


REPUBLIC OF KENYA



Enhancing Accountability

 THE NATIONAL ASSEMBLY REPORT PAPERS LAID DATE: 08 MAR 2023 DAY: <input type="text"/>	
TABLED BY: OF CLERK-AT THE-TABLE:	Hon. Owen Baya, CBS, MP Deputy Majority Leader CHRISTINE NDIRITU

THE AUDITOR-GENERAL

ON

POLICYHOLDERS COMPENSATION FUND

FOR THE YEAR ENDED
30 JUNE, 2021



OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY

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POLICYHOLDERS COMPENSATION FUND

Dhamana Ya Bima Yako

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
30TH JUNE 2021**

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

TABLE OF CONTENTS

LIST OF FIGURES	2
LIST OF TABLES	3
1.0 KEY ENTITY INFORMATION AND MANAGEMENT	4
2.0 THE BOARD OF TRUSTEES.....	11
3.0 MANAGEMENT TEAM.....	14
4.0 CHAIRMAN'S STATEMENT	16
5.0 STATEMENT OF THE MANAGING TRUSTEE.....	18
6.0 CORPORATE GOVERNANCE STATEMENT	24
7.0 MANAGEMENT DISCUSSION AND ANALYSIS.....	31
8.0 CORPORATE SOCIAL RESPONSIBLY STATEMENT	36
9.0 REPORT OF THE BOARD OF TRUSTEES.....	37
10.0 STATEMENT OF THE BOARD OF TRUSTEES RESPONSIBILITIES.....	39
11.0 REPORT BY THE AUDITOR GENERAL	41
12.0 STATEMENT OF FINANCIAL PERFORMANCE.....	42
13.0 STATEMENT OF FINANCIAL POSITION	44
14.0 STATEMENT OF CHANGES IN NET ASSETS	46
15.0 STATEMENT OF CASHFLOWS	47
16.0 STATEMENT OF COMPARISON OF ACTUAL AND BUDGET AMOUNTS.....	49
17.0 NOTES TO THE FINANCIAL STATEMENTS.....	51
APPENDIX I : PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS.....	73
APPENDIX II : RECEIVABLES FROM NON -EXCHANGE TRANSACTIONS	75
APPENDIX III : PENALTIES ANALYSIS FOR FY 2020/2021	76

Policyholders Compensation Fund
Annual Report and Financial Statements
For the Year Ended 30th June 2021

LIST OF FIGURES

Figure 1.	Policyholders Compensation Fund Organization Structure.....	8
Figure 2.	PCF Asset base analysis	18
Figure 3.	Levy Collections Trend	21
Figure 4.	Investment Income Trend.....	21
Figure 5.	Expenditure Analysis	22
Figure 6.	Revenue Trend Analysis.....	33
Figure 7.	Investment Income Compared to Previous Period	33
Figure 8.	Revenues Distribution Analysis	34
Figure 9.	Remuneration of Directors Expenditure Analysis	34
Figure 10.	Total Expenditure Analysis.....	35

LIST OF TABLES

Table 1. Strategic themes and objectives	6
Table 2. Composition of Fiduciary Management.....	8
Table 3. Composition of the Board of Trustees.....	25
Table 4. Board of Trustee attendance schedule	28
Table 5. Board of Trustees Membership	37

1.0 KEY ENTITY INFORMATION AND MANAGEMENT

1.1 Background Information

Policyholders Compensation Fund (PCF) also known as 'the Fund' is a State Corporation under the National Treasury and Planning that was established through the Legal Notice No.105 of 2004 and commenced its operations in January 2005. The Fund was established for the primary purpose of providing compensation to claimants of an insurer that has been put under Statutory Management and for the secondary purpose of increasing the general public's confidence in the insurance sector. The decision to establish the Fund was informed by the collapse of several insurers prior to the year 2005. The Fund is governed by section 179 of the Insurance Act (Cap 487) and the Insurance (Policyholders Compensation Fund) Regulations, 2010.

1.2 Principal Activities

The principal activities of the Fund as provided in Section 179 (2A) of the Insurance Act are to:

- i) Provide compensation to the policyholders of an insurer placed under a manager appointed under section 67C (2) or whose license has been cancelled under the Act.
- ii) Monitor, in consultation with the Commissioner where necessary, the risk profile of any insurer.
- iii) Advise the Minister on the national policy to be followed with regard to matters relating to compensation of policyholders and to implement all government policies relating thereto.
- iv) Participate in the statutory management of an insurer placed under statutory management by the regulator.
- v) Liquidate an insurer as may be ordered by a court.
- vi) Perform such other functions as may be conferred on it by this Act or by any other written law.

1.3 Strategic Direction

1.3.1 Vision

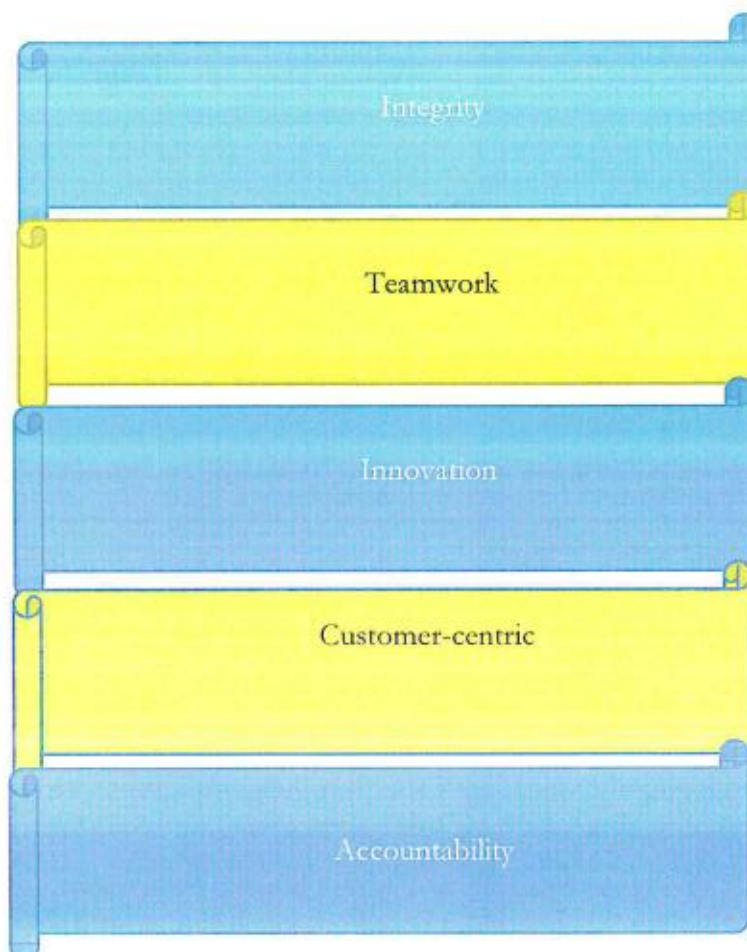
“To be a Highly Respected Policyholders Compensation Fund”

1.3.2 Mission

“To enhance confidence in the insurance industry through timely compensation of policyholders of a company placed under a statutory manager or whose license has been cancelled”.

1.3.3 Core Values

The core values of the Fund are those values the Fund holds which form the foundation on which the Fund performs work and conducts its activities in order to achieve its mandate.



1.3.4 Motto

Dhamana ya Bima Yako

1.3.5 Strategic themes

Strategic themes are the key performance areas in which the Fund must excel to achieve its mission and vision, and deliver value to customers. The strategic themes of the Fund that govern its excellence are:

- a) Compensation to claimants
- b) Resolution of insurers
- c) Financial sustainability
- d) Institutional capacity

Table 1. Strategic themes and objectives

Strategic Theme	Strategic Objective
Compensation to claimants	Protect policyholder's interest
	Promote confidence and stability in the insurance industry
Resolution of insurers	Manage an insurer under statutory management
	Manage liquidation of wound-up insurer
Financial sustainability	Mobilize financial resources
	Strengthen internal control systems and processes
Institutional capacity	Enhance Corporate Governance
	Attract, develop and retain competent staff
	Enhance service delivery
	Provide ample working environment

1.4 Key Management

The Fund's key management vests with the Board of Trustees whose powers are given through Section 179 (2B) of the Insurance Act and its composition prescribed in Section 179 (4) of the Insurance Act.

PCF is managed by a Board of Trustees that is responsible for policy and strategic guidance.

Board of Trustees delegates its functions to a Managing Trustee who carries out the daily operations of the Fund. The Managing Trustee oversees the operation of the Fund and is responsible to the Board of Trustees.

PCF has the following Departments, Divisions and Units;

- a) Technical Services Department
- b) Corporate Services Department
- c) Internal Audit unit
- d) Corporation Secretary/ Legal Services Unit
- e) Supply Chain Management Unit

1.5 Fiduciary Management

Fiduciary responsibility vests with the Managing Trustee who is prescribed in Section 179 (5A) of the Insurance Act.

The Retirement Benefits Authority (RBA) was appointed the Managing Trustee of the Fund with effect from 9th December, 2004 by the Minister for Finance, vide Kenya Gazette Notice No. 3357 dated 6th May, 2005 until 9th September 2020.

During the financial year under review, RBA had deployed staff to run PCF operations from a Secretariat that was led by the Representative of the Managing Trustee until 9th September 2020. Thereafter, a substantive Managing Trustee was gazetted vide Gazette Notice No.6782 which also revoked the appointment of the Retirement Benefits Authority.

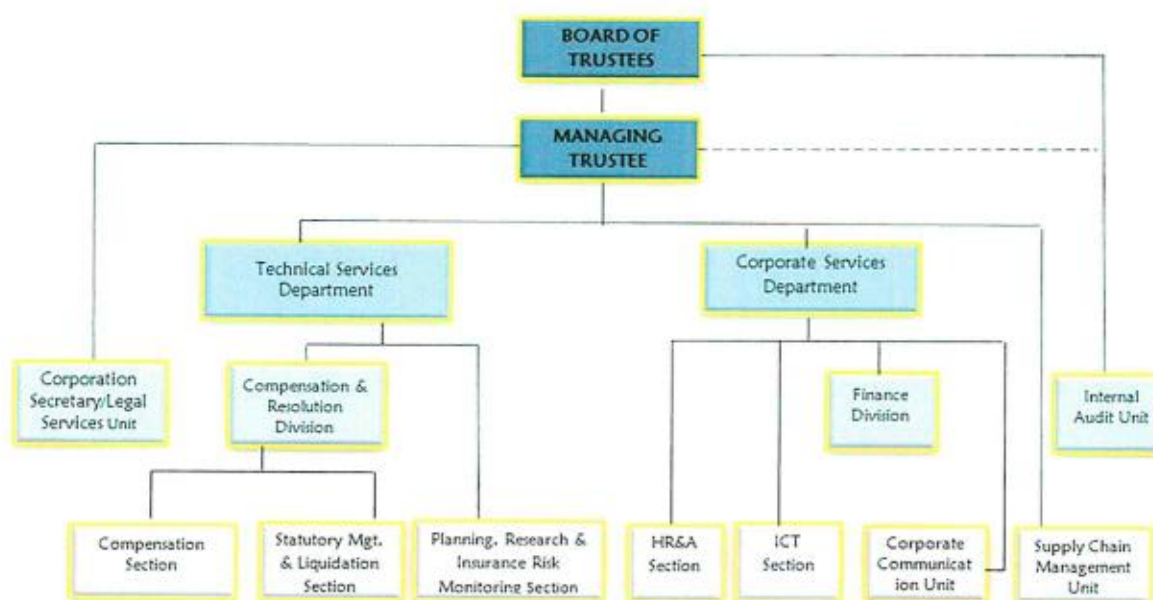
During the financial year, the key management personnel who held office during the financial year ended 30th June 2021 and who had direct fiduciary responsibility were;

**Policyholders Compensation Fund
Annual Report and Financial Statements
For the Year Ended 30th June 2021**

Table 2. Composition of Fiduciary Management

No.	Designation	Name
1.	The Managing Trustee from 16 th September 2020	Mr. William Masita
2.	Representative of the Managing Trustee up to 15 th September 2020	Mr. Charles Machira
3.	Head of Secretariat up to 30 th November 2020	Mr. John Keah
4.	Internal Audit and Risk Management up to 31 st December 2020	Mrs. Elizabeth Waruingi
5.	Internal Audit and Risk Management for the period 1 st January to 30 th June 2021	Insurance Regulatory Authority

Figure 1. Policyholders Compensation Fund Organization Structure



1.6 Fiduciary Oversight Arrangements

The Internal audit services were provided by Retirement Benefits Authority during the year under review. In addition, the Audit and Risk Management Committee, in their oversight role, provided the Board of Trustees assurance for the integrity of the financial operations of the Fund, the performance of the Fund's internal and external audit functions and compliance of the Fund with legal and statutory requirements.

For one half of the year, internal audit services were provided by Insurance Regulatory Authority (IRA) as well.

1.7 Office

Policyholders Compensation Fund
Zep Re Place, 2nd Floor, 02
Longonot Road, Upper-Hill
P.O.Box 24203 -00100
Nairobi, Kenya

1.8 Contacts

Telephone: (+254)020 4996236/7/8
Email: info@pcf.go.ke
Website: www.pcf.go.ke

1.9 Bankers

- a) NCBA Bank Limited
Standard/Wabera Streets
P.O. Box 30457-00100
Nairobi, Kenya

- b) Co-operative Bank of Kenya
Upper Hill
P.O Box 48231-00100
Nairobi Kenya

- c) KCB Bank Limited
Moi Avenue
P.O. Box 30081-00100
Nairobi, Kenya




1.10 Independent Auditors

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

1.11 Principal Legal Advisor

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

2.0 THE BOARD OF TRUSTEES

 <p>Mr. Faisal Abbas Chairman</p>	<p>Mr. Faisal Abass is an entrepreneur with over 30 years' experience in the logistics and energy sectors. He has also served as Chairperson of the Board at the Geothermal Development Corporation and Rural Electrification Authority and as a Director in the Boards of the Kenya Electricity Generating Company and Agricultural Development Corporation.</p> <p>He was first appointed Chairman of Board of Trustees on 17th April, 2015 and subsequently reappointed on 19th July, 2018 for his second term.</p>
 <p>Ms. Alice Nzioka Trustee</p>	<p>Ms. Alice Nzioka is the Manager, Technical Support Services at the Insurance Regulatory Authority and has over 25 years' experience in the insurance industry.</p> <p>She was appointed as the trustee alternate to the Commissioner of Insurance and Chief Executive Officer of the Insurance Regulatory Authority on 22nd July, 2016.</p>
 <p>Mr. Duncan Ndirangu Trustee</p>	<p>The Late Mr. Duncan Ndirangu was Deputy Director in the Directorate of Budget, Fiscal and Economic Affairs. He served in the civil service for over 30 years in different positions and sectors especially in policy analysis, planning, budgeting and monitoring and evaluation.</p> <p>He was appointed as a Trustee Alternate to the Cabinet Secretary of the National Treasury and Planning on 26th November, 2018 and his term ended on 17th July 2020.</p>



Mr. Reuben Ndegwa
Trustee

Mr. Reuben Ndegwa is an entrepreneur and businessman with over 21 years' experience in the freight and logistics sector. He is the Managing Director of Tabaki Freight Services Limited.

He was appointed as an independent trustee representing Special Interests on 20th September, 2018.



Ms. Lydia Ochako
Trustee

Ms. Lydia Ochako is a Principal State Counsel at the Office of the Attorney General.

She was appointed as a designate representative /alternate to the Attorney General to the Board of Trustees on 17th July 2020.






Mr. Johnstone Oltetia
Trustee

Mr. Johnstone Oltetia was appointed as an alternate to the Cabinet Secretary of the National Treasury and Planning on 17th July 2020 up to 5th May 2021.

Mr. Oltetia held the position of Senior Financial Sector Adviser at the National Treasury of Kenya, responsible for policy matters relating to banking, micro finance, capital markets, pensions and insurance among others.

 <p>Mr. Stephen Mbatia Trustee</p>	<p>Mr. Stephen Mbatia is a Principal Inspector in the Inspectorate of State Corporations.</p> <p>He was assigned to be the representative of the Inspector General (Corporations) in the Board of the Policyholders Compensation Fund on 28th, January, 2019.</p>
 <p>Mr. Charles Machira Representative of the Managing Trustee & Secretary to the Board</p>	<p>Mr. Charles Machira has over 21 years' experience in the Insurance and Pension sectors.</p> <p>He was appointed as the Representative of the Managing Trustee and Secretary to the Board on 15th November, 2010 up to 15th September 2020.</p>
 <p>Mr. William Masita Managing Trustee & Secretary to the Board</p>	<p>Mr. William Masita has over 20 years' experience in Risk Management, Internal Audit, Budgets, Corporate Finance, IT Audit, Enterprise Risk Management, Auditing, Financial Audits, Internal Controls, Accounting, COSO, Financial Accounting, Financial Analysis, Financial Reporting, Financial Risk, IFRS, Management, Managerial Finance in the private and public sectors.</p> <p>He was appointed as the Managing Trustee and Secretary to the Board on 9th September 2020 vide Gazette Notice No.6782</p>

3.0 MANAGEMENT TEAM

 <p>Mr. William Masita</p>	<p>Managing Trustee from 16th September 2020</p>
 <p>Mr. Charles M. Machira</p>	<p>Representative of the Managing Trustee and Secretary to the Board up to 15th September 2020</p>
 <p>Mr. John S. Keah</p>	<p>Head of Secretariat up to 15th September 2020. He continued to provide support to the Managing Trustee up to 30th November 2020.</p>



Mrs. Elizabeth Waruingi

Head, Internal Audit and Risk Management until 31st December 2020.

4.0 CHAIRMAN'S STATEMENT

The Directors, Management and Staff of the Policyholders Compensation Fund hereby submit the annual report and financial statements for the period ending 30th June 2021.

PCF is a State Corporation under the National Treasury and Planning that was established through the Legal Notice No.105 of 2004 and commenced its operations in January 2005.

The Fund was established for the primary purpose of providing compensation to claimants of an insurer that has been put under Statutory Management and for the secondary purpose of increasing the general public's confidence in the insurance sector. The decision to establish the Fund was informed by the collapse of several Insurance companies prior to the year 2005. The Fund is governed by section 179 of the Insurance Act (Cap 487) and the Insurance (Policyholders Compensation Fund) (Amendment) Regulations, 2014.

In its endeavor to provide compensation to the policyholders of those insurance companies under distress, PCF has ensured quality level and scope of service delivery to the public in order to achieve the public policy objective by making budgetary provisions to meet compensation claims needs of the claimants.

In the previous financial year FY 2019/2020 the Fund's contribution stood at Kshs.827.9 million while in FY 2020/2021 it recorded Kshs.855.1 million. The Fund levy contributions increased by 3% in the year under review compared to the previous period. The increase in levies collected was as a result of increased premiums in the insurance industry. The growth trend increased by a bigger margin during the end of the year as a result of increase in receipts for those levies which had not been received into PCF books because the insures had not provided information on the respective period during the year the levies related to.

The favorable net surplus of 1.9 billion reported during the year is attributed to receipt of higher earnings from investments in Treasury Bills due to favorable and higher rates compared to the previous financial year. Further, investable funds from contributions levies and penalties received led to the growth of the total funds available for investments.

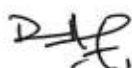
Going forward, the Fund will remain focused on strategies that will enable it to achieve its core mandate. The Fund's priority areas will include provision of incentives for sound Risk Management Framework, effective communication and public awareness activities, strengthening the compensation fund target value, enhancing the scope of coverage, pursuing an appropriate compensation structure, enhancement of cooperation with the other key stakeholders and alignment of the Fund's operations to international best practice.

To this end, PCF will continue to closely work with the International Forum for Insurance Guarantee Schemes (IFIGS) by participating in their activities. PCF will also continue to

improve on the competency of its human resource through effective training, coaching and mentoring.

I wish to therefore, express my sincere gratitude to my fellow members of the Board of Trustees who have worked tirelessly to ensure smooth transition of the Fund. I would also like to recognize the great effort of the Managing Trustee, the Management team and staff whose efforts contributed to the growth of the Fund in the year under review.

I also wish to thank the National Treasury and Planning, Insurance Regulatory Authority, Retirement Benefits Authority, Central Bank of Kenya, and other stakeholders for their continued support in ensuring we attain our objective of compensating policyholders.



MR. REUBEN NDEGWA
FOR CHAIRMAN, BOARD OF TRUSTEES

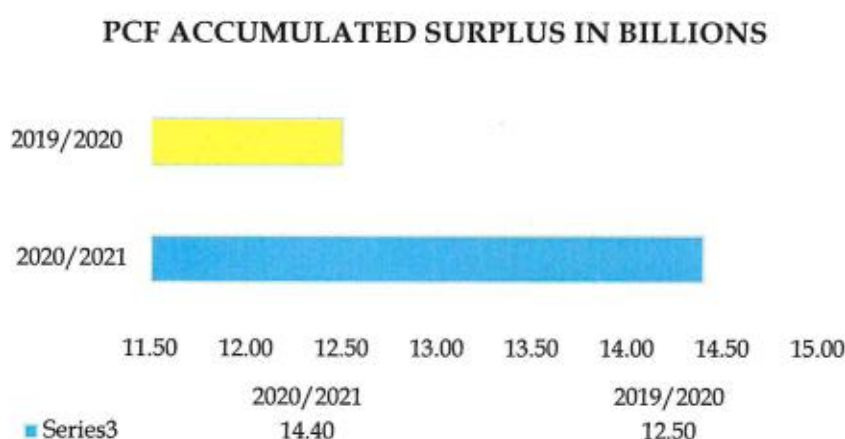
5.0 STATEMENT OF THE MANAGING TRUSTEE

5.1 Background

It is my pleasure to present the Annual Report and Financial Statements of the Policyholders Compensation Fund for the year ended 30th June 2021.

During the financial year under review, the Fund witnessed a growth of its asset base by 15.4% to Kshs. 14.4 billion as shown in Figure 2 below. This growth placed the Fund in a good position to fulfil its mandates particularly that of payment of compensation to insurance claimants of an insurer placed under a manager appointed under section 67C (2) or whose license has been cancelled under the Insurance Act. This is in line with Article 46 of the Constitution of Kenya, 2010 which gives consumers the right to protection of their economic interests and to compensation for loss.

Figure 2. PCF Asset base analysis



To ensure the Fund remains focused on upholding these rights for every insurance consumer in Kenya, the key result areas of the Fund's Strategic Plan remains modelled towards the development of a comprehensive and inclusive compensation framework, prudent financial management for sustainability and development of institutional capacity to improve service delivery.

Through the execution of its mandates, the Fund continues to contribute to the development of the Kenyan insurance and financial sectors, and the economy as a whole.

The Fund's other major achievement during the financial year under review include; the finalization of the 2020-2024 strategic plan and recruitment of senior management staffs which began towards the end of the financial year.

In addition, during the year under review, the Fund embarked on several initiatives aimed at improving its service delivery. Through the Insurance Amendment Act, 2019, the Fund reviewed forward the trigger of compensation to when an insurer placed under a manager appointed under section 67C (2) or whose license has been cancelled under the Insurance Act.

A Taskforce was established to review the compensation framework and the proposed changes that will facilitate the efficient management of the compensation process were approved. Secondly, the Insurance Amendment Act, 2019 also revised the composition of the Board of Trustees to enhance its independence and improve on its governance structure.

Further to this, the Fund undertook the recruitment of a substantive Managing Trustee who was appointed vide Gazette No.6782 on 9th September 2020. The Fund aligns its activities and is measured in an aligned manner based on the Performance Contracting.

The implementation of the above initiatives is testimony to our continued commitment to serving the Kenyan public.

5.1.1 Mandate

The scope of the Fund's mandate remains the protection of insurance consumers through the payment of compensation to the claimants of an insurer placed under a manager appointed under section 67C (2) or whose license has been cancelled under the Act, participation in statutory management, undertaking the liquidation of a wound up insurer and facilitating the formulation of related policy.

During the year under review, the Funds efforts in reviewing the compensation settlement framework yielded fruit with the enactment of the Insurance Amendment Act, 2019 which contained amendments aimed at fast-tracking compensation.

The maximum compensation payable by the Fund on any one claim lodged by a policyholder was initially capped at KShs. 100,000.00. This amount has since been reviewed to Kshs. 250,000.00 after consultations between the Cabinet Secretary, National Treasury and Planning, and the Board of Trustees of the Fund.

The Fund maintained its status as the Statutory Manager of Blue Shield Insurance Company Ltd and United Insurance Company Ltd. The resolution processes of each of the insurers is at an advanced stage with winding up Applications for the two insurers still undergoing Court consideration. Concord Insurance Limited was handed over to the Official Receiver after its Winding Up application was heard and determined. Compensation process to claimants of Concord Insurance Limited started at the end of the financial year under review.

Since the commencement of its operations, the Fund has witnessed a steady growth in terms of its asset base value. The Government of Kenya provided a seed capital of Kshs 35 million for operationalization of the Fund in January, 2005. A pre-funded model for the Fund was adopted which required insurers and policyholders to each contribute into the Fund a levy of 0.5% on gross direct premiums written. PCF has invested these funds in government securities and the asset base value has grown steadily to approximately Kshs. 14.4 billion as at the end of the financial year 2020/2021.

5.1.2 Board & Management

The Fund is administered by the Board of Trustees which has delegated the day to day operations to the Managing Trustee.

The composition of the Board of Trustees is stipulated in the Insurance Act . There are seven members including the Managing Trustees who is as an *ex officio* member.

With respect to management, the RBA retained its role as the Managing Trustee up to 9th September 2020 when the new Managing Trustee was gazetted vide gazette No. 6782 and RBA appointment as a Managing Trustee revoked.

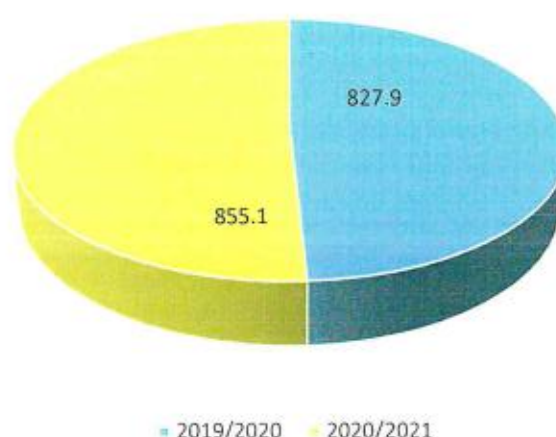
5.1.3 Levy Collection & Penalties

The Fund's primary mandate is the payment of compensation. The funds for this purpose are collected from a statutory levy that is calculated at 0.5% of the insurance premiums paid to an insurer. In addition, the Fund also collects penalties charged either by itself or the Insurance Regulatory Authority (IRA) on insurers defaulting on specific sections of the Insurance Act.

During the financial year under review, there was a 3% increase to Ksh.855.1 Million in levy collections due to increase in levy collections during the year under review. This reflects that the insurance industry at large grew despite the Covid-19 pandemic which has hit the economy as a whole.

Figure 3. Levy Collections Trend

PCF LEVY COLLECTION IN MILLIONS

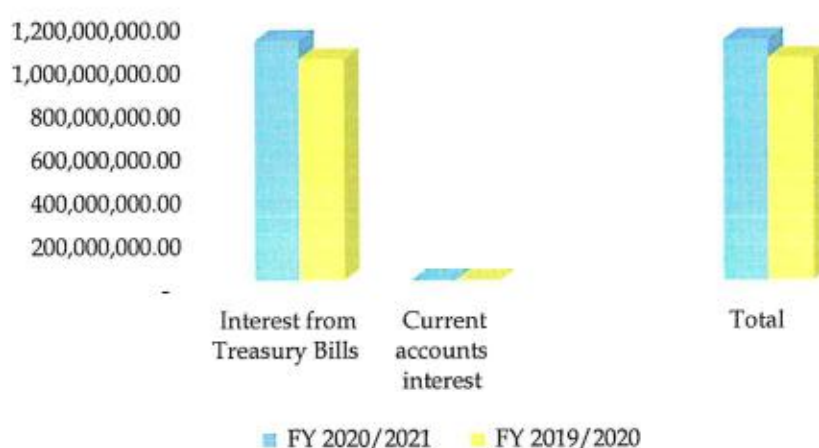


5.1.4 Investments

The Fund invests its surplus assets solely in Government securities in accordance with guidelines issued by the National Treasury and Planning. During the year under review, the Fund generated an investment return of Kshs. 1,113,722,618 in FY 2020/2021 up from KShs. 1,028,834,956 in FY 2019/2020 by investing its reserves in Treasury Bills. This represents 8 % growth from the previous year amount which comprised of interest accrued from Treasury Bills of Kshs. 1,109,137,945 and Kshs. 4,584,673 from interest earned from Current accounts. This upward trend is primarily due to the growth of the reserves available for investment.

Figure 4. Investment Income Trend

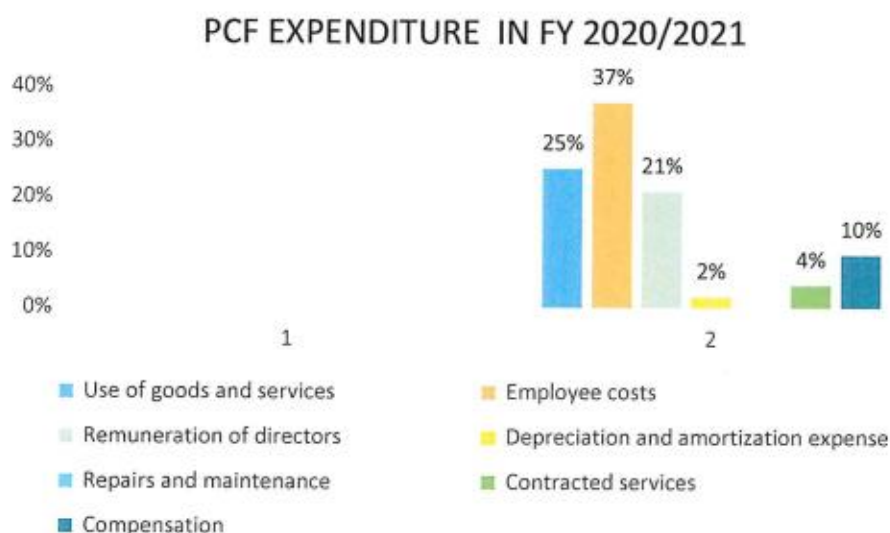
PCF INVESTMENT INCOME



5.1.5 Administration Expenses

During the financial year, the Fund's administrative expenses increased by 36% to Kshs.58.1 million compared to Kshs. 42.7 million during the previous year due to increased activities with respect to operations, consultancies and capacity building as analyzed below;

Figure 5. Expenditure Analysis



5.1.6 Net Asset Value

The upshot of the increased revenues and maintained expenditure is a notable 5% growth in the net asset value of the Fund translating to KShs. 1.9 billion. This in turn grew the Fund reserves to KShs. 14.4 Billion in the year under review from KShs. 12.5 billion in the previous year. The Fund is keen on maintaining this growth performance in order ensure financial sustainability that is key to enabling it fulfil its mandate of paying claimants effectively.

5.1.7 Strategic Partnerships

Multi-stakeholder partnerships for sustainability are collaborative arrangements in which actors from different sectors of society work together toward a sustainability goal. Within such partnerships, multi-stakeholder collaboration (MSC) refers to the interactive process in which actors with diverse points of view work together, implementing collective action, and sharing risks, resources, and responsibilities.

Fostering strategic partnerships is key in ensuring the Fund has the necessary support to enable it undertake its mandate. In this regard, the Fund maintained partnerships with the Insurance Regulatory Authority (IRA) and the International Forum for Insurance Guarantee Schemes (IFIGS).

5.1.8 Achievements

The following are some of the specific achievements made by the Fund:

a) Protection of claimants.

- i) Improved compensation framework by increasing the compensation amount from Kshs 100,000.00 to Kshs 250,000.00;
- ii) Improved the timeliness of compensation to policyholders to when a company is immediately placed under statutory management or license withdrawal; and
- iii) Protection of policyholders through exemption for policyholders from paying claims for insurers under statutory management and have a moratorium declared on its liabilities to policyholders ;

b) Corporate governance.

- i) Recruitment of a Managing Trustee;
- ii) Expansion of PCF mandate to include statutory management and liquidation of insurance companies;
- iii) Improved corporate governance by changing composition of the Board of Trustees making it more independent; and
- iv) Development and adoption of PCF policies and procedure manuals.

c) Resourcing/ Fund Management.

Growth of the Fund currently to about Kshs 14.4 billion as at 30th June 2021 from seed money of Kshs. 35 million in 2005.

5.2 Conclusion

The Fund will continue to undertake its mandate diligently to ensure that insurance claimants will be adequately protected thereby contributing to the industry development through promotion of confidence.

I therefore take this opportunity to appreciate the continued support of the Board of Trustees, Management, Staff and Stakeholders for their commitment towards achievement of the Fund's mandate.



Mr. William Masita

MANAGING TRUSTEE

6.0 CORPORATE GOVERNANCE STATEMENT

The Board comprises of seven (7) members. The members are from different professional backgrounds and there is therefore diversity of competencies and skills required for the effective leadership of the Fund.

The Board fulfils its fiduciary responsibility to the stakeholders by maintaining control over the strategic, financial, operational and compliance issues of the Fund. Whilst the Board provides oversight and remains responsible for establishing and maintaining overall internal controls over financial, operational and compliance issues, it has delegated authority to the Managing Trustee to conduct the day- to-day business of the Fund. The Board meets at least once at every quarter, and has a formal schedule of matters reserved for it. The directors are given sufficient, timely and appropriate information to perform their fiduciary duties. During the year under review, the Board held sixteen (16) sessions comprising of six (6) regular meetings, seven (7) special meetings and three (3) retreats.

6.1. Board Composition

The management of the Fund vests in the Board of Trustees, which, following the enactment of the Insurance Amendment Act, 2019 is constituted as follows:

1. a Chairman, appointed by the Cabinet Secretary;
2. the Commissioner of Insurance or a representative appointed in writing;
3. the Cabinet Secretary responsible for matters relating to finance or a representative appointed in writing;
4. the Attorney-General or a representative appointed in writing;
5. one person nominated by the body representing the interests of insurers;
6. one person nominated by insurance brokers;
7. one person representing the general public appointed by the Cabinet Secretary; and
8. the Managing Trustee as an ex officio member without a right to vote.

During the period under review, the composition of the Board was as follows:

Table 3. Composition of the Board of Trustees

Name	Membership	Representation
Mr. Faisal Abass	Chairman	Independent (appointed on 19 th July, 2018)
Ms. Alice Nzioka	Trustee	Alternate to Commissioner of Insurance
Mr. Reuben Ndegwa	Trustee	Representative of special interests (appointed on 28 th September, 2018)
Mr. Duncan Ndirangu	Trustee	Was an alternate to the Cabinet Secretary -The National Treasury & Planning (term ended 17 th July 2020)
Johnstone Oltetia	Trustee	Alternate to the Cabinet Secretary - The National Treasury & Planning (appointed on 17 th July 2020 up to 5 th May 2021)
Lydia Ochako	Trustee	Representative of the Attorney-General (appointed on 7 th July 2020).

As at 30th June, 2021, the following seats remained vacant:

- Representative the interests of insurers;
- Representative of Insurance brokers;

Members of the Board hold office for a period of three years and are eligible for re-appointment for a further one term.

Trustees are required to disclose any conflict of interest in relation to matters that are brought before them for deliberation as stipulated in the Board Charter.

6.2. Board Committees

The Board has created three (3) committee's namely; The Finance and Management Committee, The Technical and Public Policy Committee and the Audit and Risk Management Committee. The Board Charter also grants the Board the liberty to establish such ad-hoc committees as required to deal with any ad-hoc matters requiring focused attention.

The various committees are guided in their deliberations by the approved Charters and Terms of Reference. Deliberations and recommendations of the Committee are presented to the full Board for consideration.

The Board has delegated its authority to standing committees to enable it effectively carry out its mandate. These Committees are described below and each has its own Terms of reference setting forth the purposes, goals and responsibilities as well as qualifications for membership and operational procedures.

The committees meet at least four (4) times in a year or at such times the Chairman of the committee shall require. The Committees held twenty seven (27) meetings in the financial year 2020/2021. The activities of the committees are described in the paragraphs below;

6.2.1 Finance and Management Committee

The Finance and Management Committee is appointed to assist the Board in fulfilling its responsibilities with regard to the Fund's financial planning, management, evaluating investment decisions, operations and all transactions in which the Fund engages in order to deliver on its mandate.

The Committee handles matters related to financial risk, financial policy, financial planning, financial monitoring and financial performance.

The terms of reference of the committee are to review and make recommendations to the Board on financials, operations, budget and the annual accounts.

PCF Board of Trustees delegated the responsibility of recruiting senior management after approval was granted by the Cabinet Secretary National Treasury and Planning to the Finance and Management Committee to undertake the recruitment exercise. For nine of the fourteen (14) advertised positions i.e senior management positions (PCF 2, PCF3 and PCF 4) except that of Manager, Internal Audit.

In the year under review the members of the committee were;

1. Johnstone Oltetia-Chairman
2. Duncan Ndirangu-Chairman up to 17th July 2020
3. Alice Nzioka
4. Reuben Ndegwa
5. Lydia Ochako

The committee held sixteen (16) meetings.

6.2.2 Technical and Public Policy Committee

The Technical and Public Policy Committee responsibility is to review the technical and policy related aspects of the Fund to ensure it operates within statutory and best practice requirements. This Committee acts as an advisory committee for the Fund, and is responsible for inter alia, providing strategic, technical, advisory and operational services, advising on implementing the Fund's strategy, considering broad business management issues, monitoring internal controls and risk management, monitoring compliance with all regulatory and legal requirements, and advising on measures to be taken regarding performance of the Fund.

The membership to this committee was as follows:

1. Alice Nzioka – Chairman
2. Reuben Ndegwa
3. Johnstone Oltetia
4. Lydia Ochako
5. Duncan Ndirangu up to 17th July 2020

The committee held seven (7) meetings.

6.2.3 Audit and Risk Management Committee

The role of the committee is oversight of integrity of the financial statements of the Fund, performance of internal and external auditors and compliance with legal and regulatory requirements.

The role of the Audit and Risk Management Committee is to assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to internal control systems, accounting policies and practices, internal and external audit functions, tax matters, as well as relevant Fund financial reporting and the management of risk within the Fund. It also oversees the Funds financial reporting statements, as well as assessing any potential operational or systemic risks, which PCF might face.

Members of the committee were:

1. Reuben Ndegwa – Chairman
2. Alice Nzioka
3. Johnstone Oltetia
4. Lydia Ochako
5. Duncan Ndirangu up to 17th July 2020

The committee held four (4) meeting.

6.3. Board Attendance

During the financial year 2020/2021, the Board of Trustees held 16 (sixteen) meetings while the Committees of the Board held a total of 27 (twenty seven) meetings.

Attendance by individual members for the period is tabulated below:

Table 4. Board of Trustee attendance schedule

Trustee	Board meetings		Committee Meetings	
	Held	Attended	Eligible	Attended
Faisal Abass	16	15	N/A	N/A
Reuben Ndegwa	16	16	27	27
Alice Nzioka	16	16	27	27
Godfrey Kiptum	16	10	N/A	N/A
Johnstone Oltetia	16	10	27	22
Duncan Ndirangu	16	2	27	4
Lydia Ochako	16	4	27	15
William Masita	16	12	27	17

6.4. Statement of Compliance

The Fund's operations are legally guided by The Constitution of Kenya, 2010, the provisions of the Insurance Act Chapter 487 of the Laws of Kenya, The Insurance (Policyholders' Compensation Fund) (Amendment) Regulations, 2019, the State Corporation Act, Chapter 446 of the Laws of Kenya and by the principles of good corporate governance.

The Fund continues to comply with all statutory requirements relevant to its operations as a body corporate and complies with relevant Government circulars issued from time to time.

The financial statements have been prepared in accordance with Accrual-basis International Public Sector Accounting Standards (IPSAS) as prescribed by the Public Sector Accounting Standards Board (PSASB) and set out in the accounting policy note below. This Accrual basis of accounting has been supplemented with accounting for;

- Receivables that include statutory management fees, penalties and outstanding imprests.
- Payables that include sundry suppliers' provisions made as at the end of the financial year.

The financial statements comply with and conform to the form of presentation prescribed by the PSASB. The accounting policies adopted have been consistently applied to all the years presented.

6.5. Board Oversight

The Board is responsible for the formulation, implementation and monitoring of the Fund's Strategic Plan therefore providing appropriate strategic direction for the Fund. In addition, the Board defines the Vision, Mission and Core Values that enable the realization of the set Strategic Plan.

The day to day operations of the Fund have been delegated to the Management which is headed by the Managing Trustee. Periodically, the Board monitors and evaluates the implementation of its plans and strategies through reports received from Management through its Committees.

6.6. Board Remuneration

The Board is remunerated in accordance with the approved terms and conditions of service prescribed under Government Circular Number OP/CAB.2/12A (9) of 14th August 2006. The remuneration of all directors is subject to the terms and conditions of service provided under the guidelines by the State Corporations Advisory Committee issued in 2004 and the Salaries and Remuneration Commission (SRC). Apart from their remuneration, Board members are reimbursed for all reasonable costs incurred in connection with their attendance of meetings.

6.7. Board Evaluation

The performance of the Board and its members is evaluated on a regular basis. During the year a Board evaluation exercise was carried out under the guidance of the State Corporations Advisory Committee (SCAC). Individual performance of the members was discussed with the Board Chairman and areas of improvement noted for action.

6.8. Secretary to the Board

The Managing Trustee is the Secretary to the Board who co-ordinates the Boards activities and ensures, in conjunction with the Chairman, that the Board meetings are held procedurally. In addition, the Secretary links the flow of information between the Board and management as well as ensuring the Board receives adequate and timely information.

All Trustees have direct access to the Secretary who is also responsible for implementing and monitoring good corporate governance practices, ensuring that Board business meets all statutory requirements, keeps all legal and regulatory requirements under review and briefs the Board accordingly about these developments.

6.9. Conflict of Interest of Board members

In regard to conflict of interest, the Board is guided and adheres to the Board Charter, Mwongozo, The Code of Governance for State Corporations and relevant legislations.

Accordingly, it's a requirement that a Board member shall immediately report to the Chairperson of the Board any conflict of interest or potential conflict of interest and shall provide all relevant information including information concerning his or her spouse, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree in a matter where conflict of interest could arise. The Board member concerned shall not take part in the assessment by the Board of whether a conflict of interest exists.

Board members and management have been enlightened on the various provisions and at every meeting there is a requirement for members to declare any conflict of interest on agenda items presented for deliberation. This confirmation is recorded in a register.

7.0 MANAGEMENT DISCUSSION AND ANALYSIS

7.1.Fund Overview

The Fund's key mandate is to protect insurance consumers through the provision of compensation to claimants of insurers placed under a manager appointed under section 67C (2) or whose license has been cancelled under the Act, participate in statutory management of insurers placed under statutory management by the regulator and undertake liquidation as appointed by the Court.

7.2.Governance

The provisions of the Insurance Amendment Act, 2019 which amended the composition of the Board of Trustees by reducing the stakeholder representatives and incorporating the Attorney-General as the legal advisor and the Managing Trustee has improved its independence and professionalism. In addition, the completion of the Managing Trustee recruitment exercise and the resulting appointment has heralded a new management approach at the Fund aimed at ensuring the Fund achieves its mandates effectively.

7.3.Operational and Financial Reviews

The Fund's operations during the year under review were restricted to essential services due to limited institutional capacity at both the Board and staff levels and operational disruptions due to the containment measures of the Covid-19 pandemic. Consequently, the Fund was unable to roll out all of its intended programs including the payment of compensation.

The financial performance of the Fund however increased by 5% to Kshs 1.9 billion. Notably, investments contributed to 58% of the revenues highlighting the growing reserves of the Fund.

With respect to the above, the Fund's assets grew by 15% to KShs 14.4 billion. This accounts for 25% of all the KShs 57.4 billion claims incurred in 2020 as reported in the Industry Statistics Report compiled by the IRA. It is therefore important that the Fund ensures it maintains an adequate asset to claims ratio to assure adequate compensation cover.

7.4.Compensation

The Fund planned to commence the payment of compensation during the year subject to the passing of the Insurance Amendment Bill, 2019 which contained a proposal to bring forward the trigger of compensation to when an insurer is placed under a manager appointed under section 67C (2) or whose license has been cancelled under the Act.

To this end, the Fund had an approved budgetary provision of KShs 1 billion. Following the enactment of the Insurance Amendment Act 2019 in January, 2020, a Taskforce to review and align its compensation framework to the new law was constituted and its recommendations were approved at the end of the financial year.

PCF started the process of compensating the claimants since the legal huddles have been overcome.

7.5.Statutory Management

The Fund is currently the appointed Statutory Manager of two (2) insurance companies namely Blue Shield Insurance Co. Ltd and United Insurance Co.Ltd. It is important that the process of statutory management is efficient and effective and results in an objective resolution. Informed by the Fund's recommendations, winding up applications for the two insurers were filed and are currently being heard at the High Court.

7.6.Liquidation

Following the filing of a winding up application for Concord Insurance Company, the case was determined and the Official Receiver appointed the Provisional Liquidator of the Insurer. Consequently, the qualifying claimants of the insurer will be paid compensation. PCF will start the process of compensating the claimants of Concord Insurance Company as soon as all the preceding processes have been met.

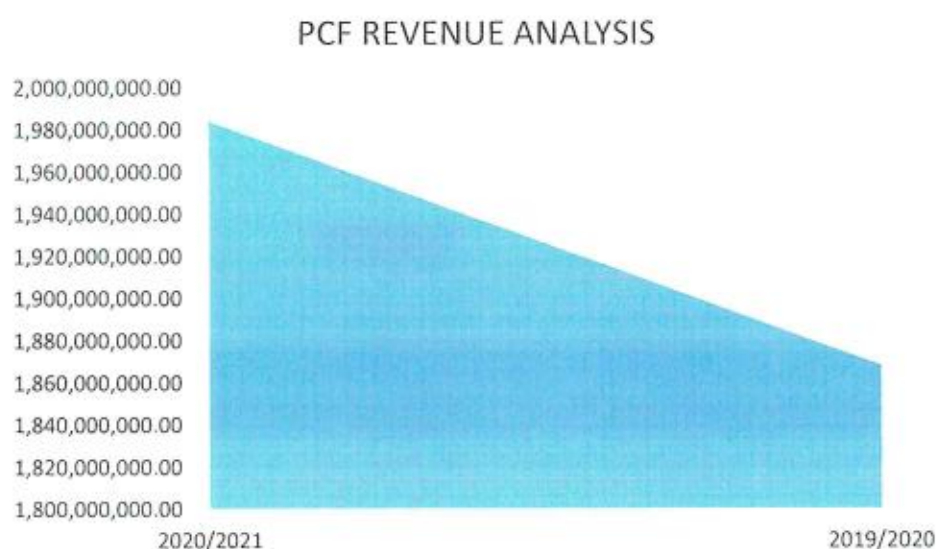
7.7.Summary of the Financial Revenues and Expenditure

The overall goal of resource mobilization is to strengthen PCF's funding through diversification of revenue streams. In this regard, PCF will continue to lobby and mobilize financial resources for its activities as follows:

- a) Collect and consolidate all funds from all the identified sources;
- b) Explore alternative sources of funds; and
- c) Foster partnerships with development partners;

During the financial year under review, PCF's total revenue amounted to Kshs. 1.984 billion compared to Kshs.1.868 billion in the previous financial year. This trend represented a 6% increase which was as a result of increased levy collections, investment income, statutory management fees and penalties charged on defaulting insurers as depicted in the figure below.

Figure 6. Revenue Trend Analysis



In addition, the growth in revenue was also attributed to increased investment income from Kshs.1,028,834,956 in FY 2019/2020 to Kshs. 1,113,722,618 in FY 2020/2021 as shown in the figures below.

Figure 7. Investment Income Compared to Previous Period

PCF INVESTMENT INCOME

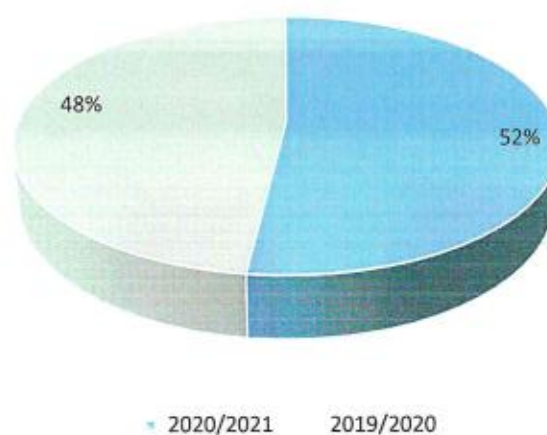
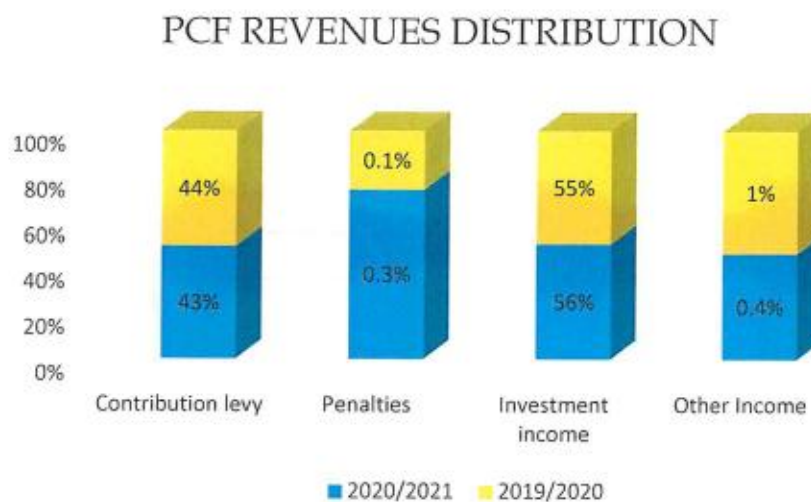


Figure 8. Revenues Distribution Analysis



Under expenditure incurred for the financial year under review, the following is an analysis of the expenses;

Figure 9. Remuneration of Directors Expenditure Analysis

PCF BOARD OF TRUSTEES EXPENSES

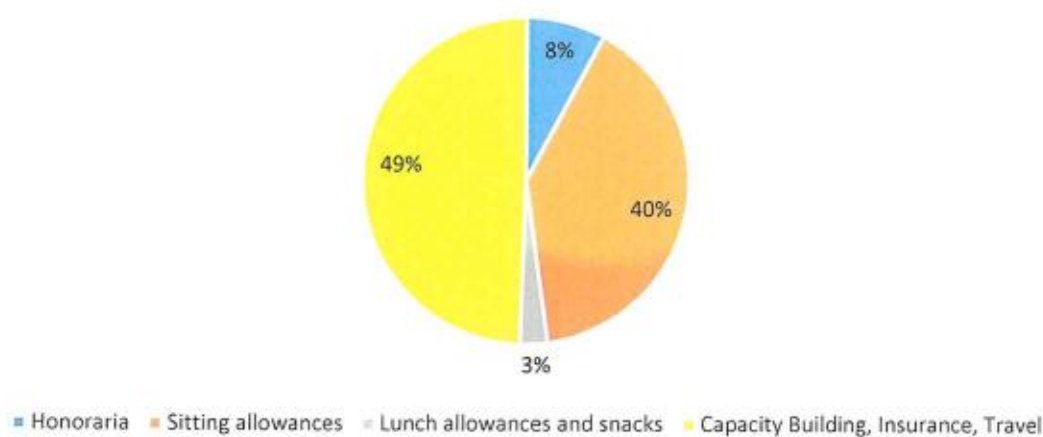
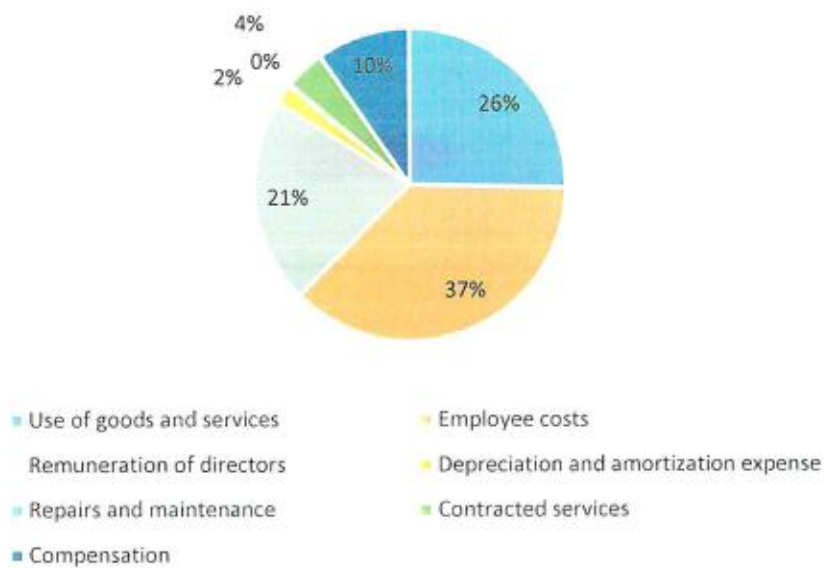


Figure 10. Total Expenditure Analysis

FY 2020/2021 PCF EXPENDITURE ANALYSIS



8.0 CORPORATE SOCIAL RESPONSIBILIY STATEMENT

PCF recognizes that like other sectors of our economy, is accountable to its stakeholders and the society at large. As a State Corporation, we acknowledge our responsibility to the communities in which we operate in/co-exist. We aim to embrace responsibility for corporate actions and to encourage a positive impact in uplifting the public confidence in the insurance industry and its environment, the stakeholders including but not limited to our core customers, the policyholders, employees, investors and existing communities.

The Fund actively encourages our staff to recognize those responsibilities and behave in a responsible manner towards the society in which we carry out our function. We regard the setting of good examples as an important practice in this regard.

The Fund, owing to its mandate and nature of operations, collaborates with other State Corporations in undertaking Corporate Social Responsibility (CSR) activities. However, during the year under review, the Fund did not participate in any CSR activities.

9.0 REPORT OF THE BOARD OF TRUSTEES

The Trustees submit their report together with Financial Statements of the Policyholders Compensation Fund for the period ending 30th June 2021.

9.1 Establishment

Policyholders Compensation Fund is a State corporation established under Section 179 of the Insurance Act and commenced its operations on 1st January, 2005.

9.2 Principal Activities

The principal activities of the Fund are to protect the policyholders of an insurer placed under a manager appointed under section 67C (2) or whose license has been cancelled under the Act through provision of compensation for unpaid claims, participation in statutory management and liquidation of a wound-up insurer.

9.3 Results

The results for the year ended 30th June 2021 are set out from page 40 of this report.

9.4 Board of Trustees

The Trustees who served during the current year are as follows:

Table 5. Board of Trustees Membership

Name	Membership	Representation
Mr. Faisal Abass	Chairman	Independent (appointed on 19th July, 2018)
Ms. Alice Nzioka	Trustee	Alternate to the Commissioner of Insurance and Chief Executive Officer of the Insurance Regulatory Authority
Mr. Reuben Ndegwa	Trustee	Representative of special interests (appointed 28th September, 2018)
Mr. Duncan Ndirangu	Trustee	Was an alternate to the Cabinet Secretary - The National Treasury & Planning (term ended 17 th July 2020)
Johnstone Oltetia	Trustee	Alternate to the Cabinet Secretary - The National Treasury & Planning (appointed on 17 th July 2020 up to 5 th May 2021)
Lydia Ochako	Trustee	Representative /alternate to the Attorney General to the Board of Trustees on 17 th July 2020

9.5 Auditors

The Office of the Auditor General (OAG) is responsible for the statutory audit of the Policyholders Compensation Fund in accordance with Section 35 of the Public Audit Act 2015 (Cap.134)

9.6 Entity's compliance with statutory requirements

PCF has complied with its establishing Act, that is, Section 179 of the Insurance Act. It has also complied with other legal requirements such as submission of statutory deductions to KRA and its internal policies and procedures. There are no instances of non-compliance that would lead to financial loss.

By Order of the Board



William Masita

MANAGING TRUSTEE AND SECRETARY TO THE BOARD

10.0 STATEMENT OF THE BOARD OF TRUSTEES RESPONSIBILITIES

The Public Financial Management Act section 68 and 81 requires the Fund to prepare financial statements for each financial year which give a true and fair view of the state of affairs of PCF at the end of the financial year and the operating results of the Fund for the year. Financial statements include a statement of financial position showing in detail the assets and liabilities of the Fund, a statement of financial performance, a statement of cash flows and any other statements and accounts that the Public Sector Accounting Standards Board may prescribe to be necessary to fully disclose the financial position of the Fund.

The State Corporations Act (Cap 446) requires the Fund to keep or cause to be kept proper books recording all the property, undertakings, funds, activities, contracts, transactions and other business of the Fund. Under the State Corporations Act, the Board of Trustees is responsible for the proper management of the affairs of a state corporation. The Board of Trustees are also required to ensure that the Fund keeps proper accounting records which disclose with reasonable accuracy the financial position of the Fund. The Board of Trustees are also responsible for safeguarding the assets of the Fund.

The Board of Trustees are responsible for the preparation and presentation of the Policyholders Compensation Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended 30th June 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 Fund;
- 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 Fund;
- v. Selecting and applying appropriate accounting policies; and
- vi. Making accounting estimates that are reasonable in the circumstances.

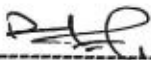
The Board of Trustees accepts responsibility for the Board's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the Public Finance Management Act, 2012. The Board of Trustees are of the opinion that the Fund's financial statements give a true and fair view of the state of the Fund's transactions during the financial year ended 30th June 2021, and of the Fund's financial position as at that date. The Board of Trustees further confirms that the financial statements are free from material misstatements and faithfully represents the financial performance and positioning of PCF.

Policyholders Compensation Fund
Annual Report and Financial Statements
For the Year Ended 30th June 2021

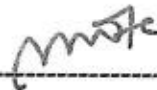
Nothing has come to the attention of the Board of Trustees to indicate that Policyholders Compensation Fund will not remain a "going concern" for at least the next twelve (12) months from the date of this statement.

Approval of the financial statements

The Policyholders Compensation Fund financial statements were approved by the Board on 16th May 2022 and signed on its behalf by:



Mr. Reuben Ndegwa
For Board Chairman



Mr. William Masita
Managing Trustee

REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke
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HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON POLICYHOLDERS COMPENSATION FUND FOR THE YEAR ENDED 30 JUNE, 2021

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 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 Policyholders Compensation Fund set out on pages 42 to 74, which comprise the statement of financial position as at 30 June, 2021, 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 Policyholders Compensation Fund as at 30 June, 2021, 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 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 Policyholders Compensation Fund 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 described in the Basis for Conclusion on

Effectiveness of Internal Controls, Risk Management and Governance section of my report, 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

Lack of Disaster Recovery Plan

The Fund collects and maintains critical data on policyholders which would be required in case there is need for compensation. Although Management has an approved ICT Policy, it does not have a comprehensive business continuity plan or disaster recovery plan which detail out steps to be taken to recover any lost data and ensure there is no disruption of services.

Under the circumstances, the Fund is at risk of losing information and data in an event of a disaster at its premises.

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 the Board of Trustees

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

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain service, 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 Fund or to 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 Trustees is responsible for overseeing the Fund'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 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 Fund'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 Fund 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 Fund 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


30 June, 2022

**12.0 STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED
30TH JUNE 2021**

	Notes	2020-2021	2019-2020
		Kshs.	Kshs.
REVENUE			
Revenue from non-exchange transactions			
Contribution levy	17.4	855,074,905	827,892,113
Penalties	17.5	6,826,616	2,230,674
		861,901,521	830,122,787
Revenue from exchange transactions			
Investment income	17.6	1,113,722,618	1,028,834,956
Other Income	17.7	9,500,000	9,500,000
		1,123,222,618	1,038,334,956
TOTAL REVENUE		1,985,124,139	1,868,457,743
EXPENDITURE			
Use of goods and services	17.8	14,649,508	7,162,816
Employee costs	17.9	21,559,524	16,083,200
Remuneration of directors	17.10	12,274,767	16,173,264
Depreciation and amortization expense	17.11	1,229,633	390,152
Repairs and maintenance	17.12	85,500	124,391
Contracted services	17.13	2,429,000	2,780,500
Compensation	17.14	5,630,420	0
TOTAL EXPENSES		57,858,352	42,714,323
SURPLUS FOR THE PERIOD		1,927,265,787	1,825,743,420

Policyholders Compensation Fund
Annual Report and Financial Statements
For the Year Ended 30th June 2021

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Fund's financial statements were approved on 16th May 2022 and signed by:



Ms. Hope Keah
MANAGER FINANCE
ICPAK No.10775



Mr. William Masita
MANAGING TRUSTEE
ICPAK No.5589

13.0 STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2021

	Notes	2020-2021	2019-2020
		Kshs.	Kshs.
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	17.15	151,317,376	114,817,585
Receivable from non-exchange transaction			
Levies and Penalties	17.16	1,547,018	58,350,551
Receivable from exchange transactions			
Investments	17.17	14,268,137,758	12,319,552,531
		14,421,002,152	12,492,720,667
NON CURRENT ASSETS			
Property, plant and equipment	17.18	8,116,352	5,948,011
TOTAL ASSETS		14,429,118,504	12,498,668,678
CURRENT LIABILITIES			
Payables from exchange transactions	17.19	3,108,100	6,766,519
Other liabilities	17.20	36,600,421	-
Provisions	17.21	6,030,420	400,000
		45,738,941	7,166,519
NON-CURRENT LIABILITIES			
Non-current employee benefit obligation (Gratuity Provision)	17.22	1,212,038	-
NET ASSETS		<u>14,382,167,525</u>	<u>12,491,502,159</u>
RESERVES			
Government Grant	17.28	35,000,000	35,000,000
Accumulated surplus	17.29	14,347,167,525	12,456,502,159
TOTAL		<u>14,382,167,525</u>	<u>12,491,502,159</u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Fund's financial statements were approved on 16th May 2022 and signed by:



Ms. Hope Keah
MANAGER FINANCE
ICPAK No.10775



Mr. William Masita
MANAGING TRUSTEE
ICPAK No.5589

**14.0 STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED
30TH JUNE 2021**

	Notes	Fund Reserves	Total
As at July 1, 2019		10,665,758,739	10,665,758,739
Surplus/ Deficit for the year		1,825,743,420	1,825,743,420
As at 30 th June 2020		12,491,502,159	12,491,502,159
As at July 1, 2020		12,491,502,159	12,491,502,159
Surplus/ Deficit for the year		1,927,265,787	1,927,265,787
Other liabilities (Capital Commitments)	17.20	(36,600,421)	(36,600,421)
As at 30 th June 2021		14,382,167,525	14,382,167,525

Note: The purpose of the reserves is for the payment of compensation to the claimants of insolvent and liquidated insurance companies.

Capital Commitments as the end of the financial year to be financed from capital reserves. Further explanation has been provided in the notes to these financial statements.

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Fund's financial statements were approved on 16th May 2022 and signed by:



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15.0 STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30TH JUNE 2021

	Notes	2020-2021	2019-2020
		Kshs.	Kshs.
Cash flow from operating activities			
Surplus for the year		1,927,265,787	1,825,743,420
Adjustments for:			
Depreciation on property, plant & equipment	17.11	1,229,633	390,152
Investment income	17.6	(1,113,722,618)	(1,028,834,955)
Surplus before working capital changes		814,772,802	797,298,617
Increase/Decrease in receivables	17.23	56,803,533	(9,528,660)
(Decrease)/Increase in payables & provisions	17.24	3,184,039	6,400,149
Net Cash from Operating Activities (A)		874,760,374	794,170,106
Cash flow from investing activities			
Purchase of property, plant and equipment	17.25	(3,398,555)	(5,247,269)
Increase in investments	17.27	(1,948,584,647)	(1,725,347,002)
Investment income	17.6	1,113,722,618	1,028,834,955
Net cash used in investing Activities (B)		(838,260,585)	(701,759,316)
Net increase in cash & cash equivalents		36,499,791	92,410,790
Cash & cash equivalent at the beginning		114,817,585	22,406,795
Cash & cash equivalent at the end		<u>151,317,376</u>	<u>114,817,585</u>

Policyholders Compensation Fund
Annual Report and Financial Statements
For the Year Ended 30th June 2021

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Fund's financial statements were approved on 16th May 2022 and signed by:



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**16.0 STATEMENT OF COMPARISON OF ACTUAL AND BUDGET AMOUNTS
FOR THE YEAR ENDED 30TH JUNE 2021**

	2020-2021	2020-2021	2020-2021	
	APPROVED BUDGET	ACTUAL	VARIANCE	% UTILISATION
	Kshs.	Kshs.	Kshs.	
	(a)	(b)	c=a-b	d=b/a
INCOME				
Contribution levy	918,592,000	855,074,905	63,517,095	93%
Investment Income	880,000,000	1,113,722,618	-233,722,618	127%
Penalties	-	6,826,616	-6,826,616	100%
Other Income	-	9,500,000	-9,500,000	100%
	1,798,592,000	1,985,124,139	-186,532,139	
OPERATING EXPENDITURE				
Use of goods and services	32,562,750	14,649,508	17,913,242	45%
Employee costs	41,938,000	21,559,524	20,378,476	51%
Remuneration of directors	20,968,000	12,274,767	8,693,233	59%
Depreciation and amortization expense	500,000	1,229,633	-729,633	246%
Repairs and maintenance	500,000	85,500	414,500	17%
Contracted services	13,000,000	2,429,000	10,571,000	19%
Compensation	1,000,000,000	5,630,420	994,369,580	1%
TOTAL EXPENDITURE	1,109,468,750	57,858,352	1,051,610,398	
SURPLUS FOR THE YEAR		1,927,265,787		

Note: The material variances are explained in Note 17.27.

Policyholders Compensation Fund
Annual Report and Financial Statements
For the Year Ended 30th June 2021

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Fund's financial statements were approved on 16th May 2022 and signed by:



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17.0 NOTES TO THE FINANCIAL STATEMENTS

17.1 General Information

Policyholders Compensation Fund (PCF) also known as 'the Fund' is a State Corporation under the National Treasury and Planning that was established through the Legal Notice No.105 of 2004 and commenced its operations in January 2005. The Fund was established for the primary purpose of providing compensation to claimants of an insurer that has been put under Statutory Management and for the secondary purpose of increasing the general public's confidence in the insurance sector. The decision to establish the Fund was informed by the collapse of several insurers prior to the year 2005. The Fund is governed by section 179 of the Insurance Act (Cap 487) and the Insurance (Policyholders Compensation Fund) Regulations, 2010.

Policyholders Compensation Fund as stated in the Insurance Act is mandated to:

- a) Provide compensation to policyholders of an insurer placed under statutory management or whose license has been cancelled;
- b) Monitor, in consultation with the Commissioner of Insurance where necessary, the risk profile of any insurer;
- c) Advise the Cabinet Secretary in charge of finance matters on the national policy to be followed with regard to matters relating to compensation of policyholders and to implement all government policies relating thereto;
- d) Participate in the statutory management of an insurer placed under statutory management by the regulator;
- e) Liquidate an insurer as may be ordered by a court; and
- f) Perform such other functions as may be conferred on it by this Act or by any other written law.

17.2 Statement of compliance and basis of preparation

The financial statements are prepared in accordance and comply with International Public Sector Accounting Standards (IPSAS). These financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period. In addition, the cashflow is prepared using the indirect method.

These financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, financial instruments at fair value 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 management to exercise judgement in the process of applying the entity's accounting policies.

The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in the notes of these financial statements.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of Policyholders Compensation Fund.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, section 179 of the Insurance Act (Cap 487) and the Insurance (Policyholders Compensation Fund) (Amendment) Regulations, 2019 and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

17.3 Summary of Significant Accounting Policies

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

17.3.1 Revenue recognition

a) Revenue from non-exchange transactions

The Fund recognizes revenues from levies and penalties when the event occurs and the asset recognition criteria are met. 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 Fund and the fair value of the asset can be measured reliably.

b) Revenue from exchange transactions

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

17.3.2 Budget information

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 Fund.

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.

In the financial year 2020/2021, the initial recurrent approved budget was Kshs. 1,103,875,000 which was rationalized by Kshs.5,593,750 to Kshs. 1,109,468,750 during supplementary estimates. Development approved budget for FY 2020/2021 was Kshs. 2,300,000 which was revised by Kshs.36,695,000 to Kshs.38,995,000.

17.3.3 Property, plant, equipment and 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 to bring the asset to its location and condition ready for its intended use. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred.

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.

The Depreciation rates used are as follows:

Computers	33.3%
Office Furniture & Equipment	12.5%
Motor Vehicle	25%

At the end of the financial year, the Fund a capital commitments amounting to Kshs.36,600,421 which have been disclosed in these financial statements.

17.3.4 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.

At the end of the financial year under review, the Fund had a capital commitment on Microsoft Office 365 software for office operations use at the cost Kshs.1,131,624.

17.3.5 Financial instruments

Financial assets and financial liabilities are recognized in the Fund's statement of financial position when the Fund becomes a party to the contractual provisions of the instrument.

a) Financial Assets

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 Fund determines the classification of its financial assets at initial recognition.

i. Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Fund charges for management fees on insurers which have been placed under management by the regulator and penalties as per section 179 of the Insurance Act (Cap 487). The Fund receivables comprises of statutory management fees and penalties charged on late submission of the levies by the insurers.

ii. Government securities held-to-maturity.

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity and are stated at amortized cost. The Fund's Government securities comprise treasury bills which are debt securities issued by the Government of Kenya. For the period ending 30th June 2021, the Fund held government securities at the Central Bank of Kenya valued at Kshs.14,268,137,758.

b) Financial liabilities

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 Fund determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value.

i) Trade payables

During the financial year under review, the Fund payables stood at Kshs. 3,108,100 mainly comprised of payables from exchange transactions such as sundry creditors. Trade payables are current and are stated at their nominal value. Refer to note.17.19.

17.3.6 Inventories

The Fund procures stationery and other inventories as and when need arises and are expensed in the period it relates.

17.3.7 Provisions

Provisions are recognized when the Fund 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. In the financial year 2020/2021, the Fund made some provisions which have been disclosed under note 17.21 and 17.22 in the notes to the financial statements.

17.3.8 Contingent liabilities

In anticipation of the payment of compensation to claimants of insolvent insurers, the Fund acknowledges the amount payable as compensation as a contingent liability will be incurred in future.

17.3.9 Nature and Fund reserve

The Fund creates and maintains reserves to compensate claimants of an insurer placed under a manager appointed under section 67C (2) or whose license has been cancelled under the Insurance Act.

17.3.10 Changes in accounting policies and estimates

The Fund recognizes the effects of changes in receivables accounting policy prospectively.

17.3.11 Related parties

The Fund 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 Fund, or vice versa. Those regarded as related parties include:

- i. The Board of Trustees, in exercise of the powers given to them through Section 179 (2B) of the Insurance Act;
- ii. Management and staff in exercise of their fiduciary duties;
- iii. The Retirement Benefits Authority as the appointed Managing Trustee up-to 9th September 2020
- iv. The Commissioner of Insurance as the Appointing Authority of Statutory Managers;
- v. The Insurance Regulatory Authority as the Industry Regulator and host to the Fund's Staff.

17.3.12 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, current account bank balances, and temporary imprests. These have been disclosed under the notes to the financial statements.

17.3.13 Comparative figures

Comparative figures have, where applicable, been adjusted to conform to changes in the current presentation.

17.3.14 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 30th June 2021.

17.3.15 Sundry Creditors

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date.

17.4 Contribution Levy

Section 179 (6) of the Insurance Act requires Insurers to pay a monthly contribution to the Fund in such amount and time as may be prescribed by the Cabinet Secretary in consultation with the Board. The rate is currently set at 0.5%.

	2020-2021	2019-2020
	Kshs.	Kshs.
Quarter 1	197,829,271	163,605,329
Quarter 2	193,986,707	281,988,590
Quarter 3	212,857,940	174,224,818
Quarter 4	250,400,987	208,073,376
Total	<u>855,074,905</u>	<u>827,892,113</u>

The 3% increase in levy collected is attributed to insurance business increase in premium volumes in the insurance sector despite the effects of Covid-19 pandemic which has affected the whole economy at large.

17.5 Penalties

The Insurance Act empowers the Insurance Regulatory Authority (IRA) and the Policyholders Compensation Fund (PCF) to charge penalties for non-compliance of various sections of the Act. These penalties are to be paid into the Policyholders Compensation Fund. During the year under review, penalties were charged and collected as follows:

	2020-2021	2019-2020
	Kshs.	Kshs.
Quarter 1	-	238,964
Quarter 2	3,260,000	510,000
Quarter 3	-	443,633
Quarter 4	3,566,616	1,038,077
Total	<u>6,826,616</u>	<u>2,230,674</u>

The 206% increase in the penalty amount is attributed to increased enforcement actions by both IRA and PCF. Refer to Appendix III of this report for the detailed analysis of penalties.

17.6 Investment Income

The investment income was generated by interest earned on Treasury Bills and on current accounts held in the Fund's commercial bank.

	2020-2021	2019-2020
	Kshs.	Kshs.
Interest from Treasury Bills	1,109,137,945	1,024,768,953
Current accounts interest	4,584,673	4,066,003
	<u>1,113,722,618</u>	<u>1,028,834,956</u>

The 8% increase is attributed to the volumes of transactions traded and the CBK average rates during the period.

FY 2020/2021 Investment income is further analysed quarterly as follows;

	Interest from Treasury Bills	Current accounts interest	Total
Quarter 1	274,603,182	941,643	275,544,825
Quarter 2	272,433,274	874,824	273,308,098
Quarter 3	274,024,606	1,197,089	275,221,695
Quarter 4	288,076,883	1,571,117	289,648,000
Total	<u>1,109,137,945</u>	<u>4,584,673</u>	<u>1,113,722,618</u>

Policyholders Compensation Fund
Annual Report and Financial Statements
For the Year Ended 30th June 2021

In the previous financial year 2019/2020, the Fund's quarterly investment performance was as follows;

	Interest from Treasury Bills	Current accounts interest	Total
Quarter 1	244,106,896	1,754,876	245,861,772
Quarter 2	266,349,328	770,512	267,119,840
Quarter 3	250,466,954	841,662	251,308,616
Quarter 4	264,845,776	698,951	264,544,727
Total	<u>1,024,768,953</u>	<u>4,066,003</u>	<u>1,028,834,956</u>

17.7 Other Income

This is income the Fund earned as management fees for Statutory Management services for the two insurers placed under statutory management by the Commissioner of Insurance. The two companies are Blue Shield Insurance Company and United Insurance Company. Under the financial year 2020-2021, there was a receivable of Kshs.1,000,000 accrued from United Insurance for four months.

	2020-2021	2019-2020
	Kshs.	Kshs.
Blueshield Insurance Co.Ltd	6,500,000	6,500,000
United Insurance Co.Ltd	3,000,000	3,000,000
Total	<u>9,500,000</u>	<u>9,500,000</u>

These amounts were received in the quarter periods;

	2020-2021	2019-2020
Quarter 1	1,000,000	750,000
Quarter 2	750,000	2,250,000
Quarter 3	4,750,000	4,500,000
Quarter 4	3,000,000	2,000,000
Total	<u>9,500,000</u>	<u>9,500,000</u>

An amount of Kshs.500,000 was received from BlueShield which relates to FY 2019/2020 statutory management fee which were long outstanding from Blue Shield Insurance Company that was received in that period.

17.8 Use of Goods and Services

	2020-2021	2019-2020
	Kshs.	Kshs.
Travel and accommodation	9,010,640	4,342,671
Information technology	189,289	219,062
Hospitality and general office use	1,080,126	1,017,151
Printing and stationery	559,104	118,282
Newspapers & Periodicals	120,196	61,480
Postage and telephone	487,417	200,650
Public education and publicity	1,783,205	491,569
Insurance	27,075	8,164
Audit fees	400,000	-
Bank Charges	126,698	71,994
Training	865,758	631,793
Total	<u>14,649,508</u>	<u>7,162,816</u>

The differences were due to:

- **Travel & Accommodation** – increased in FY 2020/2021 was due to additional activities related to capacity building and performance contracting.
- **Public Education & Publicity** – increase in FY 2020/2021 was due advertisement for the various position of staff. Participation in IRA Open days and advertisement for compensation of policyholders of Corncord Insurance Co.Ltd
- **Hospitality and General Office Use**– Increase in FY 2020/2021 was due to increased activities and recruitment exercise for senior management staffs.
- **Bank Charges**–The 76% increase in bank charges as a result of increased operations of the Fund. The bank charges incurred;

	2020-2021	2019-2020
	Kshs.	Kshs.
NCBA-Fund	39,665	37,120
NCBA-Operations	81,993	26,410
Cooperative Bank	-	4,834
KCB	5,040	3,630
Bank charges	<u>126,698</u>	<u>71,994</u>

17.9 Employee Costs

These costs were incurred with respect to staff personnel emoluments which include salaries, allowances and gratuity.

	2020-2021	2019-2020
	Kshs.	Kshs.
*Personnel Emoluments	20,347,486	16,083,200
*Gratuity	1,212,038	-
	21,559,524	16,083,200

Further, the personnel emoluments were incurred as follows;

	2020-2021	2019-2020
Quarter 1	500,000	-
Quarter 2	2,924,660	7,763,600
Quarter 3	3,591,596	825,000
Quarter 4	13,331,230	7,494,600
Total	20,347,486	16,083,200

*Previously, the Retirement Benefits Authority (RBA) was appointed the Managing Trustee of the Fund with effect from 9th December, 2004 and had deployed staff to run PCF operations from a Secretariat that was led by the Representative of the Managing Trustee and four other staffs until 30th November 2020. RBA was paying the salaries of these staffs and demand reimbursement at the end of the year from the Fund. During the financial year 2020-2021, the payment to RBA was made during the last quarter. Thereafter, a substantive Managing Trustee was appointed and gazetted vide Gazette Notice No.6782 dated 9th September 2020 who reported on 16th September 2020.

*Gratuity provision was made in the last quarter of FY 2020/2021 for staffs who are on contract. In the previous financial year, no gratuity was paid.

17.10 Remuneration of Directors

These are expenses incurred in the execution of Board of Trustees related activities.

	2020-2021	2019-2020
	Kshs.	Kshs.
Honoraria	960,000	960,000
*Sitting allowances	4,903,800	3,160,000
Lunch allowances and snacks	333,890	330,500
*Capacity Building, Insurance, Travel	6,077,077	11,722,764
Total	<u>12,274,767</u>	<u>16,173,264</u>

The differences are due to the following:

***Sitting allowances** - The 55% increase is due to increased Board meetings which arose because of recruitment exercise of senior management staffs.

***Capacity Building, Insurance, Travel** - The 48% decrease is attributed to decreased travel activities as a result of the effects of Covid-19 pandemic.

17.11 Depreciation

This amount relates to the depreciation charged to the Fixed Assets of the Fund.

	2020-2021	2019-2020
	Kshs.	Kshs.
Fixed assets charge- Computers	585,737	376,174
Fixed assets charge- Office Furniture & Equipment	16,876	13,978
Fixed assets charge- Motor Vehicle	627,020	-
Total	<u>1,229,633</u>	<u>390,152</u>

The increase is due to the procurement of office equipment including Laptops and Tablets for Board members and the new management staffs.

17.12 Repairs & Maintenance

These are costs incurred to maintain or repair office equipment and motor vehicles.

	2020-2021	2019-2020
	Kshs.	Kshs.
Motor Vehicles repairs	53,600	-
Computer maintenance	31,900	124,391-
Total	<u>85,500</u>	<u>124,391</u>

17.13 Contracted Services

This cost relates to the outsourced services engaged during the period under review. The cost increased due to the engagement of consultants to undertake the recruitment and strategic planning processes.

	2020-2021	2019-2020
	Kshs.	Kshs.
Wanjiku Kinyanjui Advocates	1,360,000	-
PCF	6,000	-
PCF	13,000	-
Kenya School of Government	1,050,000	2,100,000
PKF Consulting Ltd	-	272,500
PCF	-	8,000
OAG	-	400,000
Total	<u>2,429,000</u>	<u>2,780,500</u>

17.14 Compensation

This relates to provisions made for compensation.

	2020-2021	2019-2020
	Kshs.	Kshs.
Compensation	<u>5,630,420</u>	=

The Fund made a provision to compensate policyholders of Concord Insurance Company Ltd whose claims had been lodged with the Fund.

17.15 Cash and Cash Equivalents

		2020-2021	2019-2020
		Kshs.	Kshs.
Commercial Bank of Africa	Operational Account No.6492580017	169,355	744,788
	Fund Account No. 6492580025	150,993,714	112,901,172
Kenya Commercial Bank	Account No. 1143736508	55,390	58,340
Cooperative Bank of Kenya	Account No. 01136162765000	-	-
Cash on hand		13,566	31,200
Imprest		85,351	1,082,085
		<u>151,317,376</u>	<u>114,817,585</u>

Fund Account – The amounts relate to Treasury Bill that matured and was credited into the account at the close of the financial year.

17.16 Receivables' from Non-Exchange Transactions

The law requires that all contribution levy is paid within one month after the period to which it relates ends. The contribution levy for June is therefore receipted in July.

	2020-2021	2019-2020
	Kshs.	Kshs.
Outstanding Contribution Levies, Penalties & management fees	<u>1,547,018</u>	<u>58,350,551</u>

The decrease in levy receivables is as a result of changes made in accounting for levy collections to reflect actual receipts received since the collection is due within thirty days *after* the end of the previous month according to PCF Regulation 9(4). Refer to Appendix II of these financial statements for the detailed analysis of the receivables.

Policyholders Compensation Fund
Annual Report and Financial Statements
For the Year Ended 30th June 2021

17.17 Investments

The Fund invests its surplus assets in Government Securities. During the year under review, all the investments were placed in Treasury Bills that yielded an average interest rate of 8% as at 30th June, 2021. Treasury bills are stated at cost plus accrued interest.

Treasury bills

	2020-2021	2019-2020
	Kshs.	Kshs.
Treasury bills held	<u>14,268,137,758</u>	<u>12,319,552,531</u>

The increase in 2021 is due to the additional investment of the surplus revenues collected during the year.

17.18 Property, Plant & Equipment

	Computer	Office Furniture & Equipment	Motor Vehicles	Total
	33.3%	12.5%	25.0%	
	Kshs.	Kshs.	Kshs.	Kshs.
Cost				
As at 1st July 2019	3,825,969	384,143	-	4,210,112
Additions	812,700	135,000	4,299,569	5,247,269
Disposal	-	-	-	-
As at 30th June 2020	4,638,669	519,143	4,299,569	9,457,381
Depreciation				
As at 1st July 2019	2,733,656	384,143	-	3,117,799
Charge for the year	378,174	13,978	-	392,152
Disposal	-	-	-	-
As at 30th June 2020	3,111,830	398,121	-	3,509,951
Net Book Value				
As at 30 th June 2020	1,526,839	121,022	4,299,569	5,947,430
As at 30 th June 2019	1,093,313	-	-	1,093,313
Cost				
As at 1st July 2020	4,638,669	519,143	4,299,569	9,457,381
Additions	3,398,555	-	-	3,398,555
Disposal	-	-	-	-

Policyholders Compensation Fund
Annual Report and Financial Statements
For the Year Ended 30th June 2021

	Computer	Office Furniture & Equipment	Motor Vehicles	Total
	33.3%	12.5%	25.0%	
	Kshs.	Kshs.	Kshs.	Kshs.
As at 30th June 2021	8,037,224	519,143	4,299,569	12,855,936
Depreciation				
As at 1st July 2020	3,111,830	398,121	-	3,509,951
Charge for the year	585,737	16,876	627,020	1,229,633
Disposal	-	-		-
As at 30th June 2021	3,697,567	414,997	627,020	4,739,584
Net Book Value				
As at 30 th June 2021	4,339,657	104,146	3,672,549	8,116,352
As at 30 th June 2020	1,526,839	121,022	4,299,569	5,947,430

During the financial year 2020/2021, there was a decrease in capital expenditure compared to the previous financial year 2019/2020. This was because the Fund budget revision was approved towards the end of the financial year under review which affected the procurement of the planned assets acquisition.

17.19 Payables from Exchange Transactions

These are expenses relating to services whose rendering commenced during the period under review but not yet settled as at 30th June, 2021.

	2020-2021	2019-2020
	Kshs.	Kshs.
Public Education	232,500	
Travel and Accommodation	-	95,350
Consultancy	2,410,000	1,050,000
Personnel emoluments	465,600	886,600
Office Equipment	-	435,000
Motor Vehicle		4,299,569
Total	<u>3,108,100</u>	<u>6,766,519</u>

17.20 Other Liabilities

During the financial year 2020/2021, the Fund budget revision was approved towards the end of the financial year under review which affected the procurement of the planned assets acquisition and as a result the Fund had capital commitments for those on-going authorised capital commitments.

Capital Commitments	2020-2021
	Kshs
Authorised and contracted for	
Furniture & fittings	5,998,000.00
ICT infrastructure	2,470,797.00
Motor Vehicles	27,000,000.00
Intangible Asset (Microsoft 365 Software)	1,131,624.00
Total	36,600,421.00

17.21 Current Provisions

This relates to allocations provided for a service relating to the period under review but yet to be established. This particular provision is for the external audit services to be rendered by the Office of the Auditor General.

	2020-2021	2019-2020
	Kshs.	Kshs.
Audit fees	400,000	400,000
Compensation	5,630,420	-
Total	<u>6,030,420</u>	<u>400,000</u>

17.22 Non-Current Provisions

This relates to allocations provided for a service relating to the period under review but yet to be established. This particular provision is for the external audit services to be rendered by the Office of the Auditor General.

	2020-2021	2019-2020
	Kshs.	Kshs.
Gratuity Provision	1,212,038	-

17.23 Changes in Receivables

	2020-2021	2019-2020
	Kshs.	Kshs.
Receivables at the Beginning of the Year	58,350,551	48,821,891
Receivables at the End of the Year	1,547,018	58,350,551
Changes (Increase/Decrease)	56,803,533	(9,528,660)

17.24 Changes in Payables & Provisions

	2020-2021	2019-2020
	Kshs.	Kshs.
Payables at the Beginning of the Year	6,766,519	366,370
Payables and provisions at the End of the Year	10,350,558	6,766,519
Changes (Increase/Decrease)	3,184,039	6,400,149

17.25 Purchase of Property, Plant and Equipment

	2020-2021	2019-2020
	Kshs.	Kshs.
Computers	3,398,555	812,700
Office Furniture & Equipment	-	135,000
Motor Vehicle	-	4,299,569
Total	3,398,555	5,247,269

During the financial year 2020/2021, there was a decrease in capital expenditure compared to the previous financial year 2019/2020. The Fund acquired laptops, pads, furniture and equipment for new staffs. Due to delayed procurement of the planned acquisition of assets, the Fund had capital commitments to meet at the end of the financial year which have been disclosed in this report.

Policyholders Compensation Fund
Annual Report and Financial Statements
For the Year Ended 30th June 2021

17.26 Changes in Investments

	2020-2021	2019-2020
	Kshs.	Kshs.
Investments at the Beginning of the Year	12,319,553,111	10,594,206,109
Investments at the End of the Year	14,268,137,758	12,319,553,111
Changes (Increase/Decrease)	(1,948,584,647)	(1,725,347,002)

17.27 Statement of Comparison of Actual and Budget Amounts

This statement explains the reasons contributing to material differences in the budget items.
The range for a material difference is 5%.

	2020-2021	2020-2021	2020-2021		
	Kshs.	Kshs.	Kshs.		
	Budget (a)	Actual (b)	Variance c=a-b	% Utilization d=b/a	Reasons
INCOME					
Contribution levy	918,592,000	855,074,905	63,517,095	93%	The Levy p achieved business co 19 effects.
Investment Income	880,000,000	1,113,722,618	-233,722,618	127%	The incre invested in the minim payouts.
Penalties	-	6,826,616	-6,826,616	100%	These were
Other Income	-	9,500,000	-9,500,000	100%	These we
	1,798,592,000	1,985,124,139	-186,532,139		
OPERATING EXPENDITURE					
Use of goods and services	32,562,750	14,649,508	17,913,242	45%	Most of the related to

Policyholders Compensation Fund
Annual Report and Financial Statements
For the Year Ended 30th June 2021

	2020-2021	2020-2021	2020-2021		
	Kshs.	Kshs.	Kshs.		
	Budget (a)	Actual (b)	Variance c=a-b	% Utilization d=b/a	Reasons
					accommodation, public education and publicity were not implemented due to scaled down operations.
Employee costs	41,938,000	21,559,524	20,378,476	51%	The planned recruitment exercise was partially done as one position was filled during the financial year. There was a delayed recruitment of the other positions.
Remuneration of directors	20,968,000	12,274,767	8,693,233	59%	The Board of Trustees was not fully constituted due to vacancies arising from expiry of terms. The activities were also minimal due to Covid-19 pandemic.
Depreciation and amortization expense	500,000	1,229,633	-729,633	246%	During the period under review, more assets were acquired.
Repairs and maintenance	500,000	85,500	414,500	17%	Most of the assets were procured towards the financial year end hence minimal repairs was undertaken.
Contracted services	13,000,000	2,429,000	10,571,000	19%	There were no litigation hence legal services were not

Policyholders Compensation Fund
Annual Report and Financial Statements
For the Year Ended 30th June 2021

	2020-2021 Kshs.	2020-2021 Kshs.	2020-2021 Kshs.		
	Budget (a)	Actual (b)	Variance c=a-b	% Utilization d=b/a	Reasons
					utilized during FY 2020/2021. Only the recruitment of the Managing Trustee was done. In addition, public education not undertaken due to limited operations.
Compensation	1,000,000,000	5,630,420	994,369,580	1%	The process of compensation commenced towards the end of the financial year. This expected to pick up in 2021/2022 financial year.
TOTAL EXPENDITURE	1,109,468,750	57,858,352	1,051,610,398		
SURPLUS FOR THE YEAR		1,927,265,787			

17.28 Government Grant

The Government grant was seed capital provided to the Fund by Government of Kenya in two financial years, Kshs. 15 million in 2005/2006 and Kshs 20 million in 2006/2007. The grant was not refundable and was immediately invested.

17.29 Accumulated Surplus

This amount relates to the total net revenues accumulated since the Fund's inception less the Government Grant.

Total Balance as at 1st July, 2020	Kshs. 12,491,502,159
Surplus for the year	KShs. 1,927,265,787
Other liabilities (Capital Commitments)	Kshs. (36,600,421)
Total Balance as at 30th June 2021	Kshs. 14,382,167,525
Less Government Grant	Kshs.35,000,000
Accumulated Surplus as at 30th June 2021	Kshs. 14,347,167,525

APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of other audit matters raised by the external auditor as there were no key audit issues, and management comments that were provided to the auditor in the financial year ended 30th June 2020. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the External audit Report	Issue/ Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:
1	Misstatement of employee costs	The fund made some amendments to the financial statements and resubmitted the accounts.	Managing Trustee	Resolved
2	Bank reconciliation has long outstanding issues not receipted in the cashbook	The amount was from Trident Insurance and was receipted and accounted for.	Managing Trustee	Resolved
3	Lack of properly constituted Board of Trustee	The composition of the Board of Trustee had four members. The Fund is in communication with the Ministry to appoint more members. In addition, there is a representation from the Attorney General to the Board.	Managing Trustee	Unresolved

Policyholders Compensation Fund
Annual Report and Financial Statements
For the Year Ended 30th June 2021

4	Delay in Compensation	The Fund faced challenges in legal procedures which have since been resolved.	Managing Trustee	Resolved
5	Challenges in the identification of the imprest holders	The Fund prepared and Imprest register to manage the imprests.	Managing Trustee	Resolved

**APPENDIX II : RECEIVABLES FROM NON -EXCHANGE TRANSACTIONS
FY 2020/2021**

	NAME OF THE INSURER	TYPE	AMOUNT
1.	ICEA Lion Life	Penalty	387,692.65
2.	Invesco Assurance	Penalty	23,271.75
3.	Madison Life	Penalty	29,997.05
4.	Trident Insurance	Penalty	25,595.80
5.	APA Life	Penalty	12,689.45
6.	MUA Insurance	Penalty	7,369.30
7.	United Insurance	Statutory fee	1,000,000.00
8.	Insurance Regulatory Authority	Other	60,402.00
	TOTAL		1,547,018.00

APPENDIX III : PENALTIES ANALYSIS FOR FY 2020/2021

NO	NAME OF INSURER	DATE	AMOUNT
1	ICEA Lion Life	28/02/2021	387,692.65
2	Invesco Assurance	28/02/2021	23,271.75
3	Madison Life	28/02/2021	29,997.05
4	Trident Insurance	28/02/2021	15,463.30
5	APA Life	31/03/2021	12,689.45
6	MUA Insurance	31/03/2021	7,369.30
7	Trident Insurance	31/03/2021	10,132.50
8	Directline Assurance	31/12/2020	910,000.00
9	Metropolitan Life	31/12/2020	1,310,000.00
10	Resolution Insurance	31/12/2020	1,040,000.00
11	Sanlam General	30/06/2021	200,000.00
12	Resolution Insurance	30/06/2021	1,990,000.00
13	Trident Insurance	30/06/2021	300,000.00
14	Trident Insurance	30/06/2021	300,000.00
15	Pioneer General	30/06/2021	290,000.00
	TOTAL		<u>6,826,616.00</u>

