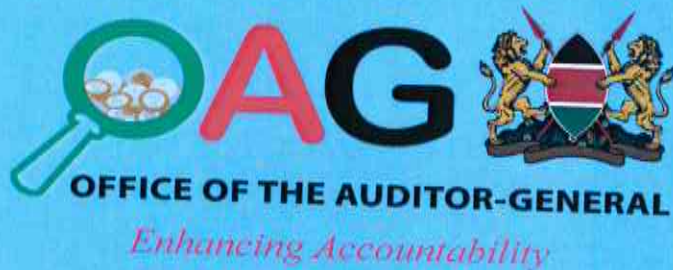


REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

**INSURANCE REGULATORY
AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE, 2022**



INSURANCE REGULATORY AUTHORITY
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
30 JUNE, 2022

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



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KEY AUTHORITY INFORMATION

(a) Background information

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

(b) Principal Activities

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

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

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

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

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

(c) Key Management

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

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30 June, 2022 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Commissioner of Insurance and Chief Executive Officer	Mr. Godfrey Kiptum
2.	Senior Manager, Supervision, Licensing & Enforcement	Mr. Kalai Musee
3.	Corporation Secretary and Director Legal Services	FCS Diana Sawe
4.	Director Research, Innovation, Policy and Strategy	Mr. Robert Kuloba
5.	Manager, Finance	CPA Esther Musyoki
6.	Senior Manager, Consumer Protection	Mrs. Monicah Thirima
7.	Senior Manager, Information Communication Technology	Mr. Eric Kisilu
8.	Manager, Consumer Education	Ms. Anne Chelagat
9.	Senior Manager, Supply Chain Management	Mr. Felix Chelimo
10.	Manager, Corporate Communications	Ms. Noella Mutanda
11.	Assistant Manager, Human Resource Management	Ms. Naomi Njoroge
12.	Senior Manager, Internal Audit and Risk Management	CPA Joan Kirika

(e) Fiduciary Oversight Arrangements

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

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

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

(f) Physical Address

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

(g) Contacts

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

(h) Bankers

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

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

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

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

(i) Independent Auditors

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

(j) Principal Legal Adviser

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

THE BOARD OF DIRECTORS



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

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

He serves in various Boards and brings on board a wealth of experience in Strategic Business and Finance Management. His term expired on 3rd May 2022.



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

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

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



Mr. Kennedy Ogendi Ondieki
Member
MBA, BA, CPA(K), CPS
Date of Birth: 1st February 1967

Mr. Ondieki is an Alternate Director representing The Cabinet Secretary National Treasury and Planning in the Board. He is the Director of Investments, in charge of Government Investments and Public Enterprises. He is responsible for developing strategic objectives and policies relating to the overall and fiscal/financial oversight and management of state corporations.

Mr. Ondieki has long cherished career in the public service spanning over 25 years. He sits on the Finance & Administration; and the Audit, Risk Management & Corporate Governance Committees of the Board.



Mr. Nzomo Mutuku
Member

MA, BA

Date of Birth: 9th December, 1969

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

Mr. Mutuku serves in the Technical, Research & Compliance and Audit, Risk Management & Corporate Governance Committees of the Board. His term expired on 28th February 2022.



Mr. Charles Machira
Member (from 1st March, 2022)

MSC, BSC,

Date of Birth: 1967

Mr. Charles Machira, is the acting Chief Executive Officer of the Retirement Benefits Authority, effective 1st March, 2022. Prior to his appointment as Acting CEO, Mr. Machira was the Chief Manager, Supervision at the Authority.

He has over 20 years' experience in the insurance and pension sectors and has represented the Authority as the Managing Trustee of the Policy Holders Compensation Fund.

Mr. Machira serves in the Technical Research and Compliance; and Human Resource Committees of the Board.



FCPA Wyckliffe M. Shamiah
Member

MBA, BA, CPA

Date of Birth: 3rd September 1969

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

Mr. Shamiah serves in the Technical, Research & Compliance and Audit, Risk Management & Corporate Governance Committees of the Board.



Mr. Matu Mugo
Member

MBA, B. Com, CPA

Date of Birth: 26th November,
1972

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

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



Hon. Ibrahim Abdi Saney
Member

*B.Sc. Natural Resource
Management (First Class Hons.)
Egerton University.*

Date of Birth: 22nd December
1975

Hon. Saney is an independent director serving his 1st term on the Board. He is the immediate former Member of Parliament for Wajir North Constituency. Hon. Saney is experienced in financial planning and expenditure reviews, as well as establishing strategies, policies, procedures, controls and reporting systems that maximize the impact of state-funded projects and programmes for service delivery.

He is currently a student of Law and Criminal Justice with a goal to provide transformational leadership in the access and fair administration of justice for all.

Hon. Saney serves in Technical, Research & Compliance and Audit, Risk Management & Corporate Governance Committees of the Board.

Hon. Saney resigned from the Board on 3rd February 2022.



Ms. Mercy W. Kiana
Member

*MBA, BCom (Insurance), ACII,
ACI Arb*

Date of Birth: 26th October 1963

Ms. Kiana was appointed to the Board on 6th October 2021. Her career in insurance started in 1987 and she has acquired immense professional experience in diverse facets of insurance business having worked in underwriting and claims. She is a member of the Executive Council of the Insurance Institute of Kenya, a Certified Professional Mediator and is the immediate former Chairperson of the Staff Retirement Benefit Scheme of the Presbyterian Church of East Africa. Ms. Kiana has undertaken various professional, management and leadership courses in various institutions including Advanced Management Program at Strathmore Business School.

She is a member of the Technical, Research & Compliance Committee and chairs the Audit, Risk Management & Corporate Governance Committee of the Board.



Mr. Mohamed Amin Sheikh
Member

MA, Diplomacy and Foreign Policy

Date of Birth: 10th June 1986

Mr. Amin was appointed to the Board on 6th October 2021. He is an independent foreign policy expert consultant, a university lecturer (peace and conflict resolution studies) and certified mediator. He has worked for the Moroccan diplomatic mission in Kenya on various administrative and diplomatic issues and was recently in the panel that discussed the resolution of the Western Sahara issue in Dar es Salaam. He also provides ad hoc consulting services and operational support to many international organizations on various issues such as investments. In addition, Mohammed is a writer who comments on contemporary issues ranging from politics, governance, energy, investment, and social matters. He brings a wealth of experience both from the private and public sector.

Mohammed holds a master's degree in Diplomacy and Foreign Policy. He also holds a certificate of Effective Management Skills and Corporate Governance from abroad. Mohammed is fluent in English, Kiswahili, and Arabic. He is a member of the Audit, Risk Management and Corporate Governance Committee and chairs the Technical, Research & Compliance Committee of the Board.



Ms. Annette Kithu
Member

LLB, PGD in Law (KSL)

Date of Birth: 20th April 1980

Ms. Kithu was appointed to the Board on 6th October 2021. She is an Advocate of the High Court of Kenya with over 15 years' experience in practice and is a partner with Kithu Mbutia Advocates from 2011 to date. She has specific focus on corporate financial law and has built her capacity in banking laws, international commercial law, real property disposition as well as intellectual property among others.

She is a Member of the Law Society of Kenya and the East Africa Law Society. Ms. Kithu assists the Loreto Sisters by serving in the fund-raising committee to build a centre to train local communities on alternative rites of passage for the girl child. She is a member of the Finance & Administration Committee and chairs the Human Resource Committee of the Board.



Mr. Muchiri Mithamo
Member

*MBA, BA (Criminology and
Criminal Justice), Dip. Accounts
and Finance
Date of Birth: 6th June 1982*

Mr. Mithamo was appointed to the Board on 28th October 2021.

He is a graduate of Criminology and Criminal Justice, holds an MBA in Human Resource from Mount Kenya University and has a diploma in Accounts and Finance from Zetech University. He is currently a law student at Mount Kenya University. He brings on board a wealth of experience having sat on Boards of several state corporations where he chaired various committees.

He is a member of the Human Resource Committee and chairs the Finance & Administration Committee of the Board.



Mr. Njenga Mwangi
Member

*LLB (Hons) UoN, PGD in Law (KSL)
Date of Birth: 20th September,
1960*

Mr. Njenga Mwangi was appointed to the Board on 3rd June 2022.

He is an advocate of the High Court of Kenya and has been in Legal Practice for over 34 years where he specialized in Corporate, Insurance and Banking Law. He has also practiced human rights, and Constitutional Law. He is a Member of the Law Society of Kenya, The East African Law Society, International Commission of Jurists (ICJ) and International Bar Association (IBA). He is currently pursuing a Master of Arts degree at the Institute of Diplomacy and International Studies.

He has previously served as a Commissioner of the Energy Regulatory Commission, the precursor of EPRA where he served as Chairperson of the Finance and Administration Committee and the Pension Fund.

He has taken courses in Public Utility Regulations both locally and internationally.

Mr. Mwangi serves in the Human Resource and the Technical Research and Compliance Committees of the Board.



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

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

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

MANAGEMENT TEAM

The key management personnel who held office during the period ended 30 June, 2022 were;

**Commissioner of Insurance &
Chief Executive Officer**



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

**Director Research, Innovation,
Policy and Strategy**



Mr. Robert Kuloba
MA, BA

**Corporation Secretary and
Director Legal Services**



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

**Senior Manager, Supervision,
Licensing & Enforcement**



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

Senior Manager, ICT



Mr. Eric Kisilu
MBA, BSc., Dip IMIS, CISM

**Senior Manager, Internal Audit and
Risk Management**



CPA Joan Kirika
MBA, BCom, CPA(K), CISA, CIA

**Senior Manager, Supply Chain
Management**



*Mr. Felix Chelimo
MBA, BA, MCIPS*

**Senior Manager Consumer
Protection**



*Mrs. Monicah Thirima
MBA, LLB, ACII, Diploma KSL*

Manager, Finance



*CPA Esther Musyoki
MBA, BCom, CPA(K)*

Manager, Consumer Education



*Ms. Anne Chelagat
MBA, BCom, AIIK, ACII*

**Manager, Corporate
Communication**



*Ms. Noella Mutanda
MA, BA, Dip (Journalism), M-PRSK,
M-CIPR*

**Assistant Manager, Human
Resource Management**



*Naomi Njoroge
MBA, BA, CHRP(K), IHRM*

CHAIRMAN'S STATEMENT

Introduction

It is my pleasure to present the annual report and financial statements of the Insurance Regulatory Authority for the year ended 30th June 2022. During the year, we achieved various milestones and embarked on a number of initiatives aimed at enhancing service delivery to all stakeholders. I am happy to note that the industry activities continued on a positive trajectory despite the Covid-19 pandemic and associated challenges. The Authority continues to pursue a range of regulatory and supervisory measures to ensure that in the prevailing circumstances, the policyholders are protected and also maintain safety and soundness of insurers to enable them deliver on their promises to consumers.

Industry Stability and Over View

A well-functioning financial services system plays a key role in both driving and supporting growth by providing capital, facilitating trade and financing infrastructure and innovation. Financial institutions like the insurance industry play a pivotal role in providing innovative solutions to the significant social, economic and environmental challenges the country faces. Kenya's financial sector has grown significantly in terms of its contribution to overall Gross Domestic Product (GDP).

The Insurance industry has been growing steadily over the last decade. During the year under review, the industry continued to record business growth in terms of gross premium written, investments and asset base. This was underpinned by improved regulatory regime, investment in long-term growth drivers such as branding, research and development, and improved public awareness.

The initiatives rolled out by the Authority continue to cement Kenya's place as an attractive market for insurers. In the last year, we have witnessed the entry of new players, acquisitions and mergers. Our market has proved robust and resilient despite the hard-economic times being witnessed. Premiums have continued to grow by double digits, propelled mainly by the non-life sector which continues to be the major source of premiums written.

Kenya remains East Africa's largest insurance market with the market holding considerable promise in the short and long term. Expansion of coverage and

access to low-earning Kenyans through microinsurance products promises new expansion opportunities. The adoption of ICT platforms for insurance distribution purposes is envisaged to improve service delivery while reducing operating costs for the players. These, coupled with regulatory reforms are bound to have positive effects on the industry and its consumers.

For continued sustainability of the industry, the Authority has put in place various measures and initiatives to promote industry development while meeting and exceeding our targets. We monitor adherence to the Insurance Act, industry guidelines and regulations through continuous supervision that is done both on and off site. We have also adopted a risk-based approach method in our supervisory framework to ensure stability and soundness of the industry. With this approach, we are able to profile companies according to the risk they carry and thereby apply appropriate support or interventions to the regulated entities in accordance to their circumstances.

The Authority continues to issue various approvals to ensure that the insurance market place is safe and fair in accordance with our motto “Promoting Insurance. Protecting the Insured”. We are committed to establishing a market that both the insured and insurer feel safe and protected to transact business. We have issued a number of guidelines touching on various issues such as treating customers fairly, corporate governance and market conduct, just to mention a few.

With the enactment of the Consumer Protection Act 2012 among other laws, focus on the consumer has and will continue to considerably gain momentum. The implications of these changes are shifts in the nature of rights and responsibilities of a regulator viz a viz consumers of insurance services as regards access to information as well as standards of service delivery.

An educated consumer is a protected consumer. Insurance knowledge is critical when making the decision to purchase insurance and also largely affects consumers’ insurance journey. In its bid to enhance consumer protection, the Authority has developed a consumer education strategy with 4 key result areas namely insurance awareness, insurance literacy, behavioural change- and partnerships and collaboration.

2018 – 2022 Strategic Plan

The year under review presents the 4th year of implementation of the Strategic Plan. We have used the Plan as a guide to realize our focus areas which were regulation and supervision, policy and market development, consumer protection and education and institutional capacity building. We have largely realized our targets and as we move into the next planning cycle, we are alive to the changing market dynamics, consumer expectations and demands and the government's economic growth. We are optimistic that the initiatives we have put in place over the years have primed the Authority and indeed the industry to play their rightful role in the country's economic development and social and economic protection.

In his budget speech for 2021/2022, the Cabinet Secretary for the National Treasury and Planning made proposals for a number of changes to the Insurance Act that are aimed at enhancing stability while facilitating consumer protection within the industry. The proposed policy changes are premised on the fact that good regulatory standards and policies are crucial for sound business practices that build customer confidence and enhance insurance penetration.

Financial Highlights

The Authority's operations are financed through insurance premium levy paid by insurers. The Authority's total revenue in the financial year 2021/2022 amounted to Kshs. 2.414 billion, an 18% increase from Kshs. 2.051 billion realised in 2020/2021.

During the period under review the Authority realised a net surplus of Kshs. 1.233 billion from its operations (2021: Kshs. 1.048 billion). The Authority will remit 90% (Kshs. 1.110 billion) of the net surplus to the Consolidated Fund in line with the requirements of the Public Finance Management Act.

This is a sign of resilience despite the overall rate of inflation increasing to 6.1% compared to 5.3% in 2020 with the Central Bank of Kenya (CBK) attributing this increase to a rise in food and energy prices, despite the moderation in core inflation. Housing and energy inflation increased to 4.8% from 2.5% over the same period driven by rising international oil prices coupled with the depreciation of the Shilling against major currencies.

Corporate Social Responsibility

To complement its mandate, the Authority has a comprehensive corporate social responsibility (CSR) policy in place, which is anchored on its commitment to be a corporate citizen alive towards social responsibility with a view to make a positive difference to society.

The Authority envisages that through CSR, it will enhance its profile and reputation while positioning itself as the organisation of choice by employees, suppliers, communities, and all other stakeholders.

The Authority's CSR programme is run on a foundation of ethical principles, good governance and sound management and has prioritised four key areas: *Health, Education, Environment and Response to national emergencies and disasters as and when necessary.*

The Authority has signed strategic partnerships with the financial sector regulators, Kenya Society for the Blind and Kenya Forest Service to implement joint CSR activities for purposes of sustainability and long-term planning.

During the period in review, the Authority supported persons living with disability through provision of mobility and assistive devices as well as rehabilitation services.

Conclusion

I express my heartfelt appreciation to the Cabinet Secretary in charge of the National Treasury and Planning, the insurance industry players, policyholders and all sector stakeholders for the continued support and confidence in the Authority.

I also extend our sincere appreciation to the Board of Directors. I would like to assure all our stakeholders that we are committed to ensuring that our regulatory structures enable and promote efficiency of the insurance industry in the country.



Mohamed Amin Sheikh
CHAIRMAN

REPORT OF THE CHIEF EXECUTIVE OFFICER

Introduction

The year began with renewed hope as industry captains across the world learned to navigate the new normal to accordingly deliver to the needs of their teams and stakeholders. On its part, the Authority remained responsive during the post-Covid-19 period by encouraging its stakeholders to adhere to the Government's policies and Ministry of Health's social and economic recovery protocols.

Despite the challenges of FY 2021/2022, which stretched the resilience of insurance industry players and tested the industry's ability to respond with agility and empathy, I am pleased to report that there were wins realised and the Authority succeeded in stabilising the sector.

In executing our mandate, we adhere to the core principles of objectivity, accountability and transparency in promoting not only compliance with the Insurance Act and other legal requirements by insurance/reinsurance companies and intermediaries but also sound business practices

Operating Environment

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

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

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

final phase of implementing its 2018-2022 strategic plan. Within this planning cycle, we have managed to digitize and automate almost 95% of our services, reduced turnaround-service timelines, and supported the local business players especially the youth, women and persons living with disabilities through the Access to Government Procurement (AGPO) policy. 30% of our procurement has been earmarked for this category.

We remain proud of our contribution to the capacity and competence building initiatives that we have carried out in Kenya's risk management environment through our Actuarial Scholarship Programme in partnership with Bayes (Cass) Business School in the United Kingdom. To date over 50 Actuaries have received scholarships to pursue Masters in actuarial science through the program designed to grow talent for the industry.

The Authority continues to host its multi-media Annual Public Education campaigns which are delivered using inclusive information Education Communication (IEC) materials that are inclusively designed to cater to the needs of people living with disabilities (PWD) i.e., braille. This year's campaigns ran across vernacular TV and Radio stations as well as Signs TV stations to promote understanding of insurance for all.

At the grass-root level, the Authority introduced county-hall forums dubbed *Bima Mashinani* targeting all communities across the country. This programme was piloted in 5 counties namely Lamu, Meru, Kisumu, Bungoma and Nakuru with resounding success and will be implemented across all counties in the coming years.

Service Delivery

The Authority is committed to courtesy and excellence in service delivery and aims to exceed the service level expectations as expressed in the service delivery charter. In addition to conducting annual customer satisfaction surveys, quarterly surveys are conducted to establish the level of compliance with the service delivery charter commitments and standards as well as to identify any process improvement opportunities in service delivery. This is done by carrying out tests on a sample basis by variance analysis of timelines in comparison with service charter timelines.

The Service Charter has been cascaded down to divisional Service Charters and into individual staff's annual targets. We are continuously working towards enhancing our customer service through adoption of appropriate technology. In an effort to re-engineer our operations, we have also reviewed our business processes as we seek to enhance our customer experience.

We are committed to meeting and exceeding our customers' expectations as we strive to continually improve our services and the effectiveness of our Quality Management System (QMS).

Institutional Capacity

Our vision is to be an effective regulator of a globally competitive insurance industry. To achieve this, we must have a human resource base that is well skilled, competent and properly aligned to realize our corporate strategies. human resource management remains a focal point as we strive to build individual and institutional capacity to steer the Authority towards achieving its Vision and Mission. The invaluable role and contribution of each employee of the Authority is recognized and rewarded appropriately.

We are currently implementing new human resource instruments to support the realization of our vision. We have introduced six (6) core directorates to maximize on our efficiency and success, facilitate working relationships with various sections of the Authority; and retain order and command whilst promoting flexibility and creativity.

Our commitment to staff development is steadfast and we intend to continue investing in a number of initiatives that will help us effectively discharge our mandate. Staff is core to our success and we are committed to extensively train them so as to enhance their competencies in various techniques in preparation for higher responsibilities and challenges commensurate with our strategic objectives.

Future Outlook

Kenya's insurance sector is ripe for investment and growth. Global regulatory trends show that tougher regulation and increased pressure to perform can improve the sector's prospects and encourage investment. We are ready to implement International Financial Report (IFRS) 17 come 2023. We have enhanced industry and internal capacity to ensure that the transition to this new accounting method is seamless.

Looking ahead, some of the most important considerations for customers include the provision of simple and custom-made policies that address their unique needs. There is need to structure and design insurance products that address the modern-day insurance needs as well as growing investments. It is imperative that insurers embark on customer analysis and segmentation to curate products that meet customer needs.

Advances in technology and the accompanying explosive growth in data are empowering global consumers like never before. To compete in this new era, insurers must understand how consumers make purchasing decisions and what factors influence their choices. Other interventions that will help the industry align themselves to the evolving dynamics include developing strategic partnerships and acquisitions e.g., fintechs and telcos with existing loyal customer bases, which would help offer strategic paths to first entry into the market.

Appreciation

I am grateful to the Board for their leadership and support. I appreciate the efforts put in by the management team and the rest of the staff in the last one year. I also thank all the stakeholders who have offered their support and expressed confidence in our work. Without them, it would not have been possible to realize our success.



Godfrey K. Kiptum, MBS
COMMISSIONER OF INSURANCE AND CHIEF EXECUTIVE OFFICER

REVIEW OF THE AUTHORITY'S PERFORMANCE FOR THE FINANCIAL YEAR 2021/2022

The Authority has four strategic pillars/ themes/issues and objectives within the current Strategic Plan for the FY 2018/2019 - FY 2022/2023 (revised). The strategic issues are as follows:

- Pillar 1: Legal and Regulatory Framework
- Pillar 2: Policy and Market Development
- Pillar 3: Market Conduct and Consumer Education
- Pillar 4: Institutional Capacity

In line with the performance management framework, the Authority developed an operational plan cascaded to all staff through annual performance target setting and appraisal. With oversight and strategic guidance by the Board, performance is assessed on a quarterly basis and is aligned to the performance contracting guidelines and monitoring cycles. Achieved performance for targets set out for the FY 2021-2022 period along the four strategic pillars is as set out below:

Strategic Pillar/The me/Issues	Objective	Key Performance Indicators	Activities	Achievements
Legal and Regulatory Framework	To ensure a responsive Legal and Regulatory Framework	Reports	Implement Risk Based Supervision (RBS) framework	<ul style="list-style-type: none"> i. Quarterly reports on implementation of RBS framework prepared. ii. Prepared surveillance reports – Prepared and published quarterly claims statistics; quarterly financial industry reports and 2020 insurance industry report on the Authority's website.
	Promote a competitive and stable Insurance Industry	Legislative Proposal	Develop policy proposal for establishment of a Specialist Risk Carrier for PSV insurance	Regulations for specialist risk carrier for Public Service Vehicle (PSV) insurance published on 27 th May 2022 and Explanatory Memoranda prepared and forwarded to TNT.

		Developed framework	Develop framework for Domestic Systemically Important Insurers	A framework for identification of Domestic Systemically Important Insurers was developed.
Policy and Market Development	To facilitate development and adoption of emerging trends in the insurance industry.	Actuarial scholarship	Capacity building for the industry	Ten scholarship opportunities granted students to study Msc. in Actuarial Science at the CASS Business School in the UK.
			Continuous proficiency training for intermediaries and other service providers	Held: <ul style="list-style-type: none"> i. Micro-insurance workshop for Bancassurance Agents; ii. workshop for Association of Institute of Loss Adjusters and Risk Surveyors Kenya; and iii. Forum with Insurance brokers.
Market Conduct and Consumer Education	To protect the interest of insurance policy holders and beneficiaries	Treating Customers Fairly (TCF) inspections	Monitor implementation of Treating Customers Fairly (TCF) Framework.	TCF inspections conducted as per inspection plan TCF self-assessment was done; compliance index was determined as 96.7%
		Guidance in place	Develop guidance for fair treatment of customers in conduct of insurance business	Guidance note for fair treatment of customers in conduct of insurance business in place
		% of complaints resolved	Monitor and Resolve insurance consumer complaints	On-going. The Authority received a total of 1368 complaints for the period 1 st July, 2021 to 31 st March 2022 and resolved 73% of the complaints

				within 60 days.
	To increase the level of insurance awareness.	Insurance awareness index	Undertake outreach programmes	<p>Survey on Impact Assessment of Consumer Education programs to determine awareness index underway.</p> <p>The Authority undertook the following outreach programmes:</p> <ul style="list-style-type: none"> i. Trained <i>Boda Boda</i> operators in seven counties; ii. Held a forum with youth entrepreneurs in two counties; iii. Trained on focused procurement of insurance services in four counties; iv. Trained KNUT officials in one county; and <p>Trained police officers in two counties.</p>
Institutional Capacity	i. To ensure effective corporate governance practices	Budget Utilization	Mobilize and ensure prudent utilization of financial resources	Utilized 82% of allocated budget during the year.
		Level of Compliance	Implement Mwongozo Code of Governance	100%.
		Level of Compliance	Implement QMS policies and procedures	100%
	ii. To improve service delivery	Revised Service Delivery Charter	Revise the Authority's Service Delivery Charter	Service Delivery Charter revised and is in place

The targets in the Authority's Performance Contract guided by the 18th cycle Performance contracting guidelines were tied to the corporate strategic plan. The following is a summary of performance on the Authority's performance in the FY 2021/2022:

No	Criterion Indicator	Annual Performance for FY 2021-2022
1	Financial Stewardship and Fiscal Discipline	0.2477
2	Service Delivery	0.3006
3	Core mandate	1.5085
4	Implementation of Presidential Directives	0.0600
5	Access to Government Procurement Opportunities	0.0907
6	Promotion of Local Content in Procurement	0.0477
7	Cross cutting	0.3800
	Total weighted achievement	2.6352
	Overall rating of Corporate Performance	Very Good

CORPORATE GOVERNANCE STATEMENT

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

Article 10 of the Constitution directs that the Authority shall observe good governance in the discharge of its mandate. The Board of Directors is responsible for the Authority's corporate governance and provides strategic direction and control while remaining accountable for delivery of the Authority's mandate through effective leadership, enterprise, integrity and independent judgment.

The Board has set out the Authority's strategic direction and entrusted the its day-to-day operations to the management team, which is led by the Chief Executive Officer and Commissioner of Insurance. The management team oversees the execution of strategies and policies set by the Board. Performance of the Board and management is evaluated against set objectives and is continuously monitored and evaluated throughout the course of each financial year.

BOARD SYSTEMS, PRACTICES AND PROCEDURES

1. Role of the Board

The Board is responsible for executing the objects and functions of the Authority as stipulated under the Insurance Act. The responsibility of Board Members is to exercise their best judgment and to act in the best interest of the Authority and its stakeholders. The key responsibilities of the Board include:

1. Determining the Authority's mission, vision, purpose and core values.
2. Setting and overseeing the Authority's strategy and approving its policies.
3. Approving the Authority's organisational structure and having the right team in place to effectively execute the Authority's strategy.
4. Reviewing, approving, and monitoring the Authority's long-term plans and budgets.
5. Monitoring the Authority's performance and ensuring that effective processes and systems of compliance, risk management and internal controls are in place.
6. Ensuring effective communication with stakeholders.

The Board is committed to fulfilling its fiduciary duties and observes best governance practices in steering the Authority towards attainment of its mandate and has, in accordance with the Insurance Act, State Corporations Act and *Mwongozo* Code of Governance, established systems to ensure observance of high standards of corporate governance in its operations.

2. Board Charter

The Board Charter defines the Board's roles and responsibilities as well as functions and structures in a way that supports its members in carrying out the Board's functions.

The Board reviews the Board Charter at least once every three years and, where appropriate, revises it from time to time. During the year under review, the Board Charter was amended by transferring the provisions relating to the establishment, composition, mandate and operations of Board Committees to stand-alone charters for each Board Committee in line with best practice.

3. Board Composition

The Board is constituted in accordance with Section 3B of the Insurance Act, which provides that the Board shall be comprised of a Chairman appointed by the President and 10 other Board members. The composition of the Board of the Authority in the year under review was as follows:

Name	Membership	Profession
Hon. Abdirahin H. Abdi (retired 02.05.2022)	Chairman	Business Development Expert & Legislator
Mr. Godfrey K. Kiptum	Chief Executive Officer & Commissioner of Insurance	Management, Insurance & Human Resource
Mr. Nzomo Mutuku (Retired 28.02.2022)	Chief Executive Officer, Retirement Benefits Authority	Economics & Financial Services Regulation
Mr. Charles Machira (appointed 01.03.2022)	Ag. Chief Executive Officer, Retirement Benefits Authority	Pension, Insurance & Management
Mr. Wyckliffe Shamiah	Chief Executive Officer, Capital Markets Authority	Economics & Accounting
Mr. Matu Mugo	Representing, Governor Central Bank of Kenya	Finance & Accounting
Mr. Kennedy Ondieki	Representing, Cabinet Secretary, The National Treasury & Planning	Finance & Accounting
Hon. Ibrahim A. Saney (Resigned 07.02.22)	Member	Environmental Science, Legal & Legislator
Ms. Mercy Kiana (appointed 06.10.2021)	Member, Nominee Insurance Institute of Kenya	Management & Insurance
Ms. Annette Kithu (appointed 06.10.2021)	Member	Legal & Management

Name	Membership	Profession
Mr. Mohamed Amin Sheikh (appointed 06.10.2021)	Member	Diplomacy & Foreign Policy
Mr. Muchiri Mithamo (appointed 28.10.2021)	Member	Criminology & Accounting
Mr. Njenga Mwangi (appointed 03.06.2022)	Member	Legal & International Relations

The Board Members represent an appropriate skill, experience, gender, diversity and geographical mix to facilitate effective execution of the Authority's mandate. Members of the Board other than ex-officio members hold office for a period of three (3) years and are eligible for re-appointment for another term. During the year under review, one (1) Board Member resigned from the Board and two (2) Board Members retired.

Mwongozo requires that not less than one-third of the members of the Board shall be independent non-executive directors. The role of independent non-executive directors is to bring external insights into the Board and provide independent oversight over the executive directors. Composition of the Board as provided for is aligned with this principle.

The Inspector of State Corporations (or his representative) may attend any meeting of the Board or Board Committees as in his opinion is necessary for the effective carrying out of the duties of his office. During the year under review, Director Joyce Wesonga, representing the Inspector of State Corporations, attended various Board and Committee meetings.

There has been no removal of a serving director.

4. Board Oversight

The Board is responsible for the formulation, implementation and monitoring of the Authority's Strategic Plan thus providing appropriate strategic direction for the Authority. The Board ensures that the Authority espouses proper corporate governance practices and is also responsible for managing the Authority's risks. The Board recognises and is committed to delivering its responsibility to all its stakeholders.

5. Board Committees

The Board has delegated its Authority to the standing Committees to enable it effectively carry out its mandate. The standing Committees of the Board are:

1. The Technical, Research and Compliance (TRC) Committee.
2. The Audit, Risk Management and Corporate Governance (AR& CG) Committee.
3. The Finance and Administration (FA) Committee.

4. The Human Resource (HR) Committee.

The Chief Executive Officer is an ex officio member of all Board Committees except the Audit, Risk Management and Corporate Governance Committee, which he attends on invitation.

The Board Committees are constituted in accordance with *Mwongozo* and the Circular from Head of the Public Service on *Management of State Corporations*. They are chaired by independent Directors and submit their deliberations to the Board after every meeting. Membership of Board Committees was updated during the year under review to accommodate new Directors.

The Terms of Reference for the Board Committees are as follows:

(i) Technical, Research and Compliance Committee

The purpose of the TRC Committee is to act at the direction of the Board, to review policy papers and make recommendations on the functions delegated to them including:

1. Reviewing the basis of the Authority's operations in order to enable the Board to make informed, strategic operational decisions and vote on related matters.
2. Monitoring the Authority's fulfilment of its objectives and functions under the Insurance Act and Government directives relating to regulation of the insurance industry.
3. Ensuring that in all recommendations from the management team, global best practice and world-class standards are developed, practiced and leveraged throughout the Authority to create stakeholder value and ensure that statutory mandates are effectively fulfilled.

The following Board Members served in the TRC Committee as at 30th June, 2022:

Director	Role
1. Mr. Mohamed Sheikh	Chairman
2. Mr. Charles Machira	Member
3. Mr. Wyckliffe Shamiah	Member
4. Ms. Mercy Kiana	Member

(ii) Audit, Risk Management and Corporate Governance Committee

The purpose of the ARMCG Committee is to assist the Board in fulfilling its oversight role to ensure effectiveness and efficiency in the operations of IRA and the effectiveness of the internal control, risk management and governance processes. ARMCG Committee's mandate includes:

1. Assisting the Commissioner of Insurance/Chief Executive Officer (CEO) in enhancing internal controls to improve efficiency, transparency and accountability.
2. Reviewing audit issues and recommendations raised by both internal and external auditors and the management responses to specific recommendations to ensure action is taken.
3. Ensuring adequate mechanisms of enabling the Committee to facilitate adequate disposal of all unsettled and unimplemented Public Accounts Committee and Public Investment Committee recommendations.
4. Enhancing oversight, governance and risk management.
5. Enhancing communication between management, internal and external auditors and fostering an independent and effective internal audit function.

The following Board Members served in the ARMCG Committee as at 30th June, 2022:

Director	Role
1. Ms. Mercy Kiana	Chairman
2. Mr. Kennedy Ondieki	Member
3. Mr. Wyckliffe Shamiah	Member
4. Mr. Mohamed Sheikh	Member

(iii) Finance and Administration Committee

The purpose of the FA Committee is to assist the Board to discharge its responsibilities with regard to all matters concerning the financial policies and controls and administration of the Authority. FA Committee's mandate includes:

1. To Review and make recommendations to the Board on the financial strategy of the Authority ensuring its adequacy and soundness in providing for the Authority's current operations and long-term stability.
2. To review and make recommendations to the Board on financial issues arising from the annual financial statements of the Authority.
3. To provide a general overview to the Authority on the achievement of procurement plans.
4. To monitor the management team's strategy toward ensuring efficiency and integrity of the Authority's procurement systems.

The following Board Members served in the FA Committee as at 30th June, 2022:

Director	Role
1. Mr. Muchiri Mithamo	Chairman
2. Mr. Kennedy Ondieki	Member
3. Mr. Matu Mugo	Member
4. Ms. Annette Kithu	Member

(iv) Human Resource Committee

The purpose of the HR Committee is to assist the Board in discharging its responsibilities relating to the human resource functions of the Authority relating to the effectiveness of succession planning policies, the systems in place to ensure employees receive appropriate skills training and monitoring compliance with Government directives relating to recruitment and remuneration of staff of the Authority. HR Committee's mandate includes:

1. Reviewing various policies relating to the strategic positioning of human capital development in the Authority and to recommend to the Board appropriate responses to human capital matters.
2. Reviewing the overall remuneration policy for all staff of the Authority and recommend to the Board the amendment and administration of incentives and other remuneration plans for the staff (including allowances, health, retirement and other benefits).
3. Reviewing the structure of the Authority to ensure it is manned by staff with the relevant skills and experience, and recruitment for Management positions is competitive whether internally or externally.
4. Reviewing and monitoring the performance of the Authority as it affects staff, including, but not limited to, issues such as gender sensitivity, disability mainstreaming and morale.
5. Consult with management on major policies affecting employee relations and welfare of the staff of the Authority.

The following Board Members served in the HR Committee as at 30th June, 2022:

Director	Role
1. Ms. Annette Kithu	Chairman
2. Mr. Charles Machira	Member
3. Mr. Matu Mugo	Member
4. Mr. Kennedy Ondieki	Member
5. Mr. Muchiri Mithamo	Member

The Board also established an *Ad Hoc* Committee on Legal Fees Awarded to Waweru Gatonye & Co. Advocates effective 18th October, 2021. The purpose of the Committee was to liaise with the responsible offices to ensure that the

Authority is protected against execution of the decree by Waweru Gatonye & Co. Advocates.

The following Board Members served in the *Ad Hoc* Committee on Legal Fees as at 30th June, 2022:

Director	Role
Mr. Wyckliffe Shamiah	Chairman
Mr. Kennedy Ondieki	Member
Ms. Annette Kithu	Member

Details of attendance to Board Committee meetings during the year under review are provided under the following section on Board Attendance.

6. Board Attendance

Development of the Board's agenda and annual work plan is a consultative process, involving the input of the Board Chairman, Directors, the Chief Executive Officer and the Corporation Secretary. The annual work plan incorporates a schedule of all scheduled Board meetings and activities in a financial year.

The Board meets at least 4 times every financial year. Meeting notices, agenda items and Board papers are prepared and circulated to every Board Member prior to each Board and Committee meeting. Board Members are provided with further information as may be requested, in order to enable them to effectively participate in discussions and make informed decisions.

The quorum for conduct of Board business is five (5) Board Members excluding the CEO and at least two of whom shall not be public officers. Related provisions of the State Corporations Act and the *Mwongozo* pertaining to attendance and absence from meetings were adhered to during the year under review.

Where a member did not attend any meeting, an acceptable apology was duly received by the Chairman and recorded by the Corporation Secretary. Members who are unable to attend Board meetings are afforded an opportunity to make written contributions on the agenda items through the Board Chairman and the CEO.

The board meetings attendance matrix for the year under review is as indicated below:

Name	Designation	Classification	Board	TRC	FAC	ARCC	HRC	ACLF
Hon. Abdirahin Abdi (retired 03.05.22)	Chairman	Membership	¶					
		Attendance	8/8					
Mr. Godfrey Kiptum	CEO	Membership	¶	¶	¶	*¶	¶	
		Attendance	8/8	6/6	8/8	4/4	4/4	
Mr. Wyckliffe Shamiah	Member	Membership	¶	¶	¶	¶	¶	¶
		Attendance	7/8	4/6	4/4	3/3	1/1	2/2
Mr. Matu Mugo	Member	Membership	¶	¶	¶	¶	¶	
		Attendance	5/8	3/3	7/8	1/1	3/3	
#Mr. Nzomo Mutuku (retired 28.02.22)	Member	Membership	¶	¶		¶	¶	
		Attendance	5/6	5/5		1/1	3/3	
Mr. Kennedy Ondieki	Member	Membership	¶		¶	¶	¶	¶
		Attendance	8/8		7/8	4/4	2/4	2/2
#Hon. Ibrahim A. Saney (resigned 07.02.22)	Member	Membership	¶	¶	¶	¶	¶	
		Attendance	3/6	4/5	2/4	2/2	1/1	
#Ms. Annette Kithu (appointed 06.10.21)	Member	Membership	¶	¶	¶		¶	¶
		Attendance	5/8		3/4		2/3	2/2
#Mr. Mohamed Amin Sheikh (appointed 06.10.21)	Member	Membership	¶		¶	¶	¶	
		Attendance	6/8		2/2	0/1	1/2	
#Mr. Muchiri Mithamo (appointed 28.10.21)	Member	Membership	¶			¶	¶	
		Attendance	6/6			2/2	2/2	
#Ms. Mercy Kiana (appointed 06.10.21)	Member	Membership	¶	¶		¶		
		Attendance	8/8	3/3		3/3		
#Mr. Charles Machira (appointed 01.03.22)	Member	Membership	¶	¶			¶	
		Attendance	2/2	1/1			1/1	
#Mr. Peter Njenga Mwangi (appointed 03.06.22)	Member	Membership	¶	-	-	-	-	-
		Attendance	N/A	N/A	N/A	N/A	N/A	N/A

KEY:

- ¶ - This is a member of respective Committee
- *
- # - Member retired/was appointed mid-year thus no attendance in full
- TRC - Technical, Research and Compliance Committee
- FAC - Finance & Administration Committee
- ARCC - Audit, Risk Management and Corporate Governance Committee
- HRC - Human Resource Committee
- ACLF - Ad-Hoc Committee on Legal Fees

7. Board Evaluation

The Board schedules its annual evaluation exercise in its work plan in line with the evaluation schedule by the State Corporations Advisory Committee (SCAC). The exercise was conducted on Wednesday the 4th of August, 2022.

8. Board Induction and Training

(i) Board Induction

All Board Members undergo induction upon joining the Board. The induction includes a briefing on all aspects of the Authority's operations from the Chief Executive Officer, the Management and the Corporation Secretary. They also undertake the Five-Day Corporate Governance Training Course by the Centre for Corporate Governance as well as the Induction Programme by the Kenya School of Government. All Board Members who were appointed during the financial year have undergone induction.

(ii) Board Development

During the year under review, the Board adopted and implemented its Development Plan. The Authority's Governance Auditor also proposed a Competency Development and Training Needs Assessment Framework setting out measures to be followed by the Board Members to ensure that they are equipped with the adequate skills to be able to discharge their roles effectively.

The Board development programmes during the period under review were aligned to training needs and were attended as follows:

Training Institution		Training Programme
1.	Centre for Corporate Governance	Corporate Governance Training Course
2.	Kenya School of Government	Board Induction
3.	Crown Agents	Management Development for Executives
4.	Institute of Certified Public Accountants	3 rd Annual Board Conference
5.	National Insurance Commission of Nigeria	R3Lab Launch and Sustainable Insurance Conference
6.	Annual Investment Meeting 2022	Dubai Department of Economy and Tourism
7.	Harvard Kennedy School	Strategic Management of Regulatory and Enforcement Agencies

9. Board Remuneration

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

10. Corporation Secretary

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

11. Governance Audit

Clause 1.13 of *Mwongozo* requires that the Board should ensure that the Authority is subjected to a governance audit annually. The purpose of the governance audit is to ensure that the Authority is conforming to the highest standards of good governance. Under the Board's direction, the Authority engaged the firm of Wanjiru Kinyanjui and Company Advocates LLP to undertake its inaugural Governance Audit covering the period between July 2018 and June 2021. The Governance audit comprised an assessment of governance practices, structures and systems put in place by the Board. The lead Governance Auditors were Ms. Momanyi Nyabonyi and Ms. Bilha Kinyanjui, who are both Accredited Governance Auditors and members in good standing of the Institute of Certified Secretaries (ICS) and the Law Society of Kenya (LSK).

The Governance Auditors submitted a professional opinion that the Board has put in place effective, appropriate and adequate governance structures in the organization which follow the legal and regulatory framework and in line with good governance practices for the interest of all stakeholders. The Board adopted the Governance Audit Report in its meeting held in December 2021 and approved its recommendations for implementation.

The key findings and recommendations made in the Governance Audit Report were:

(i) Separation of Roles

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

(ii) Ethical Leadership and Strategic Management

The Board is cognisant of its role and oversees the running of the Authority's affairs whilst providing leadership and strategic direction. Board members

exhibit diligence in performing their duties and devote time to the Authority's affairs.

(iii) Transparency and Disclosure

The Authority understands and complies with its reporting and disclosure obligations in accordance with *Mwongozo*.

(iv) Compliance with Laws and Regulations

The Authority conducts its business affairs largely in compliance with the Constitution of Kenya 2010, the Insurance Act and all applicable laws, regulations, and best practices. Relevant compliance checklists and Registers are maintained and reviewed on a regular basis.

(v) Consistent Stakeholder Value Enhancement

The Authority is keen on ensuring that stakeholder relationships are managed and maintained effectively. The Authority is undertaking several steps in this regard and is in the process of implementing a Stakeholder Engagement Policy.

(vi) Communications with Stakeholders

The Board has formulated a Communication Policy and ensures effective communication with stakeholders in the industry through its website and other media channels.

(vii) Corporate Social Responsibility and Investment (CSR)

Being conscious of the Authority's responsibility to the society, the Board is committed to operate ethically and promote corporate social responsibility and investments in accordance with its CSR Policy. The Board is proactively evaluating and promoting CSR Activities, which are reported in the Authority's Annual Report.

(viii) Corporate Sustainability

The Board is capable of assessing the financial viability and sustainability of the Authority through the annual budgeting process, annual procurement plans and adherence to public finance management standards. The Authority has successfully navigated through the Covid-19 crisis and established a new normal of embracing virtual meetings and encouraging staff to work from home. The Board has developed a Business Continuity Policy which has been implemented by management to guarantee resumption of normal operations after a disruptive event.

12. Governance Policies

(i) Code of Conduct and Ethics

The Board has ensured that a Code of Conduct and Ethics is in place and is observed by Board Members and employees of the Authority. The Code contains general rules of conduct and ethics and is intended to ensure that Board Members and employees of the Authority maintain the integrity, dignity and nobility of the Authority in all their activities.

(ii) Conflict of Interest Policy

The Code of Conduct and Ethics provides that a member of the Board or an employee shall ensure that he or she does not subordinate his official duties to his private interest or put himself in a position where there is conflict between his official duties and his private interests. The Code also provides that where there is a potential conflict of interest during the performance of official duty, it shall be the obligation of the one likely to have such a conflict declare such interest and act to avoid such a conflict.

The Board Charter also provides that a Board member who identifies an area of conflict shall be required to disclose any actual or potential conflict of interest to the Board. When declared, the Board member shall abstain from decisions where the conflict exists. The Corporation Secretary maintains a register of conflicts of interest which is updated where a conflict is declared.

(iii) Whistle Blowing Policy

The Board has provided for protection of whistle blowers under its Code of Conduct and Ethics as well as its Whistleblowing Policy so as to safeguard the identity and safety of whistleblowers. The Authority's whistleblowing policy is available on its website (<https://www.ira.go.ke>) and a designated email (ethics@ira.go.ke) has been availed on the website for anonymous reporting.

(iv) Risk Management Policy

The Board has established a Risk Management Policy which forms an integral part of the Authority's internal control and governance arrangements. The policy explains the Authority's underlying approach to risk management, documents the roles and responsibilities of the Board through the Audit, Risk Management and Corporate Governance Committee (ARMCG Committee) and other key parties. It also outlines key aspects of the risk management process and identifies the main reporting procedures. In addition, it describes the process which the Board shall use to evaluate the effectiveness of the Authority's internal control procedures.

(v) Information and Communications Technology Policy

The Authority has invested in technology to support the efficient and effective execution of the strategy set by the Board. The Board has put in place a policy on Information and Communication Technology which aims to protect its

investments in ICT systems as well as its confidential and sensitive information and that of its stakeholders in line with the Data Protection Act.

(vi) Communication Policy

In order to ensure that relevant information is received by stakeholders, the Board established a Communication Policy which defines roles, responsibilities and guidelines for handling internal and external communication with stakeholders. The Communications Policy aims to ensure that the Authority's communications give honest, accurate, clear, objective and timely information.

(vii) Stakeholder Engagement Policy

The Board developed a Stakeholder Engagement Policy which outlines the Authority's approach to communicating and working with its stakeholders. The Policy enables the Authority to systematically seek stakeholders' perspectives and expertise to understand, address, and manage their expectations.

(viii) Corporate Social Responsibility Policy

The Authority identified Corporate Social Responsibility (CSR) as a strategic pillar that will enable the Authority realize its mandate while giving back to the society in which it operates. The Board has established the Corporate Social Responsibility Policy as a framework for carrying out CSR activities by the Authority. The policy outlines the process of CSR identification, implementation, monitoring and reporting within the Authority.

13. Legal Compliance Audit

Governance Principle 8.4 of the *Mwongozo* requires that the Board should ensure that the Authority is subjected to an independent legal compliance audit annually and that its recommendations are implemented. The purpose of the legal compliance audit is to assure the Board that the Authority is complying with all its statutory obligations. The Authority procured the services of a consultant led by a Legal and Compliance Auditor, CS. Judy Warui, who is a Legal Compliance Auditor, an Accredited Governance Auditor and a member in good standing of the Institute of Certified Secretaries (ICS) and the Law Society of Kenya (LSK).

The Legal Auditor's opinion was that the Board has: (1) demonstrated commitment to ensuring that the Authority is well governed, and that a sound legal framework is in place; and (2) complied substantially with the Constitution of Kenya 2010, the applicable law and regulations and other relevant guidelines as issued by the respective Government departments from time to time. The Legal and Compliance Audit Report was adopted by the Board in April 2022 and the recommendations of the report are under implementation.

MANAGEMENT DISCUSSION AND ANALYSIS

SECTION A

The Authority's operational and financial performance

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

SECTION B

Authority's compliance with statutory requirements

The Authority has complied with all statutory obligations including but not limited to; remittances of Pay as You Earn (PAYE), National Hospital Insurance Fund (NHIF), National Social Security Fund (NSSF), Value Added Tax (VAT), Higher Education Loans Board (HELB), Withholding tax etc within the stipulated timelines.

SECTION C

Key projects and investment decisions the Authority is planning/implementing

The Authority is currently carrying out the following projects;

i. Consumer education activities in all Counties.

The Authority is currently carrying out consumer education activities in counties. During the 2021/2022 financial year, the Authority conducted the following trainings:

Training on procurement of insurance services was conducted in four (4) sessions. The officers from State Corporations, Ministries, State Departments and other public entities/agencies were trained on the need and benefits of insurance and the role insurance can play in safe guarding national and county government assets and the livelihoods of the employees. The officers were trained to enable them make informed decisions when procuring insurance services.

Training of traffic Police Officers was held in two regions. The main objective of this training is to enhance the Police Officers understanding of insurance and their capacity to investigate and prosecute insurance related cases in courts of Law. The Authority developed and disseminated IEC materials during the training, on procurement of insurance services, training of traffic police officers and other outreach activities conducted by the Authority. Infomercials were also developed and aired on television and local radio stations to educate the public on insurance and to improve their understanding and appreciation of insurance as a mechanism for risk management. This is aimed at enhancing insurance awareness levels in Kenya.

ii. Innovation lab

The Authority's Strategic Plan 2018-2022 is centred on policy and market development for inclusion and enhanced access to insurance products and services. Harnessing technology is one of the levers that the Authority intends to use to deliver its mandate of increasing insurance access, coverage and penetration.

The Authority in partnership with key stakeholders in the insurance industry launched the second cohort of the Bima Lab Accelerator Program in July 2021. The virtual program attracted, validated, accelerated and scaled up early and idea stage innovations in the market and awarded the best performing start-up firms. The program is aimed at helping current and aspiring innovators to start and grow up under guided mentorship of the regulator, corporate partners, investors & research institutions.

SECTION D

Major risks facing the Authority

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

i. Dissatisfied insurance consumers

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

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

Internally, the Authority has continued to respond to consumer complaints even when in person meetings were limited. This has been made possible through remote working via secure virtual private network (VPN) connections. Interaction with consumers has been made possible through other means that exclude face to face meetings. This is mainly through emails, telephone calls and virtual meetings. Customers who visit the office and require face to face interaction are also served.

ii. Failure of insurance companies to meet obligations

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

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

iii. Business interruption

The Authority relies heavily on human capital and technology to deliver its services. The human resource complement has remained relatively low and the current demographics call for proactive succession planning.

The Authority obtained approval of revised Human Resource Management instruments with an enhanced staff complement. Recruitment is ongoing to fill vacant positions. This will ensure there is adequate succession planning.

There has been increased investment in Information Technology infrastructure and security, in response to the growing level of automation. This has ensured that regulated entities and consumers are able to access services without manual intervention. Measures have been put in place to ensure continuous availability of the regulatory system.

SECTION E

Material arrears in statutory/financial obligations

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

SECTION F

Financial impropriety and serious governance issues

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

ENVIRONMENTAL AND SUSTAINABILITY REPORTING

IRA exists to transform lives. This is our purpose; the driving force behind everything we do. Below is an outline of IRA's policies and activities that promote sustainability.

(i) Sustainability strategy and profile

The insurance industry is an important part of the financial sector with a substantial impact on the overall financial stability of our country. As risk managers, insurers play a central role in identifying and measuring risks posed by broad trends at political and macro-economic levels across the region.

To cultivate a competitive framework within the sector, the Authority continues to advise insurers on the need to adapt and innovate while factoring a cross-section of risks that may affect their sustainability priorities into their strategic decision-making process.

To aid this endeavor, the Authority references international best practices, including the following

- Capitalization - The Authority has continued to implement Risk Based Supervision (RBS) which ensures that prices charged are linked to the risk profile of the insurer.
- It lobbies for support from the government to pass laws that create an enabling environment for insurers to operate.
- At the macro-economic level, the Authority encourages insurance companies to invest in government securities and corporate bonds. It has also encouraged insurers to diversify their investments by passing and guiding implementation of micro-insurance regulations.

Some best practices the Authority benchmarks against and adheres to include: -

- Perennial membership to the International Association of Insurance Supervisors, which is in charge of developing the Insurance Core Principles (ICPs)
- Information sharing MoUs and collaboration with other regulators within the region and internationally. This allows for sharing key achievements and milestones made as well as failures to look out for when implementing similar initiatives.

(ii) Environmental performance

As part of IRA's CSR policy, the Authority entered into a 5-year partnership with Kenya Forest Service (KFS) from 2019 on the implementation of the Presidential Directive on 10% Tree Cover. The partnership focuses on the restoration of the mangrove forests along the coastal shoreline, with the aim of enhancing the environmental, social, and economic benefits of the mangrove ecosystems.

This initiative has been successful in that members of staff have been able to participate and plant 10,000 mangrove seedlings in conjunction with the Big Ship Conservation Group in Mikindani Tudor Creek Mangrove Forest. In addition, the Authority was able to support the Ministry of Environment and Forestry during their 4th Annual Kaptagat Tree Planting Exercise at the Sabor Forest Block-Kitany area, where over 75,000 indigenous tree seedlings were planted and the community was sensitized on matters of environmental protection and conservation.

(iii) Employee welfare

Policies guiding the hiring process

The vision of the Authority is to be an effective regulator of a globally competitive insurance industry. In order to achieve this, the Authority is in the process of implementing revised Human Resource (HR) Instruments with effect from 1st November 2021. The HR instruments include; Organizational structure, grading, and staff establishment; career guidelines for IRA staff; and Human Resource Management Policy and Procedures Manual (2021).

The instruments were developed to support service delivery, commitments, and obligations of the Authority and are in harmony with Public Service Commission guidelines. They are reviewed as and when necessitated but at least every three (3) years.

Organizational Structure & Establishment

The approved structure is designed to deliver the strategy of the Authority. The Organizational Structure was developed with an aim to achieve the following: to maximize the efficiency and success of the Authority; facilitate working relationships with various sections of the Authority; and retain order and command whilst promoting flexibility and creativity.

The Authority is currently structured into six (6) Directorates and one (1) department as direct reports to the CEO. This is an improvement from the previous structure where ten (10) Divisions/Departments reported directly to the CEO.

Within the six Directorates, Directorate of Market conduct was introduced to handle consumer protection and consumer education functions. The Directorate of Corporate Services merged five departments i.e., Finance, Human Resource Management, Administration, Information and Communication Technology and Corporate Communication. Lastly, the Directorate of Supervision was also hived off from what was formerly Technical Division. It comprises four departments namely; Licensing & Enforcement, Prudential Supervision, Intermediaries and Data Analytics.

Staff Establishment

In order to achieve the strategic objectives, the Authority needs to determine the optimum staffing levels. The staff establishment provides for the total full-time positions required to carry out the Authority's mandate. It enables budgeting, planning and tracking of human resources against Directorate's priorities.

Currently, the Authority has an approved staff establishment of 121 staff, with 74 staff in post.

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

Human Resource Management (HRM) Policies & Procedures

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

Career Progression Guidelines

In the effort to improve skills and managing careers, the Authority has in place career progression guidelines which is an important human resource management tool that facilitates recruitment, retention, development, training and promotion on the basis of merit, competence and ability. The guidelines provide a linkage between an officer's performance, career advancement, and adopts a new job classification based on complexities of the roles, qualifications and competencies required to undertake work at different levels.

The Authority is in the process of implementing the approved HR Instruments which are instrumental in ensuring optimal delivery of the Authority's mandate.

Occupational Safety and Health

The management of the Authority is committed to providing and maintaining a safe, healthy work environment for its employees, customers and anyone entering the Authority's premises. IRA Occupational Health and Safety Policy provides the general occupational safety requirements to be adhered to while within the premises in order to minimize risk exposure in the workplace. Every effort will be made to prevent injury to employees caused by fire and safety related risks by taking all possible steps to improve working conditions and creating awareness.

The Authority's functions are in full conformity with all applicable safety and health laws, regulations, codes and standards. All staff and stakeholders are also expected to comply with the law and IRA's fire safety policy.

IRA is committed to;

- a) Provision of adequate resources for effective implementation of all safety programmes;
- b) Implementation of protective and preventive measures required to ensure the safety of all persons;
- c) Clear definition of roles, responsibilities and accountabilities with regard to health and safety;
- d) Compliance with all applicable regulatory and statutory requirements;
- e) Building staff capacity in firefighting, emergency preparedness and evacuation;
- f) Training of staff on occupational health and safety;
- g) Periodic fire evacuation drills and testing of emergency preparedness;
- h) Collaboration and communication with relevant authorities on all issues regarding fire safety incidents and occurrences; and
- i) All employees and relevant interested parties are expected to comply with this policy.

(iv) Marketplace practices

Responsible Competition Practice

As an industry regulator, the Authority has put in place the following measures to mitigate against malpractices:

- Establishing Insurance Fraud Investigation Unit (IFIU) to deal with Insurance Fraud in the industry. The IFIU is a specialized unit manned by policemen from the Directorate of Criminal Investigation (DCI) office trained to handle insurance related fraud by conducting impromptu checks on forged/stolen Motor Vehicle Insurance Certificates among others.
- Establishment of a Policy on Corruption and Code of Conduct. This policy is well displayed within the Authority's offices to ensure adherence.
- Establishment of a designated email (ethics@ira.go.ke) to aid in whistleblowing on any suspected corrupt activities.
- Establishment of capacity building and stakeholder sensitization programs that create awareness on the Authority's policies, laws and regulations developed to alleviate corruption and fraud.

To ensure fair competition practices are maintained, the Authority strictly adheres to the Insurance Act which is implemented with support from the parent ministry.

The Authority also works closely with the Competition Authority of Kenya (CAK) to guide on matters regarding pricing amongst the insurance players.

Responsible Supply Chain & Supplier Relations

The Authority's procurement functions comply with the requirements of Article 227 of the Constitution of Kenya, Public Procurement and Assets Disposal (PPAD) Act, 2015 and Public Procurement and Assets Disposal Regulations, 2020 (PPADR) and Government Circulars that are released from time to time. Article 227 requires the public procurement system to be fair, equitable, transparent, competitive and cost effective.

Procurement is a process and not an end in itself. The process cuts across all directorates and departmental boundaries within IRA as it facilitates seamless operation of implementing departmental work plans through forecasted procurement plans and within approved budgets.

Through professionalism and good governance, the Authority's Supply Chain Management department headed by the Senior Manager, Supply Chain Management has been in the forefront of ensuring corporate strategic objectives are achieved through acquisition of top-quality goods, works, consultancy and non-consultancy services in the most transparent and competitive process and hence achieving value for money.

Procurement processes have also been designed in a manner that implement the sustainability concept of triple bottom line commonly known as 3P's or 3 E's. These P's or Es refers to People/ Ethics, Planet/Environment and Profit/Economics. The concept enhances Authority's procurement awareness on the need to have responsible supply chain and supplier's relation.

From its inception, IRA maintains good business practices, treats its own suppliers responsibly by honoring contracts and respecting payment practices through implementing sustainability practices as explained below.

- i. IRA's procurement department is managed by procurement professionals whose qualifications are recognized in Kenya as required under Supplies Management Practitioners Act, 2007 and PPAD Act and PPADR.
- ii. Procurement processes are undertaken in a fair, equitable, transparent, competitive and cost-effective manner.
- iii. Procurement opportunities are advertised through open tender method of procurement. Opportunities are also given through restricted tenders, request for quotations or other approved methods to registered suppliers for all eligible bidders to participate. Equal chances are offered.
- iv. To implement affirmative action, some procurement opportunities are reserved for Youth, Women and Persons Living with Disabilities.
- v. Procurement at IRA promotes local industries by awarding at least 40% of its procurement spend to firms owned by locals or purchasing items that are locally manufactured.

- vi. Procurement processes are undertaken by competent ad hoc evaluation committees' who are required to work independently.
- vii. Procurement evaluation is done strictly on compliance with both mandatory and technical requirements and awards are based on merit to lowest responsive and evaluated bid.
- viii. Procurement department helps user departments to come up with realistic budgets based on market knowledge of goods and services to be procured.
- ix. IRA conducts due diligence where applicable before awarding tenders to ensure they will only award contracts to reputable suppliers.
- x. The Head of Procurement is required to give a professional opinion to the Chief Executive Officer (CEO) of the procurement process undertaken by the evaluation committee.
- xi. Procurement approvals are undertaken by different personnel within different departments to enhance accountability through separation of duties.
- xii. The CEO has the final say on the contract award.
- xiii. The suppliers are paid within the stipulated credit period of 30 days subject to the Inspection and Acceptance Committee.
- xiv. Disposal of unserviceable, obsolete, or surplus stocks is done in compliance with requirements of PPAD Act, PPADR and National Environmental Management Authority (NEMA)

Responsible Marketing and Advertising

Ethical marketing and advertising practices have been observed by following the standard operating procedures, adhering to circulars from the parent ministry with guidance from the Government Advertising Agency (GAA). The Authority also sources up-to-date information on the media landscape from the Media Council of Kenya (MCK). This data is used to make informed decisions on which channels to advertise on.

Product stewardship

To safeguard consumer rights and interests, the Authority has continued to carry out consumer education activities to enable them make informed insurance choices. This is been realized through consumer education outreach activities, adoption of digital communication platforms, and development of a framework on 'Treating Customers Fairly' that standardizes treatment of Insurance customers.

Our focus on the customer remains a key priority. The annual customer satisfaction surveys that the Authority conducts, helps to identify gaps which we then work with internal teams to resolve with the aim of exceeding our customer expectations.

The Authority deliberately seeks out shared value partnerships to reinforce our purpose driven approach to service delivery and our commitment to transforming lives. This has been the foundation of our stakeholder engagement strategy that

has brought to life initiatives such as Bima Mashinani enabling us to engage with our customers across the Country.

Corporate Social Responsibility (CSR)/ Community Engagements

To complement its mandate, the Authority has a comprehensive corporate social responsibility policy in place, which is anchored on its commitment to be a corporate citizen alive towards social responsibility with a view to make a positive difference to society. IRA envisages that through CSR, it will enhance its profile and reputation while positioning itself as the organization of choice by employees, suppliers, communities, and all other stakeholders.

The Authority's CSR programme is run on a foundation of ethical principles, good governance and sound management and has prioritized four key areas: *Health, Education, Environment and Response to national emergencies and disasters as and when necessary.*

The Authority has signed strategic partnerships with the financial sector regulators, Kenya Society for the Blind and Kenya Forest Service to implement joint CSR activities for purposes of sustainability and long-term planning.

In the year under review, the Authority took part in the following outlined activities, guided by the CSR policy.

No.	CSR Activity	County	Date
1.	Kaptagat Forest Annual Tree Planting	Elgeyo Marakwet	23 rd July, 2021
2.	International Day for the Conservation of Mangrove Ecosystem Ceremony	Mombasa	26 th July, 2021
3.	International White Cane Day Celebrations	Kisumu	15 th October, 2021
4.	Kenya Society for the Blind – Assistive devices to learners	Nairobi	15 th October, 2021
5.	Turkana Medical Camp	Turkana	28-29 th July, 2021
6.	Nyeri Hospice	Nyeri	19 th March, 2022
7.	Nairobi Hospice	Nairobi	6 th May, 2022
8.	St. John Road Safety Walk at Ngong Road, Forest sanctuary	Nairobi	18 th June, 2022
9.	Mangrove Tree planting at Tudor Creek	Mombasa	24 th June, 2022

Health Pillar: Medical Camp in Turkana and Marking White Cane Day

In the period under review, IRA facilitated a free medical camp in Turkana County. General Practitioners were on site to offer residents a wide cross section of health check-ups and treatments where required. The medical camp brought on site medical specialists in screening and treating eye conditions; nutritional attention and testing for diabetes and hypertension, cancer screening for cervical, breast and prostate cancers. The camp also extended Voluntary Counseling and Testing for HIV, Family Planning as well as dental services.

In addition to this medical camp, the Authority facilitated initiatives during the International White Cane Day Celebrations in Kisumu, as well as providing for assistive devices to learners, through the Kenya Society for the Blind in October 2021.

Cancer and the Terminally ill

A large majority of Kenyans are reported to be living with terminal illnesses. While accurate data from rural areas is difficult to obtain, it is estimated that 40,000 Kenyans are diagnosed with cancer every year and more than 27,000 will die from the disease within 1–2 years of being diagnosed.

As part of our dedication to making a difference in our communities, IRA supported three Hospices in Nairobi and Nyeri to a tune of Kshs. 1 million. The Authority's donations were allocated towards supporting the Hospice's outreach programs which include home-based care for patients who are too sick to attend the support group meetings. In Nyeri Hospice the funds were allocated towards operational expenses required to support cancer patients in the Mount Kenya region.

Education Pillar: IRA's flagship CSR project is a long-term commitment to support the Kenya Society for the Blind (KSB) which is aligned to the Authority's goal of supporting vulnerable groups.

The Authority supports KSB financially through education-related initiatives. Through the partnership, KSB has purchased assistive devices (*this is an umbrella term that includes assistive, adaptive and rehabilitative devices for people with visual disabilities*) such as brails.

The need for Braille assistive devices Kenya is currently at a ratio 1:3. This means that for every Braille machine there are three learners with visual impairments using it. The goal is to change this ratio to 1:1 ensuring that every blind learner has access to a Braille assistive device.

Our Role in training more Actuaries for the Sector

Every year, the Authority offers a one-year scholarship to eight actuarial students to undertake Master's degree at the Bayes (Cass) Business School in London, United Kingdom. This assists in capacity building in the actuarial profession and

boosts the number of actuaries in the industry. So far, the Authority has supported over 50 students.

The Authority will continue to explore more partnerships as well as identifying sectors in the society that we can support to improve livelihoods and play our role as a global citizen

Our CSR Committees

The Authority's CSR policy runs on the wheels of our dedicated CSR Committee. The committee is constituted of the Authority's staff drawn from various departments, whose main role is to strategically identify projects that the Authority can invest in and follow through to successful implementation.

The Authority is grateful that even with reduced activity resulting from Government directed lockdowns during the Covid-19 Pandemic implemented to flatten the curve, we had significant impact across all core areas of engagement outlined in the CSR policy.

REPORT OF THE DIRECTORS

The Directors submit their report together with the financial statements for the year ended 30 June, 2022 which shows the state of affairs of the Insurance Regulatory Authority.

Incorporation

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

Principal activities

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

Results

The results of the Authority for the year ended 30 June, 2022 are set out on page 1.

Directors

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

Dividends/Surplus remittance


In accordance with Section 219(2) of the Public Finance Management (National Government) Regulations, 2015 regulatory entities shall remit into the Consolidated fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The Authority will remit Kshs. 1,110,304,525 (financial year 2020/2021 Kshs. 943,941,406).

Auditors

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

By Order of the Board

FCS Diana Sawe Tanui
Board Secretary

Date: 
23/09/2022

STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for the financial year ended June 30, 2021. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Authority; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Authority; selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of the Authority's transactions during the financial year ended June 30, 2022, and the Authority's financial position as at that date. The Board of Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the Financial Statements

The Authority's financial statements were approved by the Board of Directors on 23rd September 2022 and signed on its behalf by:


Mohamed Sheikh Amin
Chairman


Godfrey Kiptum, MBS
Commissioner of Insurance &
Chief Executive Officer

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REPORT OF THE AUDITOR-GENERAL ON INSURANCE REGULATORY AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Insurance Regulatory Authority set out on pages 1 to 30, which comprise of the statement of financial position as at

30 June, 2022 and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Insurance Regulatory Authority as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Accrual Basis) and comply with the Insurance Act, 2020 (Revised) and the Public Finance Management Act, 2012.

Basis for Opinion

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

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter discussed in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Delay in Settlement of Amounts Owed to Suppliers

The statement of financial position reflects payables from exchange transactions balance of Kshs.232,560,160 as disclosed in Note 26 to the financial statements. At the time of audit, review of aging analysis of the payables revealed that supplier invoices amounting to Kshs.9,960,778 which had been outstanding for more than one year, had not been paid contrary to the Authority's Financial Regulations and Accounting Procedures Manual, 2009 which state that the Authority shall as a matter of policy, honor the agreed payment/credit terms with suppliers of goods/services. Although Management has indicated that it is closely following up on the outstanding issues relating to the balances to ensure that the amount is settled, delay in settlement exposes the Authority to litigations.

In the circumstances, delay in settlement of amounts owed to suppliers may result in increased cost of interest on overdue amounts.

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

Responsibilities of Management and Board of Directors

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

In preparing the financial statements, Management is responsible for assessing the Authority's ability to continue to sustain its services, disclosing, as applicable, matters

related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Authority or cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in

which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

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

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi


08 February, 2023


**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE, 2022**

	Notes	2022 KSHS.	2021 KSHS.
Revenue from non-exchange transactions			
Insurance premium levy	6	2,300,707,116	1,957,871,637
Licence fees	7	26,539,555	22,456,966
Miscellaneous income	8	<u>60,000</u>	<u>2,178,606</u>
		<u>2,327,306,671</u>	<u>1,982,507,209</u>
Revenue from exchange transactions			
Interest income	9	<u>86,581,365</u>	<u>68,866,810</u>
		<u>86,581,365</u>	<u>68,866,810</u>
Total Revenue		<u>2,413,888,036</u>	<u>2,051,374,019</u>
EXPENSES			
Board expenses	10	31,073,283	31,579,548
Employee costs	11	488,921,273	462,839,388
Development of the insurance industry	12	137,630,407	114,963,874
General expenses	13	232,518,664	246,412,145
Repairs and maintenance costs	14	3,584,969	3,648,325
Contracted services	15	50,947,776	28,256,842
Depreciation and amortisation	23&24	<u>80,429,065</u>	<u>75,296,871</u>
		<u>1,025,105,437</u>	<u>962,996,993</u>
SURPLUS FOR THE YEAR		1,388,782,599	1,088,377,026
Transfer to Consolidated Fund	17	<u>(1,110,304,525)</u>	<u>(943,941,406)</u>
TRANSFERRED TO GENERAL RESERVE		<u>278,478,073</u>	<u>144,435,620</u>

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE, 2022

	Notes	2022 KSHS.	2021 KSHS.
ASSETS			
CURRENT ASSETS			
Cash and bank balances	18	225,461,918	45,525,106
Receivable from exchange transactions	19	40,424,699	44,931,843
Investments	20	1,303,965,990	1,222,213,982
Inventories	21	<u>1,163,728</u>	<u>1,011,561</u>
		<u>1,571,016,335</u>	<u>1,313,682,492</u>
NON-CURRENT ASSETS			
Property, plant and equipment	4(e)&23	165,576,092	132,736,942
Intangible assets	24	67,396,450	25,553,761
Investment	25	<u>362,713,669</u>	<u>359,360,432</u>
		<u>595,686,210</u>	<u>517,651,135</u>
TOTAL ASSETS		<u>2,166,702,545</u>	<u>1,831,333,627</u>
CURRENT LIABILITIES			
Payables from exchange transactions	26	232,560,160	144,634,615
Payable to Consolidated Fund	17(b)	710,304,525	723,941,406
Provisions	27	<u>60,784,690</u>	<u>78,182,509</u>
		<u>1,003,649,375</u>	<u>946,758,530</u>
NET ASSETS		<u>1,163,053,170</u>	<u>884,575,097</u>
RESERVES			
General Reserves		463,053,170	184,575,097
Building Reserves		<u>700,000,000</u>	<u>700,000,000</u>
		<u>1,163,053,170</u>	<u>884,575,097</u>


Mohamed Sheikh Amin
 Chairman


CPA Esther Musyoki
 Manager Finance
 ICPAK no. 3374


Godfrey Kiptum, MBS
 Commissioner of Insurance
 & Chief Executive Officer

The notes on page 8 to 30 form an integral part of these financial statements

**STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE, 2022**

RESERVES	GENERAL RESERVES	BUILDING RESERVE	TOTAL
1 July, 2020	40,139,477	700,000,000	740,139,477
Changes in reserves for 2021			
Surplus for the year	<u>144,435,620</u>	=	<u>144,435,620</u>
Balance as at 30th June, 2021	<u>184,575,097</u>	<u>700,000,000</u>	<u>884,575,097</u>
1 July, 2021	184,575,097	700,000,000	884,575,097
Changes in reserves for 2022			
Surplus for the year	<u>278,478,073</u>	=	<u>278,478,073</u>
Balance as at 30th June, 2022	<u>463,053,170</u>	<u>700,000,000</u>	<u>1,163,053,170</u>

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2022**

	Notes	2022 KSHS.	2021 KSHS.
Cash flow from operating activities			
Cash receipts from customers		2,327,306,671	1,982,507,209
Payment to suppliers and employees		<u>(869,793,670)</u>	<u>(874,274,805)</u>
Net Cash from Operating Activities		1,457,513,001	1,108,232,404
Cash flow from investing activities			
Purchase of property, plant and equipment	23&24	(155,110,903)	(39,553,242)
Purchase/Sale of investments		(3,353,237)	(31,139,932)
Surplus paid to Consolidated Fund	17	(1,123,941,406)	(681,742,430)
Interest received	9	86,581,365	68,866,810
Net cash used in investing Activities		<u>(1,195,824,181)</u>	<u>(683,568,793)</u>
Net(decrease) increase in cash & cash equivalents		261,688,820	424,663,610
Cash & cash equivalent at the beginning		<u>1,267,739,088</u>	<u>843,075,478</u>
Cash & cash equivalent at the end	22	<u>1,529,427,908</u>	<u>1,267,739,088</u>

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE, 2022**

	2022 KSHS. BUDGET	2022 KSHS. ACTUAL	VARIANCE %
INCOME			
Insurance premium levy	1,863,176,629	2,300,707,116	23%
Interest income	20,000,000	86,581,365	333%
Licence fees	15,191,000	26,539,555	75%
Other Miscellaneous income	<u>3,000,000</u>	<u>60,000</u>	<u>-98%</u>
	<u>1,901,367,629</u>	<u>2,413,888,036</u>	<u>27%</u>
CAPITAL EXPENDITURE	164,500,000	155,110,905	6%
OPERATING EXPENDITURE			
Board members expenses	30,000,000	31,073,283	-4%
Personnel emoluments	560,548,140	384,117,666	31%
Other personnel costs	120,900,000	104,803,607	13%
Development of Insurance industry	170,945,380	137,630,407	19%
Office supplies and expenses	18,000,000	14,481,923	20%
Transport and travel expenses	39,509,073	38,141,876	3%
Public relations	53,080,000	45,675,373	14%
Utilities and ICT expenses	31,330,000	23,560,535	25%
Office rent and office services	84,795,734	70,871,371	16%
Consultancy & professional services	55,300,000	52,199,211	6%
Sinking fund provision (Depreciation)	51,500,000	80,429,065	-56%
Other expenses	<u>40,920,000</u>	<u>42,121,121</u>	<u>-3%</u>
TOTAL RECURRENT EXPENDITURE	1,256,828,327	1,025,105,439	18%
TOTAL EXPENDITURE	<u>1,421,328,327</u>	<u>1,180,216,344</u>	<u>17%</u>
SURPLUS FOR THE YEAR	<u>480,039,302</u>	<u>1,233,671,692</u>	<u>157%</u>

NOTES ON SIGNIFICANT VARIANCES BETWEEN BUDGET AND ACTUAL

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

a) Personnel Emoluments - Kshs. 384million (Budget Kshs. 561million)

Budget is based on a staff establishment of 121 members of staff. Staff in position are currently 74.

b) Development of the insurance industry - Kshs. 137million (Budget 171million).

Some activities were not undertaken as earlier planned while others were undertaken virtually. The National Innovation Lab Workshop, AML/CFT Workshops were done virtually while Insurance Innovation Acceleration Program-BimaLAB was sponsored by FSD. The conference for Insurance Service Providers (ISP) and the Insurance Convention were not done.

c) Office Supplies- Kshs. 14million (Budget Kshs. 18million)

This vote is underspend because in the period under review a number of staff were working from home.

d) Utilities and ICT Expenses- Kshs. 24million (Budget Kshs. 31million)

MS Navision software license was not renewed within the year as planned.

e) Office Rent & Office Services - Kshs. 71million (Budget Kshs. 85million)

The 3rd floor was occupied in the 4th quarter and repairs to office equipment was lower than anticipated.

f) Depreciation- Kshs. 80million (Budget Kshs. 52million)

The actual provision for depreciation was higher than the amount budgeted for.

2. Reconciliation of Surplus

Surplus for the year	1,388,782,599	1,088,377,026
Less purchase of assets	(155,110,903)	(39,553,242)
Realised surplus funds	<u>1,233,671,696</u>	<u>1,048,823,784</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2022

1. General information

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

2. Statement of compliance and basis of preparation

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

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

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

3. Adoption of new and revised standards

i. *New and amended standards and interpretations in issue effective in the year ended 30 June 2022.*

IPSAS Board deferred the application date of standards from 1st January 2022 owing to Covid 19. This was done to provide entities with time to effectively apply the standards. The deferral was set for 1st January 2023.

ii. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022.*

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	Applicable: 1st January 2023: The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the

Standard	Effective date and impact:
	<p>amounts, timing and uncertainty of an Entity's future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.
<p>IPSAS 42: Social Benefits</p>	<p>Applicable: 1st January 2023</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <p>(a) The nature of such social benefits provided by the Entity.</p> <p>(b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the Entity's financial performance, financial position and cash flows.</p>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p>Applicable: 1st January 2023:</p> <ol style="list-style-type: none"> a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. d) Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were

Standard	Effective date and impact:
Other improvements to IPSAS	<p>inadvertently omitted when IPSAS 41 was issued.</p> <p>Applicable 1st January 2023</p> <ul style="list-style-type: none"> • <i>IPSAS 22 Disclosure of Financial Information about the General Government Sector.</i> Amendments to refer to the latest System of National Accounts (SNA 2008). • <i>IPSAS 39: Employee Benefits</i> Now deletes the term composite social security benefits as it is no longer defined in IPSAS. • IPSAS 29: Financial instruments: Recognition and Measurement Standard no longer included in the 2021 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023.
IPSAS 43	<p>Applicable 1st January 2025</p> <p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity. The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p>
IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations	<p>Applicable 1st January 2025</p> <p>The Standard requires,</p> <p>Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> <p>Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p>

(i) Early adoption of standards

The Authority did not early – adopt any new or amended standards in year 2021/2022.

4. Summary of significant accounting policies

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

(a) Income recognition

i) Revenue from non-exchange transactions

Premium levy, Penalties and licence fees

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

ii) Revenue from exchange transactions

Interest income

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

(b) Budget information

The budget for financial year 2021-2022 was approved by The National Treasury and Planning via letter Ref DGIPE/A/1/10 dated 30th June 2021.

The annual budget is prepared on accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Authority. As a result of the adoption of the accrual basis for budgeting purposes, there is no basis that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

(c) Taxes

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

(d) Investment property

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

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

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

(e) Property, Plant, Equipment and Computer Depreciation

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

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

The Depreciation rates used are as follows.

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

(f) Leases

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

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant

rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Authority will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Authority. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

(g) Intangible assets

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

The useful life of the intangible assets is assessed as either finite or indefinite. Amortisation is calculated on the cost of each asset on a straight-line basis at an annual rate of 33.3%. Assets purchased in the first three quarters of the financial year are amortised fully for the year while those purchased in the last quarter are not amortised in the financial year under review.

(h) Research and development costs

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

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

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

(i) Financial instruments

(a) Financial assets

Initial recognition and measurement

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

Loans and receivables

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

Held-to-maturity

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

Impairment of financial assets

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

- The debtors or an entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization

- Observable data indicates a measurable decrease in estimated future cash flows (e.g., changes in arrears or economic conditions that correlate with defaults).

(b) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Authority determines the classification of its financial liabilities at initial recognition.

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

Loans and borrowing

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

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

(j) Inventories

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

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

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

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

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

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

(k) Provisions

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

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

Contingent liabilities

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

Contingent assets

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

(l) Nature and purpose of reserves

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

(m) Changes in accounting policies and estimates

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

(n) Employee benefits

Retirement benefit plans

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

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

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

(o) Foreign currency transactions

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

(p) Borrowing costs

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

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

(q) Related parties

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

(r) Service concession arrangements

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

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year.

(t) Comparative figures

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

(u) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2022.

5. Significant judgments and sources of estimation uncertainty

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Authority based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments

may change due to market changes or circumstances arising beyond the control of the Authority. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in note 27.

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

6. Insurance premium levy

	2022	2021
	KSHS.	KSHS.
Premium Levy	<u>2,300,707,116</u>	<u>1,957,871,637</u>
	<u>2,300,707,116</u>	<u>1,957,871,637</u>

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

7. License fees

Insurance companies	1,800,000	150,000
Brokers	4,550,000	4,010,000
Loss Assessors	1,554,000	1,782,000
Agents	17,960,555	15,973,666
Other intermediaries	435,000	501,300
Branches	240,000	40,000
	<u>26,539,555</u>	<u>22,456,966</u>

This is an annual fee paid by all licensed industry players. The licence fees for insurance and re-insurance companies were discontinued in the financial year 2018/2019. The fees charged are Kshs.10,000 for brokers and medical insurance providers, Kshs. 3,000 for surveyors, loss adjustors, loss assessors, investigators, risk managers, claims settling agents and Kshs.1,000 for insurance agents. For

annual renewals, the industry players are required to pay twice the amount if the application is received after the deadline, currently 30th September.

8. Miscellaneous income

	2022	2021
	KSHS.	KSHS.
Sale of obsolete items	<u>60,000</u>	<u>2,178,606</u>
This is income from the sale of obsolete items.	<u>60,000</u>	<u>2,178,606</u>

9. Interest income

Treasury bills	48,024,263	20,407,919
Fixed deposits	35,018,320	47,562,681
Current accounts	<u>3,538,782</u>	<u>896,210</u>
	<u>86,581,365</u>	<u>68,866,810</u>

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

10. Board expenses

Honoraria	800,000	960,000
Sitting allowances	7,360,000	8,360,000
Seminars, travel and accommodation	19,846,634	11,783,367
Meeting, entertainment & Others	416,272	744,222
Telephone expenses	216,000	269,000
Medical GPA	34,377	684,088
Other expenses	<u>2,400,000</u>	<u>8,778,871</u>
	<u>31,073,283</u>	<u>31,579,548</u>

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

11. Employee costs

	2022	2021
	KSHS.	KSHS.
Basic salary	221,700,354	223,178,079
House allowances	35,147,795	33,264,840
Transport allowances	30,991,713	29,447,311
Contract/part-time staff	10,978,489	8,346,488
Special duty and extraneous allowance	13,519,460	18,064,373
Pension and gratuity	54,530,852	46,703,880
Medical	31,132,723	26,139,876
Group insurance-life and accident	6,132,982	4,351,274
Training and capacity building	55,300,244	31,818,455
Subscriptions	1,177,198	1,921,868
Internship	1,324,003	160,000
Staff uniforms and welfare	10,860,460	19,918,344
Staff bonus and awards	200,000	16,424,600
Leave allowance	<u>15,925,000</u>	<u>3,100,000</u>
	<u>488,921,273</u>	<u>462,839,388</u>
Number of employees at year end	74	75

12. Development of the insurance industry

Seminars for insurance industry	15,198,026	4,656,460
Consumer education	71,131,964	67,735,096
Scholarship for Actuarial students	36,961,577	33,113,728
Research	<u>14,338,840</u>	<u>9,458,590</u>
	<u>137,630,407</u>	<u>114,963,874</u>

13. General expenses

Office supplies and expenses	14,381,923	14,449,410
Transport and travel	36,474,269	33,857,319
Public relations	45,675,372	86,901,573
ICT expenses	23,560,536	22,186,962
Provision for Bad debts	100,000	-
Bank charges	1,251,435	1,422,119
Office rent and office services	68,954,009	60,071,361
IFIU and Tribunal expenses	<u>42,121,121</u>	<u>31,171,726</u>
	<u>232,518,664</u>	<u>246,412,145</u>

14. Repairs and maintenance costs

Repair and service-office equipment	1,917,363	1,745,066
Vehicle repair and service	<u>1,667,606</u>	<u>1,903,259</u>
	<u>3,584,969</u>	<u>3,648,325</u>

15. Contracted services

	2022	2021
	KSHS.	KSHS.
Consultancy	48,947,776	25,256,842
Audit fees	<u>2,000,000</u>	<u>3,000,000</u>
	<u>50,947,776</u>	<u>28,256,842</u>

16. Depreciation and amortisation

Depreciation	60,245,140	56,638,478
Amortisation	<u>20,183,925</u>	<u>18,658,393</u>
	<u>80,429,065</u>	<u>75,296,871</u>

17. (a) Transfer to the consolidated fund

Surplus for the year	1,388,782,599	1,088,377,026
Less purchase of assets	<u>(155,110,903)</u>	<u>(39,553,242)</u>
Realised surplus funds	<u>1,233,671,696</u>	<u>1,048,823,784</u>
90% of realised surplus funds	<u>1,110,304,525</u>	<u>943,941,406</u>

b) Amount due to consolidated fund

90% of realised Surplus	1,110,304,525	943,941,406
Advance payment	<u>(400,000,000)</u>	<u>(220,000,000)</u>
Amount Due	<u>710,304,525</u>	<u>723,941,406</u>

18. Cash and bank balances

NBK Account No. 0100306688400	177,990,781	9,881,894
KCB Ltd Account No. 1202647413	24,012,702	326,175
NCBA bank Account no. 1000009632	12,724,061	27,024,113
NCBA Account no. 8189570014	10,577,247	8,257,309
Petty cash	<u>157,127</u>	<u>35,615</u>
	<u>225,461,918</u>	<u>45,525,106</u>

19. Receivables from exchange transactions

Prepayments	6,897,668	6,444,426
Staff imprests /advances	832,108	1,187,530
Deposits	25,696,754	25,696,754
Less specific provision on deposit	<u>(100,000)</u>	<u>-</u>
Interest receivable	<u>7,098,169</u>	<u>11,603,133</u>
	<u>40,424,699</u>	<u>44,931,843</u>

20. Short term investments

	2022 KSHS.	2021 KSHS.
Fixed deposit -KCB	101,554,452	-
Fixed deposit -CO-OP	118,705,038	115,000,000
Fixed deposit -NCBA	250,000,000	408,778,082
Fixed deposit -National Bank	-	60,000,000
Treasury bills	<u>833,706,500</u>	<u>638,435,900</u>
	<u>1,303,965,990</u>	<u>1,222,213,982</u>

The effective interest rate on the Treasury bill as at 30 June, 2022 was 8%.

21. Inventories

Stationery	<u>1,163,728</u>	<u>1,011,561</u>
	<u>1,163,728</u>	<u>1,011,561</u>

22. Cash and cash equivalents

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

Cash and current account balances	225,461,918	45,525,106
Short term investments	470,259,490	583,778,082
Treasury Bills	<u>833,706,500</u>	<u>638,435,900</u>
	<u>1,529,427,908</u>	<u>1,267,739,088</u>

23. Property, plant & equipment

	Motor Vehicles	Computer Equipment	Computer Networking & Cabling	Partitions Furniture & Fittings	Equipment (Telephone, Fax, Other)	Total
	KSHS.	KSHS.	KSHS.	KSHS.	KSHS.	KSHS.
At 1 July, 2020	85,933,754	161,425,908	39,948,920	109,459,087	26,986,930	423,754,599
Add: additions during the year	-	24,814,015	4,462,560	3,214,035	2,618,440	35,109,050
Less: disposals during the year	(4,344,400)	-	-	-	-	(4,344,400)
At 30 June 2021	81,589,354	186,239,923	44,411,480	112,673,122	29,605,370	454,519,249
Depreciation:						
At 1 July, 2020	54,905,954	43,288,656	39,948,920	107,351,788	23,992,910	269,488,228
Charge for the year	12,256,950	42,568,995	-	765,102	1,047,431	56,638,478
Disposal At 30 June, 2021	(4,344,400)	-	-	-	-	(4,344,400)
Net book value: At 30 June 2021	62,818,504	85,857,651	39,948,920	108,116,890	25,040,341	321,782,306
At 1 July, 2021	81,589,354	186,239,923	44,411,480	112,673,122	29,605,370	454,519,249
Add: additions during the year	18,188,000	36,799,999	-	35,796,624	2,299,666	93,084,289
Less: disposals during the year	(4,768,608)	-	-	-	-	(4,768,608)
At 30 June 2022	95,008,746	223,039,922	44,411,480	148,469,746	31,905,036	542,834,930
Depreciation:						
At 1 July, 2021	62,818,504	85,857,651	39,948,920	108,116,890	25,040,341	321,782,306
Charge for the year	6,256,950	48,926,967	1,487,520	1,619,221	1,954,482	60,245,140
Disposal At 30 June, 2022	(4,768,608)	-	-	-	-	(4,768,608)
Net book value: At 30 June 2022	30,701,900	88,255,304	2,975,040	38,733,635	4,910,213	165,576,092

At 30 June, 2022, Assets worth Kshs. 260,540,507 were fully depreciated. The notional depreciation charge on these assets is Kshs. 60,092,831. (As at 30th June 2021 the fully depreciated assets were worth Kshs. 258,026,650 with a notional depreciation of Kshs. 59,534,787).

24. Intangible assets

Computer software	KSHS.	TOTAL KSHS.
Cost		
At 1 July 2020	86,687,756	86,687,756
Add: additions during the year	4,444,192	4,444,192
Less: disposals during the year		
At 30 June 2021	<u>91,131,948</u>	<u>91,131,948</u>
Amortization:		
At 1 July,2020	46,919,794	46,919,794
Charge for the year	<u>18,658,393</u>	<u>18,658,393</u>
Disposal		
At 30 June,2021	<u>65,578,187</u>	<u>65,578,187</u>
Net book value:		
At 30 June 2021	25,553,761	25,553,761
At 1 July 2022	91,131,948	91,131,948
Add: additions during the year	62,026,614	62,026,614
Less: disposals during the year		
At 30 June 2022	<u>153,158,562</u>	<u>153,158,562</u>
Amortization:		
At 1 July,2021	65,578,187	65,578,187
Charge for the year	<u>20,183,925</u>	<u>20,183,925</u>
Disposal		
At 30 June,2022	<u>85,762,112</u>	<u>85,762,112</u>
Net book value:		
At 30 June 2022	67,396,450	67,396,450

25. Long term investments

These are fixed deposits under lien for the Staff mortgage and car loans.

	2022 KSHS.	2021 KSHS.
National bank	14,745,466	14,745,466
Co-operative Bank	82,226,883	80,457,999
Kenya Commercial Bank	<u>265,741,319</u>	<u>264,156,967</u>
	<u>362,713,668</u>	<u>359,360,432</u>

26. Payables from exchange transactions

Supplier invoices	228,753,130	133,446,967
Other payables	<u>3,807,030</u>	<u>11,187,648</u>
	<u>232,560,160</u>	<u>144,634,615</u>

27. Provisions

	2022	2021
	KSHS.	KSHS.
Audit fees	2,000,000	2,000,000
Legal fees	21,504,692	22,000,592
Provision for bonus (staff & Board)	-	24,554,600
Contingent liability	30,792,452	20,792,452
Gratuity	<u>6,487,546</u>	<u>8,834,865</u>
	<u>60,784,690</u>	<u>78,182,509</u>

28. Related party transactions

The following transactions took place with related parties

Board (Allowances & other expenses)	31,073,283	31,579,548
Top management (Remuneration)	<u>45,367,600</u>	<u>44,035,807</u>
	<u>76,440,883</u>	<u>75,615,355</u>

29. Cash generated from operations

Surplus for the year before tax	note	1,388,882,599	1,088,377,026
Adjusted for:			
Depreciation and amortisation	16	80,429,065	75,296,871
Gains and losses on disposal of assets		-	-
Contribution to provisions	27	(17,397,820)	23,418,438
Finance income	9	(86,581,365)	(68,866,810)
Finance cost		-	-
Working Capital adjustments			
(Increase)/ Decrease in inventory	21	(152,159)	493,491
(Increase)/ Decrease in receivables	19	4,407,137	(5,074,510)
Increase / (Decrease) in payables	26	87,925,544	(5,412,095)
Net cash flow from operating activities		<u>1,457,513,001</u>	<u>1,108,232,411</u>

30. Financial instruments and risk management policies

The Authority's activities expose it to a variety of financial risks including credit and liquidity risks. The Authority's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks

on its performance by setting acceptable levels of risk. The Authority does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

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

(i) Credit risk

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

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

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

	Total amount KSHS.	Fully performing KSHS.	Past due KSHS.	Impaired KSHS.
At 30 June 2022				
Receivables from exchange transactions	40,424,699	40,269,299	155,400	-
Bank balances	225,461,918	225,461,918	-	-
Total	265,886,617	265,731,217	155,400	-
At 30 June 2021				
Receivables from exchange transactions	44,931,843	44,676,443	255,400	-
Bank balances	45,525,106	45,525,106	-	-
Total	90,456,949	90,201,549	255,400	-

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

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

(ii) Liquidity risk management

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

The table below represents cash flows payable by the Authority.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	KSHS.	KSHS.	KSHS.	KSHS.
At 30 June 2022				
Trade payables	199,580,443	1,657,634	31,322,083	232,560,160
Provisions	25,000,000	4,487,546	31,297,144	60,784,690
Total	224,580,443	6,145,180	62,619,227	293,344,850
At 30 June 2021				
Trade payables	116,220,703	806,673	27,607,239	144,634,615
Provisions	26,925,916	542,632	50,713,961	78,182,509
Total	143,146,619	1,349,305	78,321,200	222,817,124

(iii) Market risk

The Board of Directors has approved a risk management framework to assist management in assessing the risk faced by the Authority on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

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

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



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

a) Foreign currency risk

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

b) Interest rate risk

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

c) Management of interest rate risk

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

iv) Capital Risk Management

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

31. Contingent Asset

The Authority sponsored a student for the Actuarial scholarship in the financial year 2018/2019 at a total cost of Kshs. 4,729,485. Upon completion of the training, the trainee left the Authority before completion of the bonding period. Out of the total cost of the training, the trainee has only refunded the Authority Kshs. 891,568 and Kshs.3,837,917 remains outstanding. The Authority will recognise the amount once it is received from the trainee.

32. Contingent liabilities

Waweru Gatonye Advocates, one of the Authority's lawyers obtained judgement that required the Authority to pay Kshs. 262 million as advocates fees. The award would attract interest at court rate of 14% p.a until payment is done in full from the date of award in legal fees. The Authority has appealed against this award. A provision of Kshs. 45 million has been made for this case. The advocate also obtained garnishee nisi orders against the Authority's bank account at National bank in December 2022 and the Authority applied for stay of execution of the orders. The ruling on the Authority's application for stay of execution of the orders was delivered on

22nd July and the garnishee amount was released to the Advocate. In October 2022 the Advocate obtained a further garnishee order against the Authority's accounts. As at 30th November, the Advocate had received a total of Kshs. 283,312,658 through garnishee orders. The Authority has also sought for budget approval from the National Treasury to settle the contingent liability.

Gonzaga consultant, the Quantity Surveyor in partitioning works at Zepre in 2009 has also filed a suit against the Authority for services rendered. A provision of Kshs. 859,075 has also been made in the accounts.

33. Operating leases

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

34. Commitments

The Authority had issued local purchase orders and local service orders for various supplies for which goods/services had either not been received or had been partly received by 30th June, 2022.

	2022 KSHS.	2021 KSHS.
Purchase/service orders	<u>9,655,316</u>	<u>39,844,278</u>
	<u>9,655,316</u>	<u>39,844,278</u>

35. Surplus remittance

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The Authority is to remit Kshs. 1,110,304,525 (Financial year 2021 Kshs. 943,941,406).

36. Events after the reporting date

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

37. Ultimate and holding Entity

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

38. Currency

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

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

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



Mohamed Amin Sheikh
Chairman



Godfrey Kiptum, MBS
Commissioner of Insurance &
Chief Executive Officer