable

Mutula Kilonzo*	-	293,836
B.M. Musau*	-	29,250
Okoth, Ndengu and Kiplagat*	-	7,278

#### Others:

Tax Payable	94,022	18,479
Plot sale deposit & Infrastructure	610,934	10,342
Rental deposits	131,691	108,206
Provision for audit fees	8,000	6,000
Prepaid rent	-	48,890
Accruals	773,681	-
	<b>1,618,328</b>	<b>522,280</b>

#### \*Legal fees Payable

Court cases involving Mutula Kilonzo, Kes 293,836,000 B. M. Musau Kes 29,250,000 and Kes 7,278,000 The above court cases are still in court and neither the date of determination of the cases nor the outcome is known. As per IAS 37 such contingent liabilities should only be disclosed in the financial statements and as such cannot be accrued. In the previous years financial years the above cases were erroneously accrued as sundry creditors in contravention of IAS 37. The provisions on the above cases were reversed in compliance with IAS 37.

### 32. PROVISION FOR LEAVE PAY AND GRATUITY

Balance at beginning of year	71,440	71,440
Additional provision at end of year	26,480	-
Leave utilized during the year	50,420	-
	<b>47,500</b>	<b>71,440</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 33. RENT INCOME

	<b>2016</b> <b>Kes' 000</b>	<b>2015</b> <b>Kes' 000</b>
SSH Nairobi Complex	478,031	428,226
SSH Mombasa	77,404	69,340
Bruce House	164,514	147,373
Viewpark towers	167,967	150,467
Hazina towers	100,219	89,778
Hazina Trade Centre	126,960	113,732
Hazina Shopping Complex	9,321	8,350
Kenyatta Avenue Plot	29,485	26,413
	<b>1,153,903</b>	<b>1,033,679</b>

### 34. DIVIDEND INCOME

Bamburi Cement	739,786	386,296
Barclays Bank	165,628	165,628
British American Tobacco Kenya	159,357	161,897
CFC Stanbic Holdings	41,750	23,261
East African Breweries	310,169	152,129
Equity Group Holdings	176,849	59,196
Housing Finance Co	32,910	21,559
I&M Holdings	3,366	2,789
KenGen	19,495	11,997
KenolKobil	4,527	2,257
Kenya Commercial Bank	185,870	382,760
Kenya Power & Lighting Co	51,415	51,461
NIC Bank	15,518	11,755
Safaricom	200,893	92,368
Athi River Mining	5,767	-
Carbacid Investments	-	56
Co-operative Bank	43,447	24,468
Britam	35,302	34,873
Diamond Trust Bank Kenya	11,750	10,307
Jubilee Holdings Limited	160	-
Kenya Re-insurance Corporation	16,387	18,511
Nairobi Securities Exchange	1,422	621
Nation Media Group	68,824	154,903
Uchumi	-	1,096
Scan Group Limited	4,840	1,584
Standard Chartered Bank	94,862	64,137
TPS Eastern Africa Limited	3,103	-
Umeme Ltd	18,648	382,847
	<b>2,412,046</b>	<b>2,218,755</b>

Note 35 Number of shares at 30.06.2015	Additions	Disposals	Number of Shares 30.6.2016	Description	Market value at 30.06.2015 Kes'000	Additions (Purchases / Bonus Kes'000	Disposal Proceeds Kes'000	Market gain/ (loss) Kes'000	Market value at 30.06.2016 Kes'000
103,336,546	80,361,153	80,871,453	102,826,246	Kenya Power Ordinary Shares	1,896,226	1,446,501	1,455,380	(874,508)	1,012,839
3,550	-	-	3,550	Cum Preference Shares	19	-	-	-	19
750	-	-	750	Cum Preference Shares	4	-	-	-	4
24,813,524	-	-	24,813,524	East African Breweries Ltd	7,543,311	-	-	645,152	6,898,160
3,739,336	-	520,000	3,219,336	British American Tobacco (K) Ltd	2,770,848	-	412,720	330,017	2,688,146
29,992,089	23,524,049	338,477	53,177,661	Kengen Company Ltd	277,427	154,810	2,945	80,979	348,314
56,906,640	26,000	26,000	56,906,640	Bamburi Cement Co. Ltd	8,763,623	4,422	4,652	910,736	9,674,129
24,300,000	-	-	24,300,000	E.A. Portland Cement Ltd	1,397,250	-	-	528,525	868,725
187,470,067	442,500	2,042,500	185,870,067	Kenya Commercial Bank Ltd	10,310,854	18,143	104,436	3,951,446	6,273,115
29,244,817	2,000,000	2,000,000	29,244,817	Housing Finance Group	796,921	21,080	21,080	204,714	592,208
4,731,292	-	-	4,731,292	Sameer Africa Ltd	23,893	-	-	10,882	13,011
148,002,497	-	-	148,002,497	National Bank of Kenya Ltd	2,856,448	-	-	1,435,624	1,420,824
165,628,349	-	-	165,628,349	Barclays Bank of Kenya Ltd	2,575,521	-	-	985,489	1,590,032
5,388,258	832,471	-	6,220,729	Standard Chartered Bank Kenya Ltd	1,605,701	50,938	-	443,596	1,213,043
9,176,524	-	-	9,176,524	Nation Media Group Ltd	1,826,128	-	-	449,650	1,376,479
9,612,000	-	-	9,612,000	Athi River Mining Ltd	720,900	-	-	413,316	307,584
26,444,043	206,000	4,801,144	21,848,899	Kenya Re Insurance Corporation Ltd	473,348	4,532	97,554	45,727	426,054
116,243,005	-	-	116,243,005	Britam (K) Ltd	2,382,982	-	-	732,331	1,650,651
296,895,753	26,327,400	3,000,000	320,223,153	Safaricom Limited	4,883,935	415,205	49,181	434,002	5,683,961
-	41,341	-	41,341	Jubilee Holdings	-	-	-	18,810	18,810
3,202,651	1,000,000	-	4,202,651	CFC Stanbic of Kenya Holdings Ltd	365,102	86,980	-	115,871	336,212
3,568,918	2,857,200	-	6,426,118	Centum Investment Co. Ltd	233,764	126,191	-	77,206	282,749
1,939,500	-	-	1,939,500	TPS Eastern Africa Ltd	67,883	-	-	27,153	40,730
3,167,600	2,600,000	-	5,767,600	Scangroup Ltd	135,415	71,209	-	91,271	115,352
47,987,716	6,571,000	250,000	54,308,716	The Cooperative Bank of Kenya Ltd	1,043,733	126,827	4,958	288,516	877,086
12,169,223	1,927,200	-	14,096,423	NIC Bank Ltd	651,053	75,880	-	212,414	514,519
38,559,027	49,865,400	-	88,424,427	Equity Bank Ltd	1,831,554	2,334,897	-	762,111	3,404,340
4,699,883	610,887	-	5,310,770	Diamond Trust Bank Kenya Ltd	1,062,174	25,371	-	211,268	876,277
9,840,200	-	-	9,840,200	Umeme Ltd-Uganda	138,872	-	-	7,216	146,089
7,051,261	4,000,000	-	11,051,261	Umeme Ltd-Kenya	119,519	84,731	-	16,378	187,871
-	35,000,000	111,000	34,889,000	Stanlib I-REIT	-	700,000	2,471	61,307	758,836
12,984,900	665,000	1,000,000	12,649,900	KenolKobil Ltd	109,722	5,787	10,610	26,659	131,559
961,600	-	-	961,600	I&M Holdings Ltd	112,507	-	-	6,731	105,776
1,635,000	545,000	-	2,180,000	Nairobi Securities Exchange	32,455	-	-	11,036	43,491
950,000	-	-	950,000	CRDB Bank PLC	18,979	16,713	-	19,377	16,315
10,000,000	-	-	10,000,000	Stanlib Uganda	9,909	-	-	2,189	7,720
<b>Total</b>					<b>57,037,979</b>	<b>5,770,218</b>	<b>2,165,986</b>	<b>(10,741,184)</b>	<b>49,901,026</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 36 UNDEVELOPED INVESTMENT PROPERTY

	Fair value 30.06.2015 Kes'000	Addition Kes'000	Disposal Proceeds Kes'000	Fair value adjustments	Balance 30.06.2016 Kes'000
L.R. 209/12287-Kenyatta Avenue-Nairobi	2,100,000	-	-	100,000	2,200,000
L.R. 209/12220-Kenyatta Avenue-Nairobi	200,000	-	-	5,000	205,000
L.R. 209/12219-Kenyatta Avenue-Nairobi	180,000	-	-	5,000	185,000
L.R. 209/11331-Kenyatta Avenue-Nairobi	260,000	-	-	10,000	270,000
L.R. 209/11412-Kenyatta Avenue-Nairobi	800,000	-	-	40,000	840,000
L.R. 20694-Mavoko-Sabaki	50,000	-	-	5,600	55,600
L.R. 24575-Mavoko Municipality	100,000	-	-	11,200	111,200
L.R. 26472-Mavoko Municipality	150,000	-	-	37,800	187,800
L.R. 24574-Mavoko Municipality	155,000	-	-	23,300	178,300
L.R. 24577-Mavoko Municipality	115,000	-	-	27,000	142,000
L.R. 24578-Mavoko Municipality	1,500,000	-	-	232,000	1,732,000
L.R. 24579-Mavoko Municipality	440,000	-	-	39,200	479,200
L.R. 20355-Mavoko Municipality	420,000	-	-	44,400	464,400
L.R. 20305-Mavoko Municipality	450,000	-	-	53,000	503,000
L.R. 20181-Mavoko Sabaki	18,000	-	18,000	-	-
L.R. 20183-Mavoko Sabaki	18,000	-	18,000	-	-
L.R. 20184-Mavoko Sabaki	18,000	-	18,000	-	-
L.R. 20201-Mavoko Sabaki	18,000	-	18,000	-	-
L.R. 20205-Mavoko Sabaki	18,000	-	18,000	-	-
L.R. 20206-Mavoko Sabaki	18,000	-	18,000	-	-
L.R. 20207-Mavoko Sabaki	18,000	-	18,000	-	-
L.R. 20589-Makutano Junction	320,000	-	-	50,000	370,000
L.R. Kisumu/Mun/B lock 8/258-Kisumu Estate-Kisumu	175,000	-	-	3,000	178,000
L.R. 209/20840 Forest Edge	160,000	-	-	-	160,000
L.R.209/11642-Upperhill-Nairobi(Note 35(i))	115,000	-	-	-	115,000
L.R. MSA/MN/2535-Bamburi-Mombasa	700,000	-	-	30,000	730,000
L.R. MSA/MN/2537-Bamburi-Mombasa	85,000	-	-	-	85,000
L.R. MSA/MN/2538-Bamburi-Mombasa	85,000	-	-	-	85,000
L.R. MSA/MN/2539-Bamburi-Mombasa	85,000	-	-	-	85,000
L.R. MSA/MN/2540-Bamburi-Mombasa	85,000	-	-	-	85,000
L.R. MSA/MN/982-Mombasa	620,000	-	-	-	620,000
Tassia Estate	20,265	-	-	-	20,265
Tassia Infrastructure	67,863	-	-	-	67,863
	<b>9,389,128</b>	-	<b>126,000</b>	<b>713,500</b>	<b>9,976,628</b>
<b>Less: Provision for Impairment</b>					
L.R.209/11642-Upperhill-Nairobi*	-	-	-	-	-
L.R. 209/20840 Ngong Road Forest Edge plot (Note 35(ii))	(160,000)	-	-	-	(160,000)
<b>Total provision for impairment</b>	<b>(160,000)</b>	-	-	-	<b>(160,000)</b>
<b>Total (Less impairment)</b>	<b>9,229,128</b>	-	<b>126,000</b>	<b>713,500</b>	<b>9,816,628</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 36 (i) L.R. No.209/11642 in Upper Hill Community

\*Included in undeveloped property is land, L.R. No.209/11642 in Upper Hill Community Area, Nairobi measuring 0.2100 Hectares purchased from Le-Kuna Company in 1995 at a cost of Kes.20 Million and registered in on 20 April 1995. The National Government repossessed the land and handed it over to the Ministry to enable the creation of an access road to the Milimani High Court Building in Community. The Fund was not given a hearing or any formal notification of the revocation of title. The Fund is engaging the Chairman, National Land Commission and the Commissioner of Lands seeking for the reinstatement of the title. As at 30 June 2015, the valuation of the land stood at Kes.115 million. A provision of Kes 115 Million for possible impairment of the asset has been made in the financial statements.

### 36 (ii) L.R. No. 20840 Provision for Property in Gazetted Areas

The Fund acquired investment property in a gazetted forest area off Ngong Road and lying next to Lenana School (part of Ngong Forest). Note 42(a) (i)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### Note 37

#### DEVELOPED INVESTMENT PROPERTY

	Fair value 30.06.2015 Kes'000	Additions Kes'000	Disposal Proceeds Kes'000	Gain/(loss) on disposal Kes'000	Fair value adjustments Kes'000	Balance 30.06.2016 Kes'000
L.R. 209/13920 -NSSF Complex-Nairobi	7,900,000	-	-	-	200,000	8,100,000
L.R. MSA/Block XXV/123 -SSH Mombasa	1,300,000	-	-	-	100,000	1,400,000
L.R. 209/6776 -Bruce House- Nairobi	2,600,000	-	-	-	75,000	2,675,000
L.R. 209/6708 -Hazina Trade Centre-Nairobi	2,950,000	-	-	-	50,000	3,000,000
L.R. 209/8595 -ViewPark Towers-Nairobi	2,200,000	-	-	-	100,000	2,300,000
L.R. 209/1567 -Hazina Towers-Nairobi	1,290,000	-	-	-	10,000	1,300,000
L.R. Nairobi/block 93/1598 -Hazina Shopping Complex South B	155,000	-	-	-	25,000	180,000
L.R. Nairobi/Block 93/1599 -Hazina school South B	73,500	-	-	-	16,500	90,000
L.R. Nairobi/Block 96/1667 -Hazina Multi-Purpose Hall South B	36,500	-	-	-	500	37,000
L.R. MSA/Block XX/328&329-Hazina Plaza- Mombasa	400,000	-	-	-	50,000	450,000
Nyayo Estate Embakasi	489,656	-	290,900	-	-	198,756
L.R. Kisumu/Mun/Block 8/258-Kisumu Estate-Kisumu	175,000	-	-	-	3,000	178,000
<b>Total</b>	<b>19,569,656</b>	<b>-</b>	<b>290,900</b>	<b>-</b>	<b>630,000</b>	<b>19,908,756</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 38. Taxation

According to Section 45 of the First schedule of Income Tax Act Cap 470 effective 18 June, 1996, the Fund is exempted from taxation. According to Income Tax (National Social Security Fund (Exemption) Rules 2002, effective 1 July, 2002 the Fund should comply with certain regulations for it to remain exempted. With effect from 2006/2007 financial year the Fund has complied with most regulations for exemption.

In 2013/2014 financial year (and prior years), an amount of Kes.904, 904.00 had been recognised as a debt. The amount relates to taxes overpaid in years prior to the exemption together with any withholding tax on interest and dividends deducted at source. NSSF demanded a refund which was disputed by KRA and the matter proceeded to the Local Tribunal for arbitration. NSSF appealed the ruling of the local tribunal in the high court and won the case against KRA. The provision of Kes. 904,904 Million in 2014/2015 financial year will be recognised as income in the year it will be received from Kenya Revenue Authority.

### 39. Basis of Non-Consolidation of Interest in Associate

The Financial Statements of NSSF are prepared in accordance with Section 5 of the NSSF Act No 45 of 2013. The Section requires NSSF statement of net assets (balance sheet) to show in details the assets and liabilities of the Fund. Although NSSF owns 48.05% of ordinary shares and 235 million non-cumulative preference shares in National Bank of Kenya Limited (NBK), the operations of the bank have not been consolidated in the Fund's Financial Statements as required by the International

Financial Reporting Standards. The Fund does not have significant control over the operations. Had consolidated Financial Statements been prepared based on the latest audited Financial Statements of NBK as at 30 June 2016, NSSF's share in the operations of NBK would have been as follows:

	<b>2016</b> <b>(Kes 000)</b>	<b>2015</b> <b>(Kes 000)</b>
Profit after taxation(48.05%*308,796,000)	943.994	562,413
Accumulated Surplus/(Deficit) (48.05%*3,145,589,000)	735.415	1,301,873
	<b>1,679,409</b>	<b>1,864,286</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 40. Related Party Disclosures

#### (a). Income earned from related parties

	<b>2016</b> <b>Kes.'000</b>	<b>2015</b> <b>Kes.'000</b>
National Bank of Kenya Limited (NBK)	49,081	49,081
Kenya Commercial Bank – Dividend income	185,570	382,760
East African Portland Cement Company	18,225	18,225
NASSEFU Savings and Credit Society Limited – Rental income	5,606	5,606
	<b>209,401.00</b>	<b>455,672.00</b>

#### (b) Board of Trustees Remuneration and Expenses

	<b>2016</b> <b>Kes.'000</b>	<b>2015</b> <b>Kes.'000</b>
Expenses – Board	22,525	27,942
Board Chairman Honoraria	158	760
Sitting allowance - Board Committees	-	1,874
Air tickets - Board	-	3,104
Local traveling and accommodation - Board	-	21
Training - Board	-	0
Seminars - Board	-	0
Trustees insurance	-	1,011
	<b>22,683</b>	<b>34,712</b>

#### (c) Employees

The Fund provides qualifying employees with car and housing loans on terms more favourable than available in the market. The benefits obtained by staff are subjected to income tax as required under the Kenya Income Tax Act.

	<b>Kes.'000</b>	<b>Kes.'000</b>
Tenant Purchase Staff Loans	1,397,315	1,451,214
	<b>1,397,315</b>	<b>1,451,214</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 41. Capital Commitments (Major Contracts)

The main projects which were in progress during the year were as follows:

- (i) Project works at Nyayo Estate Embakasi, Phase VI are ongoing at an expected cost of Kes.2.1 billion. A substantial amount is expected to be paid during 2015/2016 financial year.
- (ii) Construction of up-market apartments at the NSSF Milimani property at a cost of Kes.1, 490,836,240.36 is ongoing and is due for completion in January 2017.
- (iii) Construction of Hazina Trade Centre at cost Kes.6, 715,218,188.00 is in progress.

### 42. Contingent Assets and Liabilities

#### (a) Contingent Assets

In the financial year 2012/2013, The Board of Trustees approved exclusion of impaired assets from the Financial Statements. The cases to recover the assets are being pursued in courts of law and the current status of the cases is as follows:

#### (i) Properties in Gazetted Areas

The Fund acquired investment properties in gazetted areas in New Muthaiga L.R. No.209/12274 measuring 18.41 hectares (located within Sigiria Block which is part of the Karura Forest Reserve), Ngong Road L.R.Nos.20840 and 20841 lying next to Lenana School (part of Ngong Forest).

#### New Muthaiga

The Fund filed a case under (formerly 147 of 2004) NSSF Board of Trustees VS- Kitisuru Limited and Geoffrey Chege Kirundi, Mike Maina Kamau, Commissioner of Lands and Attorney General. The case is ongoing and is at hearing stage. EACC is currently investigating the matter.

#### Ngong Road Plot LR. Nos.20840 &20841

The Fund filed a case in court under Milimani HCCC NO. 162 of 2005 NSSF vs Kerios Farm Ltd. The case is ongoing .On 15 July 2014 EACC wrote to the Fund informing it that it is investigating the matter. The title to the property was revoked vide a Kenya Gazette Notice No.3640 dated 1 April 2010. As per the Gazette Notice revoking the title, the parcel of the land had been reserved for public purposes and the allocation was therefore illegal and unconstitutional. The Fund was not given a hearing or any formal notification of the revocation of title.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Fund is engaging the Chairman, National Land Commission and the Commissioner of Lands seeking for the reinstatement of the title of L.R. No.209/11642 and no positive reply has been received to date. As at 30 June 2015, the valuation of the land stood at Kes.115 million.

**(ii) The amount of Kes.251,516,000.00 invested in Euro Bank**

An amount of Kes.251, 516,000.00 invested in Euro Bank and expected to have matured on 28 February 2002 had not been redeemed, as the Bank was placed under receivership in 2003.

The Fund initially won the case against Shah Munge & Partners and was awarded Kes.258,133,333.00. In 2013, the Fund identified 5,250,000 NSE shares valued at 250,000,000.00 belonging to Shah Munge, but another company by the name Southern Bell Ltd went to court claiming ownership of the shares. The company lost the case blocking the Fund from selling the 5,250,000.00 shares for Euro Bank valued at Kes.250,000,000.00 and has given a notice of intended appeal.

**(iii) Rental income**

Rental income amounting to Kes.30, 681,000 collected from tenants in Bruce House, Hazina, Viewpark Towers and Nyayo Estate by various property agents had not been remitted to the Fund as at 30 June 2016. Efforts to implement a court decree in favour of the Fund entered by consent vide HCCC No.859 of 1997 have not been successful and on 14th July 2014 the matter was picked by the EACC for investigation. The Fund lawyers are trying to trace the assets of the company.

**(iv) Discount Securities Ltd**

The amount of Kes.1,201,143,000 in respect of shares purchased through Discount Securities Limited.

The matter is before the Anti-Corruption Court - Milimani - Discount Securities Case File No.141/267/2010, Court File No. ACC 15 of 2010 (Republic-vs-Francis Moturi Zuriels & Others), Fund witnesses are giving evidence. Recovery of the amount is still being pursued through the Court Case ACC 15 OF 2010 filed by EACC against the suspected culprits. The case is ongoing.

**(v) Cash Losses Westlands Branch Fraud (cash losses)**

The amount of Kes.7, 243,030 was lost through fraud at the Branch. The matter is before a court of law for determination though fully provided for in the Financial Statements for 30 June 2015. The case is ongoing.

**(vi) Kenya College of Medicine**

This tenant at both Hazina and View Park Towers presented fake cash deposit slips for receipting that were subsequently discovered. The case is before a court of law and the amount of Kes.9, 327,627 in question has been provided for as contingent.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### (b) Contingent Liabilities

The major cases that may give rise to contingent liabilities during the year are as follows:

#### (i) Sololo Outlets Limited Vs NSSF

As at 30 June, 2003 NSSF had a contingent liability of Kes.4.95 billion relating to a claim made by Sololo Outlets Limited in High Court Civil Case No.804 of 2002 for an alleged breach of contract in the development of Hazina Estate in South B. NSSF filed its defence and counter claim of Kes.3.1 billion. An out of court settlement was reached and consent was filed in court on 20 December 2011, fully and finally settling the matter at Kes.490,850,090. The plaintiff filed a notice of motion application to vary the terms of the settlement claiming that the rate and quantum of interest payable had not been finalized. The application HCCC ELC NO.364 of 2011 was dismissed with costs in June 2014.

#### (ii) Nyayo Estate Embakasi Phase Six

Nyayo Embakasi Residents Association (NERA) instituted legal proceedings in the High Court of Kenya at Nairobi Environment and Land Division ELC NO.1170 of 2014 seeking to stop construction of the project because of environmental concerns.

This has resulted in delay in completion of the works and this has led to the expiry of the Bank guarantee and the mobilization fee of Kes.215,540,774.00 is at risk.

#### (iii) Nyayo Estate, Embakasi (Mugoya Construction)

Mugoya Construction Company Limited has sued the Fund claiming Kes.7.058 billion against a counter claim by NSSF of Kes.9.873 billion. Included in project costs for Nyayo Estate, Embakasi and the counter-claim are questionable payments of Kes.324.356 million made to Mugoya Construction Company Limited without security. The Fund is of the opinion that the possibility of Mugoya Construction Company Limited succeeding is remote.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

These and other matters relating to dealings with Mugoya Construction Company Limited are under arbitration for determination. However, full provision of Kes.324.356 million was made in the 2008/2009 Financial Statements. To date, the arbitration process is still ongoing.

**(iv) Construction of Hazina Trade Centre**

M/s China Jiangx International Kenya Ltd was awarded contract No.21/2012-2013 to construct Hazina Trade Centre at a cost of Kes.6, 715,218,188.00. A total of Kes.1, 912,043,004.00 has been paid to date.

Nakumatt Ltd, the main Tenant in Hazina Trade Centre, has raised legal concerns and instituted a claim of Kes.1, 630,323,151.00 which has led to delay in project completion.

**43. Compliance with Retirement Benefits ACT**

The NSSF Act No 45 of 2013 provides that NSSF shall be subject to all the provisions of the Retirement Benefits Act. Rule 28 (2) of the occupational rules for a retirement benefit scheme requires the Fund to maintain an account under which all transactions should be recorded.

NSSF maintains employer contribution clearing accounts where total contributions are posted from employers to the credit of member accounts for benefits payment upon qualification as per the Act. During the year the contributions in transit balance changed marginally from Kes. 748 Million in 2014/2015 to Kes.764 Million as at 30 June 2016.

**44. Financial Risk Management Policies**

The Board of Trustees has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board of Trustees has established various Board committees, which are responsible for developing and monitoring the Fund's risk management policies in their specific areas.

All Board committees report regularly to the Board of Trustees on their activities. The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Fund, through its training and management policies and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Audit & Risk Committee is responsible for monitoring compliance with the Fund's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Fund. The Committee is assisted in these functions by Audit & Risk department which undertake reviews of risk management controls and procedures, the results of which are reported to the Audit & Risk Committee.

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

**(a) Significant Accounting Policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 1 to the Financial Statements.

**(b) Financial Risk Factors**

The Fund's overall risk management programme seeks to maximize the returns derived from the level of risk to which the Fund is exposed and seeks to minimize potential adverse effects on the Fund's performance.

The management of these risks is carried out by the Management and Fund Managers under investment policies approved by the Board of Trustees.

**(c) Foreign Currency Risk**

The Fund does not hold any of its bank balances in foreign currency. The fluctuations in currency exchange rates therefore do not expose the Fund to foreign currency risk.

IFRS 7 considers the foreign exposure relating to non-monetary assets and liabilities to be a component of market price risk not foreign currency risk. However, Management monitors the exposure on all foreign currency denominated assets and liabilities.

**(d) Liquidity Risk Management**

The Fund is exposed to daily operational payments and payment to claims payable balances. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Fund sets limits on the minimum proportions of maturing funds available to meet such calls and unexpected levels of demand.

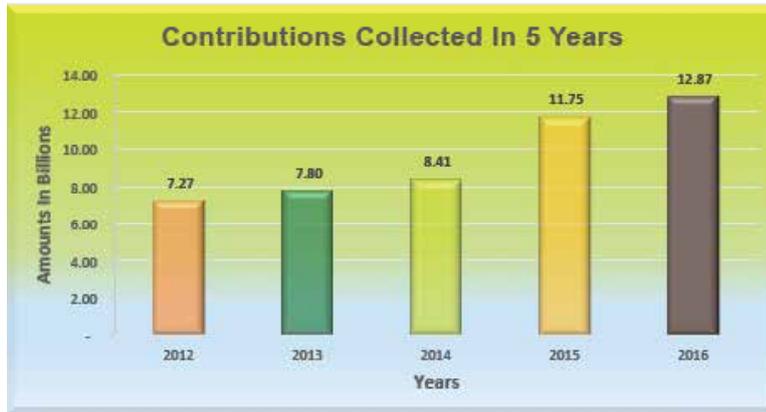
Ultimate responsibility for liquidity risk management rests with the Management, who have built an appropriate liquidity risk management framework. The Fund manages liquidity risk by maintaining enough funds for its operations through continuous monitoring of forecast and actual cash flows. In order to manage the Fund's overall liquidity, the Management monitors the Fund's liquidity position on a daily basis. The contractual maturities of financial liabilities are shown below:-

<b>As at 30 June, 2016</b>	<b>Less than 12 Months Kes.000</b>	<b>Over 12 Months Kes.000</b>	<b>Total Kes.000</b>
<b>Assets:</b>			
Investments at quoted market values	2,445,758	112,312,904	114,758,662
Investments at estimated fair	32,502,035		32,502,035
<b>Other assets:</b>			<b>0</b>
Inventory	0	31,691	31,691
Receivables and Prepayments	2,386,449	0	2,386,449
Taxation	0	0	0
Accrued Income	2,382,682	0	2,382,682
Long Term Deposits	0	430,232	430,232
Short Term Deposits	13,640,550	0	13,640,550
	<b>20,855,439</b>	<b>145,276,862</b>	<b>166,132,301</b>
<b>Liabilities:</b>			
Accounts Payable	(1,376,998)	(295,118)	(1,672,116)
<b>Total</b>	<b>19,478,441</b>	<b>144,981,744</b>	<b>164,460,185</b>

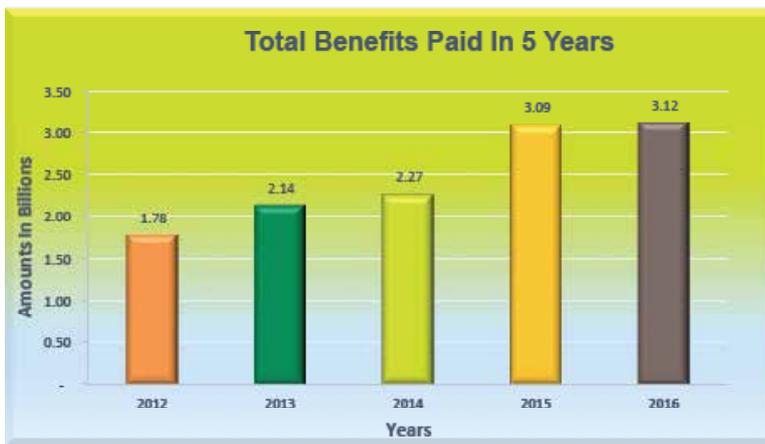
#### 45. Currency

The Financial Statements are presented in Kenya shillings (Kes).

## FINANCIAL ANALYSIS 2015 – 2016



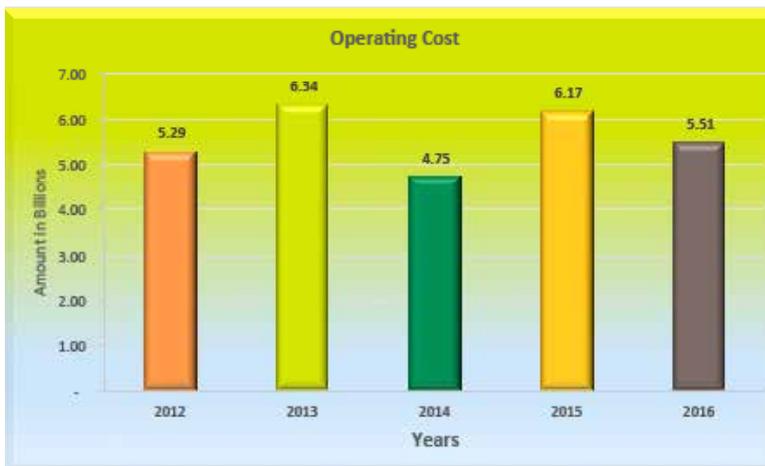
The Fund has made efforts to ensure that contributions deducted from members are efficiently collected. This has been made possible by the introduction of more interactive technological applications that allow members and their employers to remit their contributions. Additionally, members have continued to increase their contributions to the Fund to guarantee themselves a bigger pension.



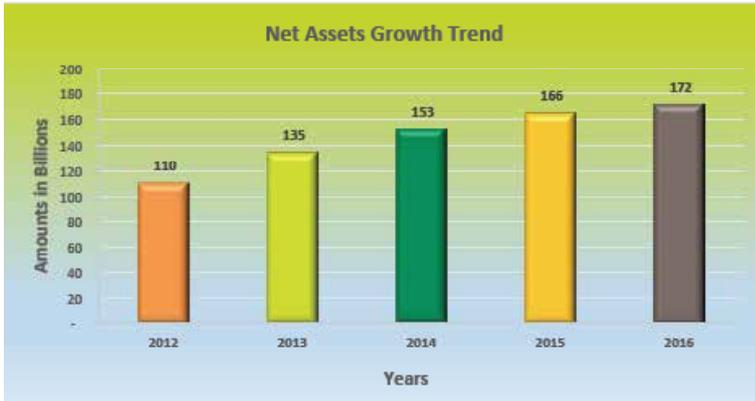
The Fund continues to pay higher amounts of benefits to its members. In 2016, KES 3.12 billion was paid to exiting members / beneficiaries. The amount paid to a member includes the contributions made during one's working life plus the interests accrued over the years.

The profitability of the Fund has remained on an increasing trajectory in the last five years.

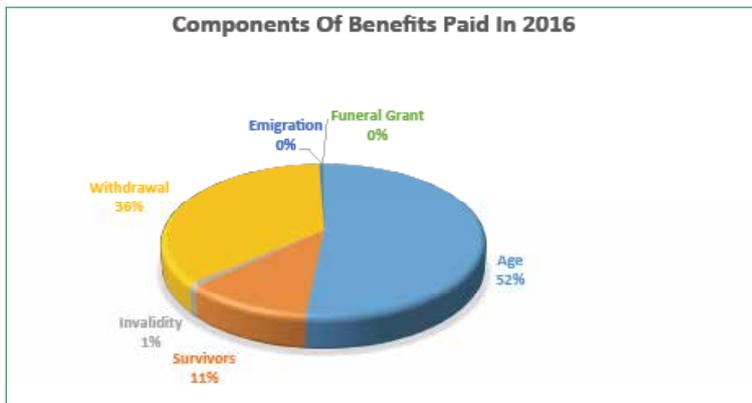
With widened mandate conferred upon the Fund by the NSSF Act No. 45 of 2013, the Fund is expected to cover every Kenyan, a processes that calls for more expensive outlays. Despite this, the Fund has made efforts to keep down costs in line with legal requirements and save more money for members' benefits.



The assets of the Fund are growing at a fairly good rate. Moreover, most members are increasing their contributions to take advantage of this unprecedented growth. The bulk of benefits is paid out this year was made to members who had reached retirement age (52%) and those who have chosen to withdraw (36%) before reaching the official retirement age of 60. Interest on investments contributed 65% of investment income, while 19% is attributed to dividend income, 9% on rent and 7% TPS interest respectively.

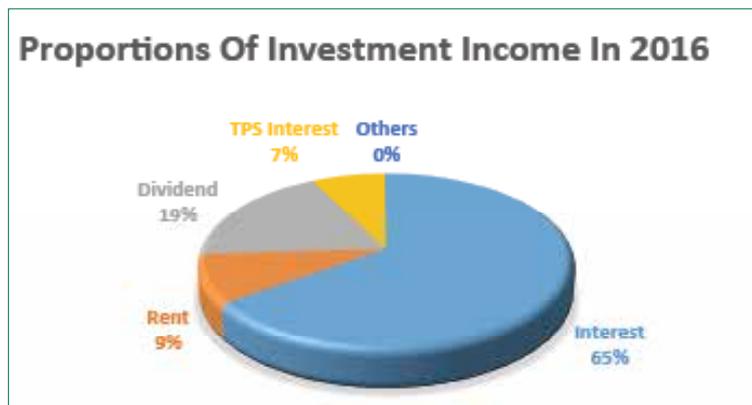


In the year ending 30th June 2016, the Fund had 34% of its investments in government bonds, 31% in equities, 20% in real estate and the rest apportioned equally in corporate bonds, deposits and tenant purchase scheme.

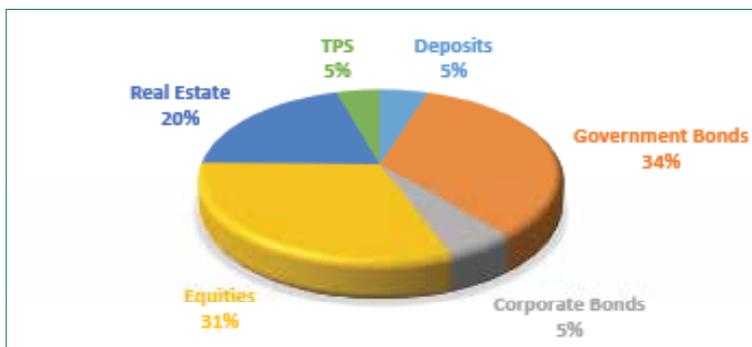


### The Sustainability Agenda

A key challenge in Kenya's social security system is the low proportion of the youth in the membership of the social security Funds. The Fund's membership data indicates that only 57 per cent of the members are young in the age range of 16-35 years. Also, majority (63.4%) of the registered members are male. This points at sustainability challenges and weak gender representation in the membership data base.

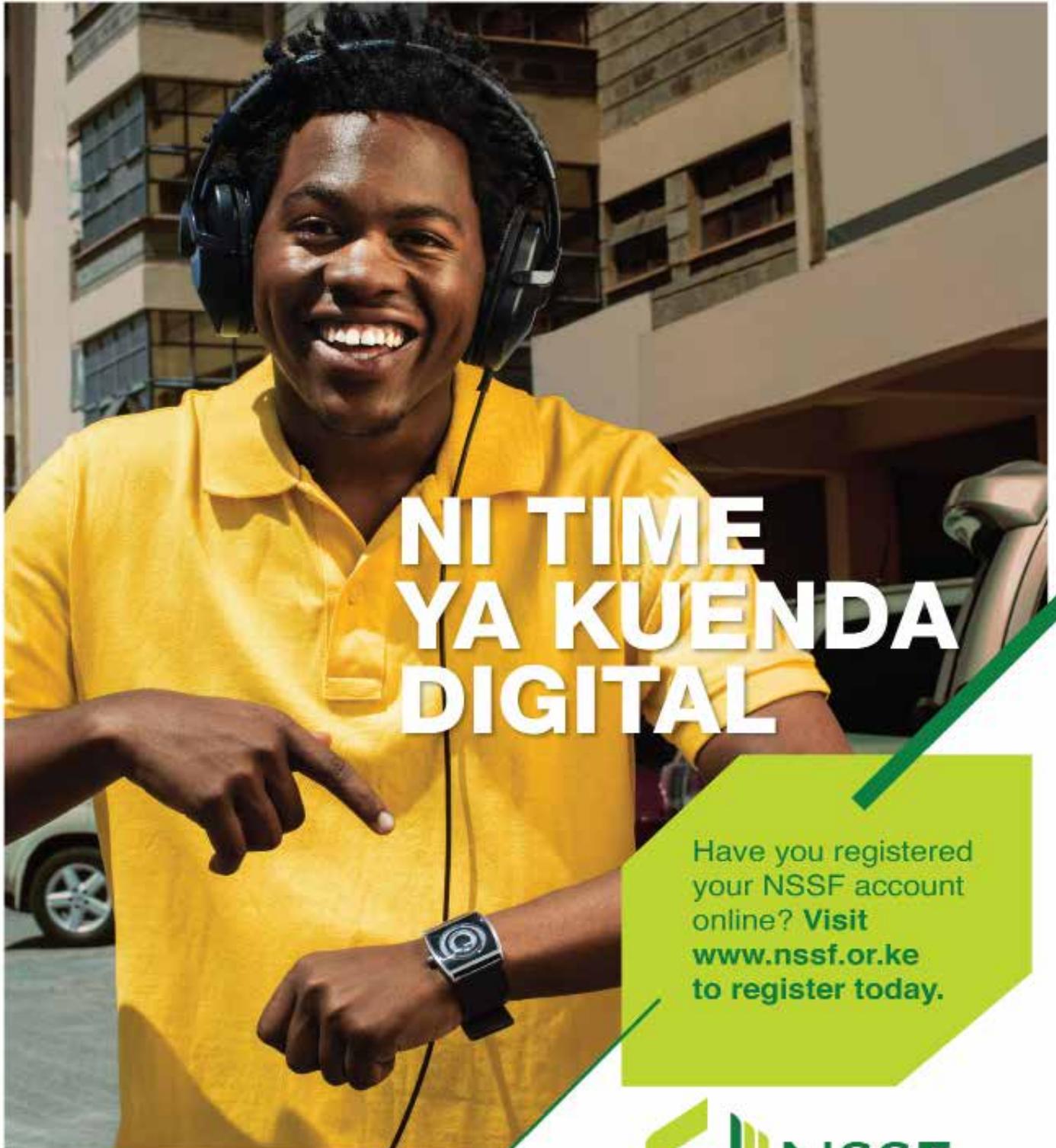


In view of this The Fund has put in place strategies to recruit the youth with a great focus on the informal sector. The Fund intends to achieve this by creating an environment such that incentives are offered to remind people to save for investment in items with high payoffs through health, education, or improving agricultural yields in order to lead to greater savings.



Further by lowering the transaction cost for saving and having a diverse portfolio of saving opportunities





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