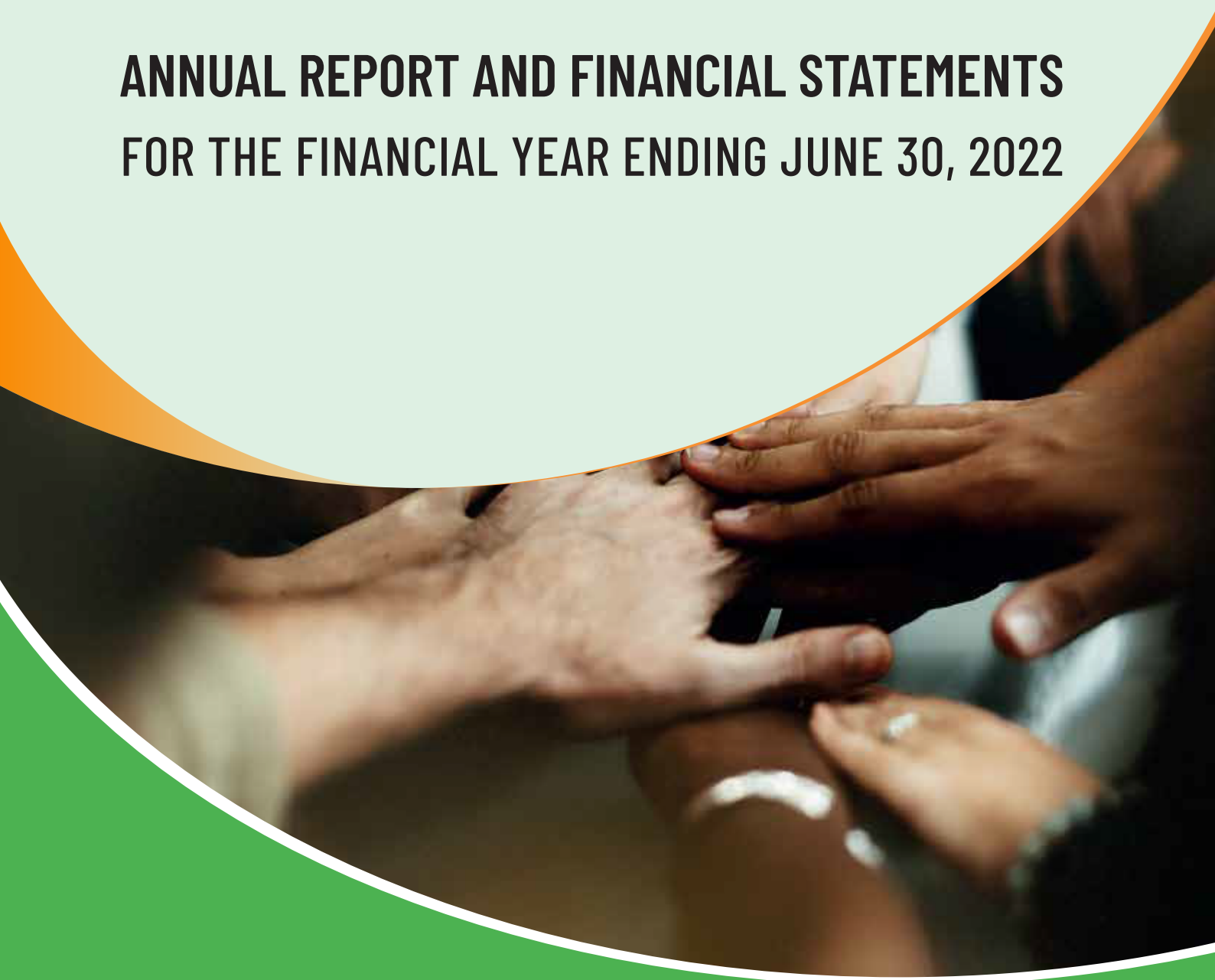




ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING JUNE 30, 2022



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



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RETIREMENT

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I. Key LAPFUND's Information and Management

(a) Background information

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

(b) Principal Activities

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

The Act provides for the establishment of the fund to be credited with:

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

(c) Key Management

LAPFUND's day-to-day management is under the Local Authorities Provident Fund Board

(d) Fiduciary Management

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

Name	Designation	Status
Mr. David Koross	Chief Executive Officer	
Mr. Bernard Mbogoh	Chief Manager, Finance, Investment & Corporate Service	
Mr. Galm Guracha Jaldesa	Chief Manager - Benefits Administration, Marketing & Customer Services	Resigned in February 2022
Ms. Veronica Lesaya	Chief Manager - Strategy, ICT, Human Resource and Administration	
Ms. Kellen Njue	Manager - Legal Services	
Mr. David Methu	Manager - Internal Audit	
Mr. Sylvester Mutie	Manager - Strategy, Research & Business Development	
Ms. Jane Mmasi	Manager - Human Resource & Administration	
Ms. Chemashack Ndiwa	Manager - Finance & Investments	
Mr. Daniel Kibet	Manager - Supply Chain Management	
Ms. Golda Akolo	Manager - Benefits Administration & Customer Care	
Mr. Eliud Kiborek	Manager - Marketing & Member Recruitment	
Mr. Martin Ayoo	Manager - Information, Communication & Technology	

(e) Fiduciary Oversight Arrangements

LAPFUND has put in place key fiduciary oversight arrangements covering:

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

(f) Head Quarters

P.O. Box 79592 - 00200

316 Upperhill Chambers, 2nd Ngong Avenue, Nairobi, KENYA.

ISDN: 0709 805 000, / 0709 805100

E-mail: info@lapfund.or.ke

Website: www.lapfund.or.ke

(g) Contacts

Telephone: +254 709 805 000 / +254 709 805 100, / +254 709 805 700

E-mail: info@lapfund.or.ke

Website: www.lapfund.or.ke

i. Branch Offices

Coast

2nd Floor, Imara Building
Dedan Kimathi Road

Mombasa

Telephone: +254 709 805 300
mombasaoffice@lapfund.or.ke

South Rift

1st Floor, Polo Centre
Kenyatta Avenue

Nakuru

Telephone: +254 709 805 500
nakuruoffice@lapfund.or.ke

Central

1st Floor, Fortress House
Kimathi Way,

Nyeri

Telephone: +254 709 805 400
Nyerioffice@lapfund.or.ke

Western

2nd Floor, Almran Plaza
Oginga Odinga Street

Kisumu

Telephone: +254 709 805 600
kisumuoffice@lapfund.or.ke

Upper North Eastern

Desert Trail Building
Isiolo-Marsabit Main Road

Isiolo

Telephone: +254 709 805 900
isiolooffice@lapfund.or.ke

North Eastern

Lilac Centre, 1st Floor
Off Kismayu Road

Garissa

Telephone: +254 709 805 800
garissaoffice@lapfund.or.ke

(h) Bankers

Co-operative Bank of Kenya Limited

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

Kenya Commercial Bank

Gateway Park /Kipande House
P.O Box 27618 – 00506
Nairobi, Kenya

National Bank of Kenya

Harambee Avenue
P.O Box 41862 – 00506
Nairobi, Kenya NCBA Bank
Kenyatta Avenue
P.O Box 44599-00100
Nairobi, Kenya

KCB Sahal

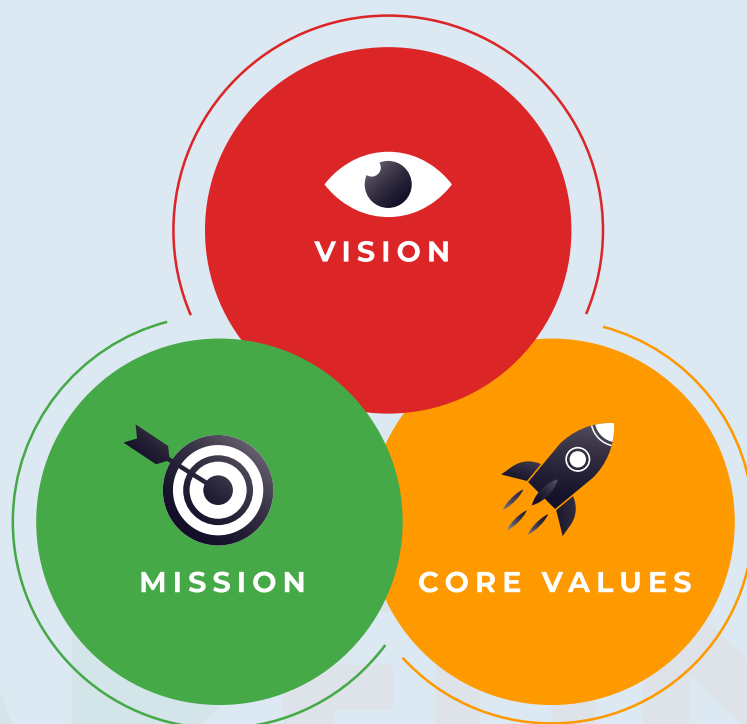
Kipande House
P.O Box 27618 – 00506
Nairobi, Kenya

Gulf African Bank

Kenyatta Avenue
+254711075000
customercare@gab.co.ke
Nairobi, Kenya

(i) Independent Auditors

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



Our Vision

The preferred savings and retirement benefits provider

Our Mission

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

Our Core Values

In an endeavour to realize our vision and mission, LAPFUND is guided by the following core values, Customer focus, Teamwork, Continuous improvement, Professionalism and Integrity

II. The Board of Directors

The Board of Directors were appointed on 6th October 2021 via gazette Notice No. 10642. The Board of Directors are listed below;



**CS. Sellestina Kiuluku, EBS,
Board Chairperson**

Mrs. Kiuluku has over 27 years of experience in public sector service in the areas of human resource management and development, electoral matters, salaries and benefits analysis, customer care, financial and risk management and corporate governance.

She holds a Master's degree in Business Administration, a Bachelor's degree in Education and is a Certified Secretary



**Hon. Joseph Lagat
Board Member – Resigned in February 2022**

Hon. Lagat is a seasoned professional having worked in both the public and private arena.

He has boardroom experience as a board member and board chair of various public entities. Hon. Lagat holds a Master's degree in Business Administration and a Bachelor's degree in Economics and Sociology



**Ms. Mwanyasi Kirigha,
Board Member**

Ms. Kirigha is a quality engineer who holds a bachelor's degree in science (Industrial Chemistry). She has vast experience in Quality management.



Mr. Guyo Okola Haro,
Board Member

Mr. Guyo has a broad range of experience in Arid and Semi-arid lands (ASAL) spanning over 30 years in progressive leadership and management.

He holds a Master's degree in Science in Natural Resource Management, a Bachelor's of Science (ecology) and Post Graduate Diploma in Sustainable Agriculture.



Mr. Elyas Sheikh Abdinoor,
Board Member

Mr. Abdinoor has worked in the medical field for over 11 years. He holds a Bachelor's degree in Food Science, Nutrition and Dietetics, a Diploma in Community Health and a Diploma in Medical Laboratory. He is currently pursuing a Master's degree in Public Health (MPH)



Mr. Seth Panyako
Board Member – Resigned in February 2022

Mr. Panyako is a nurse by profession and is a seasoned trade unionist with unmatched passion in advocating for the rights of workers. He is currently the Secretary General of the Kenya National Union of Nurses, a position he has held since 2013.



Hon. Roba Duba

Board Member - Resigned in February 2022

Hon. Roba Duba is a career civil servant.

He served as a Town Clerk in the previous government dispensation. Hon. Duba is an advocate for workers' rights and is the current Secretary General of the Kenya County Government Workers Union (KCGWU)



Mr. Odongo M. Okeyo,

Board Member

Mr. Okeyo is an experienced lawyer with over 30 years of experience in both the public and private sector. He holds a Master's degree in Strategic Planning, Bachelor's degree in Law, and is a Certified Secretary



Hon. Patrick Muiruri,

Board Member

A career civil servant, Hon. Muiruri has a vast experience in the public sector management, as well as the agricultural sector.



**Mrs. Nancy Ingato Anyanda,
Board Member**

Mrs. Anyanda is an esteemed marketing professional and a certified counsellor (Psychology). She holds Bachelor's degree in Business Administration (marketing option).



**Ms. Jane Wambugu,
Board Member.**

Mrs. Wambugu is an Alternate Director to the Cabinet Secretary, The National Treasury and Planning, where she currently serves in the department of Government Investment and Public Enterprise. She has over 12 years' experience as Certified Public Accountant having served in various Government Ministries in senior management, Project Accountant in World Bank and AFD donor funded projects in the Ministry of Energy and Ag. Head of Accounts Unit in the Ministry of Tourism, among others. She holds a Master's degree in Business Administration (Finance), Certified Public Accountant (CPA) and a member of the Institute of Public Accountant of Kenya (ICPAK) as well as the Institute of Certified Investment and Financial Analyst (ICIFA).



**Mr. David Koross,
Chief Executive Officer.**

Mr. Koross holds a Master Degree in Public Policy Management from Strathmore Business School and a Bachelor of Arts degree in Economics from University of Nairobi. He has a wide area of expertise in Marketing, Financial/ Investment Management and Reporting, Customer Management, Pension Schemes Regulation and Administration. Previously served as a director of NG-CDF Board.

III. Management Team



Mr. David Koross
Chief Executive Officer
MBA (Public Policy Management),
BA Economics



Mr. Bernard Mbogoh
Chief Manager, Finance,
Investment and
Corporate Service
BA Economics, CPA (K)



Mr. Galm Jaldesa
Chief Manager, Benefits
Administration, Marketing &
Customer Services
MBA, B Com Finance
(Resigned in February 2022)



**Mrs. Veronica Soila
Leseya-Owende**
Chief Manager, Strategy,
ICT, Human Resource
and Administration
Bachelor of Arts (Hons),
AIK, CPAM



Kellen Njue

Manager, Legal Services
LLB, LLM, Dip (KSL), CPS (K)



Mr. David Methu

Manager, Internal Audit
CPA (K), BSC
(Applied Statistics)



Mr. Sylvester Mutie

Manager, Research,
Planning, Strategy & Business
Development MBA Finance,
Bcom (Finance) CPA
(K), CIPS (M)



Ms. Chemashack Ndiwa

Manager, Finance &
Investment
MSc (Finance), BCom
(Accounting) CPA (K)



Ms. Jane Mmasi

Manager Human Resource &
Administration
IHRM, BBM (HRM), HSC



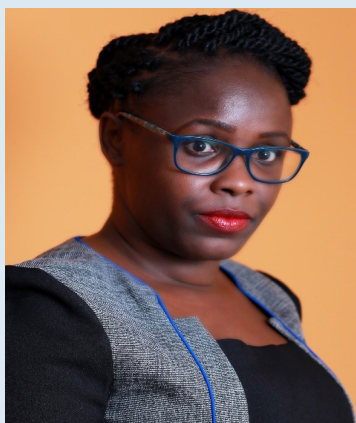
Martin Ayoo

Manager, ICT
MSc (D. Comm),
BSc (IT), Dip (IT)



Eliud Kiborek

Manager, Marketing &
Member Recruitment
BBM (Marketing)



Ms. Golda Akolo

Manager, Admissions & Benefit
Administration
MSc (Actuarial Science),
BSc (Actuarial Science)



Mr. Daniel Kibet

Manager, Supply Chain
BCom, MCIPS, MKISM

IV. Chairperson Statement



I am delighted to share the Directors' report of LAPFUND along with its un-audited financial statements for period ended 30th June 2022.

First and foremost, on behalf of the Board members, I want to sincerely thank the Cabinet Secretary for the National Treasury for the appointment, vide Kenya Gazette Notice No. 10642 of 8th October 2021. We feel privileged to be entrusted with such an enormous task of steering LAPFUND to achieve its mandate. Saving for retirement in order to ensure that one lives a dignified life after active service is one of the aspirations of Kenyans as inscribed in Kenya Vision 2030 blueprint and thoughtfully planned and executed by the government of the day as early as 1960 when LAPFUND was founded.

LAPFUND continues to diligently discharge its mandate of receiving, prudently investing, managing members' funds and paying benefits promptly to support their smooth exit and enjoyment of a secured retirement.

As the best managed public sector scheme, it is our pleasure to report that even during these uncertain economic times courtesy of Covid-19 pandemic, the scheme continues to grow in leaps and bounds principally because of the overwhelming support by members, sponsors and all other stakeholders coupled with the prudent investment decisions made by the Board. This has culminated into growth of the fund value by 10% during the period under review.

I wish to assure our stakeholders that we are driven by customer focus and a passion to ensure maximum return on investment to our members. This is achieved through innovation, use of technology, practicing good corporate governance; and ensuring effective and efficient operations.

LAPFUND capitalizes on its duo existence as a retirement benefits scheme and a state agency enjoying government support and oversight which ensures that members' funds are safeguarded.

Appreciation

I wish to thank the Board, Management, Staff and Stakeholders for their dedication and commitment in making LAPFUND the preferred scheme.

Thank you.

A stylized handwritten signature in black ink, appearing to read 'Sellestina Kiuluku'.

CS. Sellestina Kiuluku, EBS

V. Report of the Chief Executive Officer



Dear Stakeholders,

It is my honour to present to you LAPFUND annual report the year ended 30th June 2022.

1) Performance Review

LAPFUND has continued to make tremendous growth in its performance year by year

a) Contributions

During the year ended 30th June 2022, contributions increased by 18% to Kshs. 8.39bn from Kshs 7.13bn during the same period last year. I appreciate our sponsors for the great effort they have put in place to ensure this is possible. I urge them to continue with this trend, as it will see their employees have a decent retirement during their exit from active service.

b) Members' benefits

We continue to meet our mandate of promptly paying member benefits upon exit from the scheme. As of 30th June 2022, the scheme paid benefits totalling to Kshs. 7.6bn within the timeframe of 7 days as indicated in our Service Charter. This is an increase by 85% from Kshs. 4.12bn in the last financial year. This is due to more payments to the exiting members of County Assemblies and increase in the value of member benefits as a result of interest declared.

c) Investments income

Investments income during the period under review increased by 36% from Kshs 1.21bn in FY 2020_21 to Kshs 1.65bn. The increase is attributed to:

- Positive performance in the bond market posted during the year. The interest rates are expected to edge upward on account of the pressure on Kenya shilling and increased borrowing by the Government to meet the fiscal deficit.
- Increase in funds available for investment in various asset portfolio such as fixed deposits and treasury bills with better returns

LAPFUND will continue to invest members funds in the most prospective market opportunities in accordance with the Retirement Benefits Investment Guidelines in order to give our members a competitive rate of return.

d) Operating Expenses

Total operating expenses increased by 10% from Kshs. 888m last year to Kshs. 980m in the current year. The increase was attributed to;

- Increase in personnel emoluments by 4% caused by
 - ✓ Annual salary increments and increase in pension contribution which is a factor of basic salary and house allowance.
 - ✓ Increase in medical costs due to additional beneficiaries resulting to increase in premiums.
- Increase in legal cases related to debt collections

- Enhanced marketing activities to recruit additional members into the scheme
- Enhanced organizational brand visibility in the counties through advertisement
- Increase in stakeholder engagement activities to improve relationships
- Increase of value of investments held by Fund Managers hence increase in fund management and custodial fees
- Valuation of properties in the financial year

e) Surplus

Surplus for the period ended 30th June 2022 reduced by 33% from Kshs. 7.93bn last year to Kshs. 5.31bn. The reduction was occasioned by;

- Voluntary refunds to the exiting members of County Assemblies
- Decline in the fair value of equities and government bonds due to the volatility in the regional markets on the back of increased risk aversion and sustained sell-off from foreign investors exiting frontier markets

f) Fund value

Fund value increased to Kshs. 56.74bn. This was a 10% growth from last year June 2021 of Kshs. 51.43bn.

2) Launching of affordable housing project

In line with the National Governments Big 4 Agenda on affordable housing, LAPFUND launched development of developing housing project in Kisumu County on May 2022. LAPFUND plans to develop 1,870 units comprising of 570 Low-Cost Units and 1,300 Premium Units.

3) Annual General Meeting

During the year, LAPFUND held its 12th Annual General Meeting virtually on 30th June 2022, live on NTV, Facebook, YouTube and other LAPFUND social media platforms. The scheme took its role of updating members on the performance, security of their contributions and its mandate as a pension scheme.

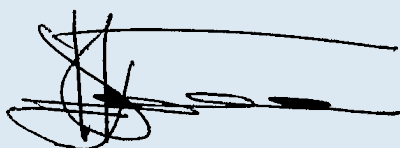
4) Certification

LAPFUND received certification of 94% for Public Complaints Handling from the Commission on Administrative Justice (CAJ). LAPFUND has been compliant with CAJ by ensuring that members complaints are handled appropriately and effectively.

5) Appreciation

I thank all our members and stakeholders for their continued support which has continually kept LAPFUND on a growth trajectory.

Thank you



David Koross
CHIEF EXECUTIVE OFFICER

VI. Corporate Governance Statement

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

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

The Board of Directors

The Board comprises 11(eleven) non-executive members and a secretary who is also the Chief Executive Officer of LAPFUND. The Board members were appointed on 6th October 2021 via gazette Notice No. 10642 by the Cabinet Secretary, The National Treasury and Planning.

The Board ensures that proper standards of corporate governance are maintained and have oversight over the management of the LAPFUND, not only through the Board meetings but also through the various Board Committees.

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

In order to monitor performance, Board Members enters into a Performance Contract every financial year with the government to evaluate its Performance against set targets. The boards individual performance is also evaluated by the State Corporations Advisory Committee

The Committees of the Board

Section 9 of the State Corporations Act (CAP 446) allows the Board of Directors of LAPFUND to establish a number of Board Committees consisting of Board members to deal with specific issues as the Board deems fit. The Board MUST also give notice to the State Corporations Advisory Committee of such committee. The purpose of these working committees is to handle comprehensively technical issues before presentation to the Board for approval. The following committees have been established:

a) Finance and Assets Committee

The purpose of the Finance and Assets Committee is to determine and advise on all matters relating to finance and assets. The Finance and Assets Committee is constituted by the Board and the responsibilities are summarized as follows:

- i. Review of LAPFUND's quarterly financial reports and other matters related to its continued solvency.
- ii. Advise the Board on all aspects of financial responsibility including financial risks, policies, controls and strategies; and review these periodically.
- iii. Recommending policies that maintain and improve the financial health and integrity of the organization.

- iv. Reviewing and recommending a long-range financial plan for the organization.
- v. Reviewing and recommending an annual operating budget and annual capital budget consistent with the long-range financial plan and financial policies.
- vi. Reviewing the financial aspects of major proposed transactions, new programs and services, as well as proposals to discontinue programs or services, and making action recommendations to the board.
- vii. Reviewing and recommending unbudgeted capital and operating expenditures.
- viii. Monitoring the financial performance of LAPFUND as whole and business lines against approved budgets, long-term trends, and industry benchmarks.
- ix. Review quarterly and annual performance contract reports from management
- x. Requiring and monitoring corrective actions to bring the organization into compliance with its budget and other financial targets.
- xi. Review the annual financial statements of LAPFUND and recommend them to the Board for approval.
- xii. Review financial policies and procedures of LAPFUND periodically and align the same to the requirements of the Public Finance Management Act 2012 and the Regulations thereon from time to time.
- xiii. Oversee the maintenance of organization wide assets, including prudent management of organizational investments.
- xiv. Considering significant asset acquisition and disposal and making recommendations to the Board as appropriate.
- xv. Reviewing and monitoring the management and utilization of buildings and grounds
- xvi. Monitoring program status against contractual arrangements.
- xvii. Reviewing and monitoring capital projects and works program of the LAPFUND.
- xviii. Monitoring insurance arrangements for LAPFUND assets.
- xix. Periodically reviewing the arrangements for insurance.

b) Strategy and Investment Committee

The purpose of the Strategy and Investment Committee is to determine and advise on all matters relating to the strategy and Investment. The Strategy and Investment Committee is constituted by the Board and the responsibilities are summarized as follows:

- i. Develop the Investment policy document.
- ii. Review the strategic asset allocation targets for the prudent investment of members contributions and investment incomes.
- iii. Conduct quarterly review of LAPFUND's investment structure and the asset allocations
- iv. Review Investment performance against set performance benchmarks spelt out in the Investment Policy and market performance
- v. Receive report on selection of Custodial and Investment Management services in line with the Retirement Benefits Act, 1997.
- vi. Monitor and keep under review new projects in which the Fund wishes to engage in.
- vii. Establish appropriate allowable ranges for the asset allocation targets in line with the RBA Regulations.
- viii. Monitoring the performance of investment pools including the performance against benchmarks relative to marked performance.
- ix. Receiving regular reports on changes in the management of investment portfolios.
- x. Review quarterly reports on membership, contributions received and due, and present to the Board for adoption before submission to RBA.

c) Human Resources and Governance Committee

The objectives of the Human Resources Committee are to oversee certain management assessment, succession and compensation matters in accordance with these Terms of Reference.

Terms of Reference

The primary functions of the Committee are to oversight, review, and recommend appropriate and effective human resource policies, strategies, processes and plans of the organization. Ensuring LAPFUND has an effective organizational structure and competitive human resource and compensation policies and practices. The Human Resource and Governance Committee is constituted by the Board and the responsibilities are summarized as follows:

- i. Review and recommend for approval overall employee compensation philosophy and policies, including all bonus plans and other short- and long-term compensation arrangements.
- ii. Review and significant human resource strategies, policies, processes and plans of the Corporation and recommend to the Board for approval.
- iii. Ensuring appropriate processes are in place for the selection, evaluation, compensation, and succession of senior management
- iv. Evaluating and determining compensation for the Chief Executive Officer
- v. Such other related initiatives as may be necessary or desirable to enhance human resource performance
- vi. Review and recommend for approval employee benefit plans, including medical/dental, life and disability benefits.
- vii. Submit to the Full Board for ratification, confirmation and approval, all such matters as the Committee may deem appropriate.
- viii. Review and recommend for approval overall employee compensation philosophy and policies, including all bonus plans and other short- and long-term compensation arrangements.

d) Audit Committee

The audit committees' roles and responsibility is as set out in the Public Finance Management Act, regulation and the guidelines provided thereof and involve the following duties;

- i. Support the CEO in carrying out oversight responsibilities by monitoring and reviewing risk, control, performance and governance processes which have been established;
- ii. To oversee the internal audit function and the external audit and follow-up on the implementation of the recommendation of internal and external auditors;
- iii. Provide additional assurance regarding the quality and reliability of both the financial and operating information;
- iv. Take special interest in audit matters and therefore pay special attention to the work plans and activities of the internal audit function;
- v. Provide a channel of communication between management and the internal and external auditors and positive support of the internal audit function;
- vi. Influence the organizational status of internal audit unit and foster an independent climate for its operation.
- vii. Evaluate the adequacy and effectiveness of the management reporting and control systems used to monitor adherence to policies and guidelines and limits approved by the Board for management of risks;
- viii. Evaluate and prioritize risks identified by management and ensure that internal audit plans are aligned to the risk profile of the Fund.

- ix. Review the process implemented by Management in respect to risk management, control systems and fraud prevention and ensure that all fraud related incidents have been followed up appropriately;
- x. As part of the on-going monitoring process, the audit committee should review the management letter (or equivalent). The audit committee should review and monitor management's responsiveness to the external auditor's findings and recommendations.
- xi. Obtain feedback about the conduct of the audit from key people involved, for example the head of finance and accounts, and the head of internal audit;
- xii. Review and monitor the content of the external auditor's management letter, in order to assess whether it is based on a good understanding of the LAPFUND's business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon; and
- xiii. Report to the board on the effectiveness of external audit process

Board Induction and Training

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

Attendance in the Board and Committee meetings

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

	Full Board	Finance & Asset Committee	Strategy & Investment	Internal Audit	Human Resource & Governance	Others
Number of Scheduled Meetings	6	5	4	3	3	0
Sellestina Kiuluku	6	0	0	0	0	0
Kirigha Mwanyasi	5	0	0	2	3	0
Elyas Sheikh Abdinoor	6	5	4	0	0	0
Guyo Okola Haro	6	0	4	3	0	0
Odongo Mark Okeyo	6	5	0	0	3	0
Roba Duba	3	2	0	0	1	0
Joseph K. Lagat	4	0	2	1	0	0
Seth Panyako	4	0	2	1	0	0
Patrick Muiruri	6	5	4	0	0	0
Jane Wambugu	4	5	2	2	2	0
James Wang'ombe	0	0	2	1	0	0
Nancy Anyanda	6	0	0	3	3	0

VII. Management Discussion and Analysis

1. Operational and Financial Performance

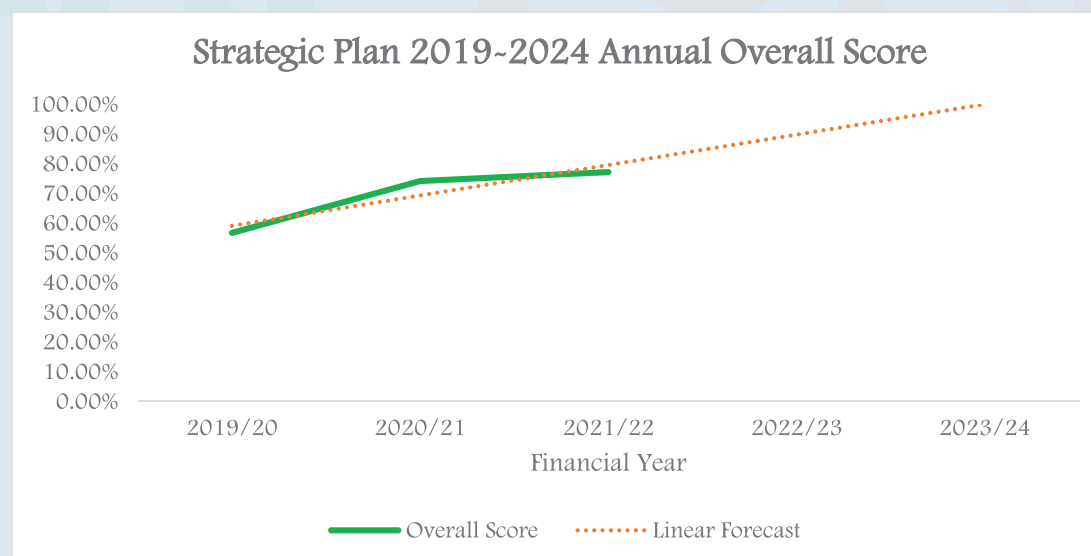
Operations

LAPFUND's operations were greatly affected by COVID-19 measures that continue to be imposed from time to time in the effort to avert the pandemic. Most of the operations were restored and we had a hybrid working system i.e., employees were working from home and the office. This improved service delivery and relationship with our members. Some of the planned activities were postponed to a more opportune period economically. We remain positive that the future is brighter as we continue to implement, review and monitor LAPFUND's strategic plan 2019/2020- 2023/2024.

The Strategic Plan was premised on four Key Result Areas (KRAs) and key metrics were developed for each strategic initiative to measure the progress of implementation. The key result areas were weighted for their contribution to the overall score. The status as at the year ended June 2022 and the KRAs and respective weights are: -

Counter.	Key Result Area	Weight
1.	Customer and Stakeholder	30%
2.	Financial Performance	25%
3.	Business Processes	30%
4.	Organizational Capacity	15%
	Total	100%

Overall Performance



The performance continues to improve year on year, with an overall score of **80.94%** in 2021/22 up from **74.2%** observed in 2020/21. The implementation is improving and LAPFUND is on course to achieve significantly more each year for the remaining period.

The top performing strategic objectives were:

- To grow revenue: Revenue was reported as 8.39billion compared to the target of 7.785billion
- To enhance the working environment: Number of employee wellness programs conducted were 4 online sessions out of a target of 1.
- To enhance customer feedback channels: Number of operational feedback channels, the operationalised feedback channels over the period included the Customer Service Desk, Website, Emails & Calls including Toll free Number
- Convert cost centres to revenue centres: Increased revenue from the properties from a target of 23 million to an actual amount of 42.6 million.
- Improve resource allocation through sustainable budgeting and cost control. The budget variance was 6% which was within the allowed variance of $\pm 10\%$
- To increase Automation Levels. LAPFUND achieved an overall score of 85.67% in the audit carried out by the ICT Authority against a target of 80%
- To Enhance Corporate governance: The Board of Directors was appointed and held the required number of meetings over the period.
- To promote organizational culture: Number of joint programs and activities held online during the period were 11 against a target of 4. The programs included Road safety, Lifestyle Disease Management, Disability and Gender Mainstreaming, Fire and Health & Safety.
- To Improve employee wellness: The number of employee wellness programs held included Lifestyle diseases, Gender mainstreaming: Sexual harassment & GBV, Road safety, Disability mainstreaming.

Strategic Plan Implementation Challenges

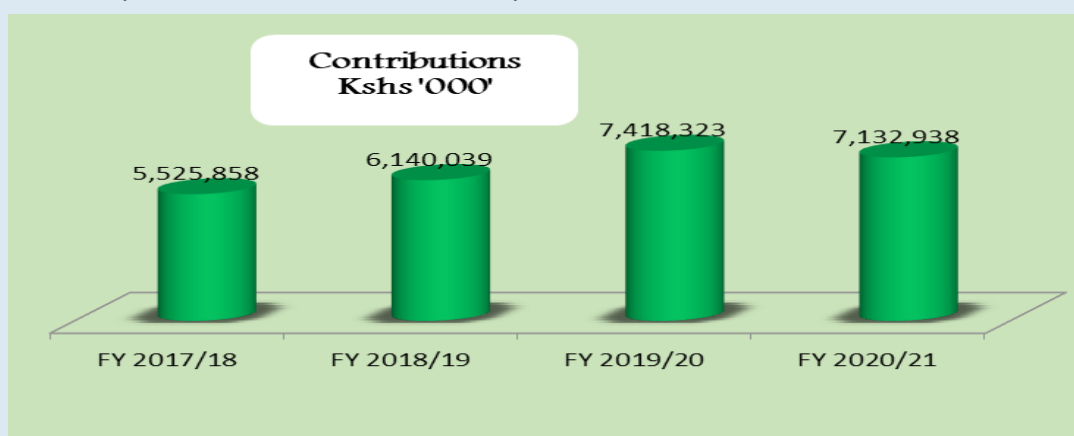
- LAPFUND experienced a challenging environment due to the election year, and being in a highly political ecosystem, this led to high rates of withdrawals from the scheme then changes in the political stakeholders which means that relationships would need to be rebuilt.
- The investments were also affected by fluctuation in value of equities and high inflation rates.
- There is an opportunity to improve Customer and Stakeholder satisfaction by aggregating the feedback and designing improvements in service delivery.

Financial Performance

We continued to record improved financial performance results in the past five years.

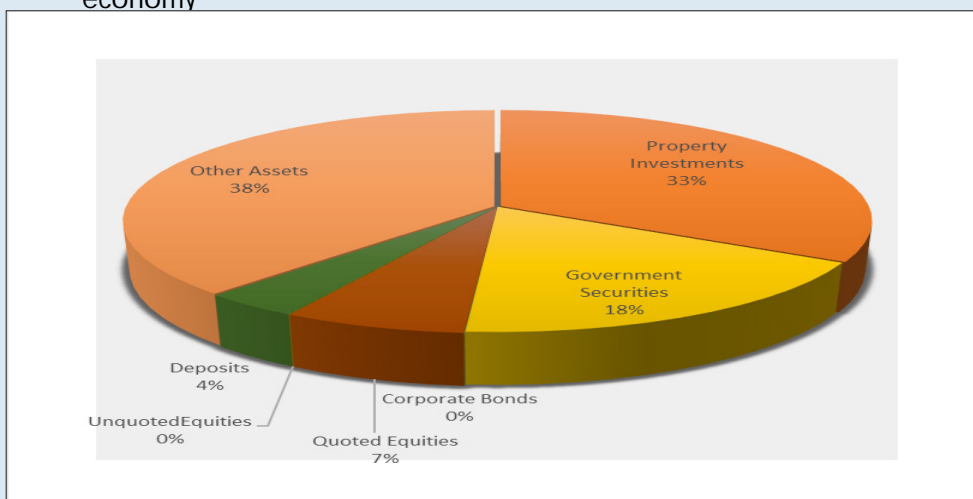
a. Contributions

Over the past years, we continued to record increase in contributions. This we achieved through increased member sensitization and education on the importance of saving for retirement. This helped to increase our membership



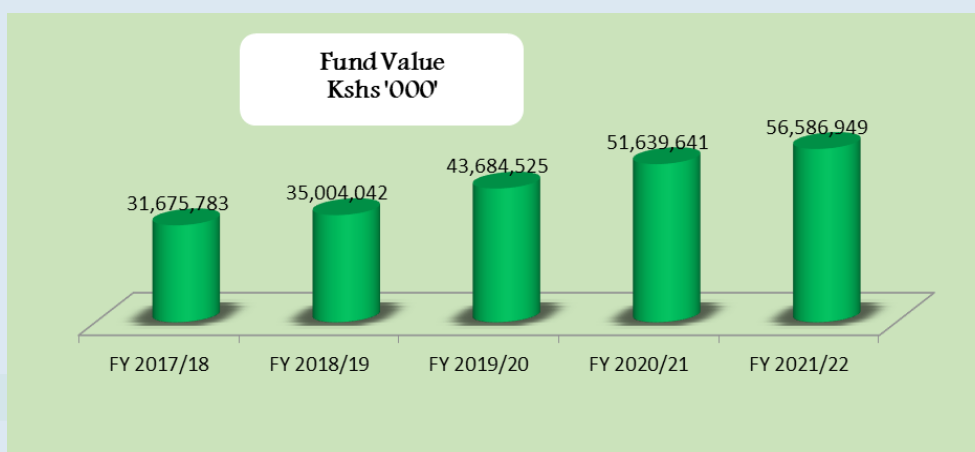
b. Investment

We continue to diversify our investments to cushion members contributions against volatile economy



c. Fund Value

The fund value continues to pose in increase as per the graph below.



2. Key Projects and Investments

We are happy to inform our stakeholders that we launched development of affordable housing in Kisumu County on May 2022. This is aimed at achieving the Big 4 Agenda in line with the National Governments on affordable housing, LAPFUND. The development once complete will have 1,870 units comprising of 570 Low-Cost Units and 1,300 Premium Units. The Makasembo estate has a modern design, the amenities available include; Landscaped gardens/communal activity areas/play areas, pre-school, ample parking, solar powered, borehole and high-speed lifts.



Picture of Makasembo Estate once complete.

3. Compliance with Statutory Requirements

LAPFUND has continually complied with all identified relevant laws and regulations, and the Board has continued to implement the outstanding remedial actions on all identified areas.

4. Major Risks Facing LAPFUND

We achieved a lot during the year however it is worth noting that as any operational organization, we face risks. We have been doing our best to mitigate the identified risks as follows;

- a. The enactment of the County Governments Retirement Scheme Bill of 2018 into Law (CGRS Act 2019) hinders our legality. its implementation was stopped through court stay orders. The Fund has kept up on engaging the stakeholders involved in an effort to lift the stay orders so that the same can be implemented without further delay.
- b. Governance & Strategy Risks - these risks may hinder the Fund's ability to achieve its strategic objectives and eventually its ability to continue operating in the long run. These risks impact the Members and Stakeholders directly if not well managed.
- c. Financing & Investment Risks - these risks involve the Fund's ability to harness resources to run its operations as well as the impact of market instability on the Fund's investments.
- d. Operational & Infrastructure Risks – these risks relate to the effectiveness and efficiency of LAPFUND's operations. The Funds' operational effectiveness and efficiency is a three-faceted approach of people, processes, and technology. A failure in any of these could lead to serious risk of the ability to achieve our strategic objectives.
- e. Compliance & Regulatory Risks - these risks relate to possible non-adherence to laws and regulations which LAPFUND is subject to. We are regulated by the Retirement Benefits Authority (RBA) among other regulators and we have made an effort to ensure we comply with all statutory and regulatory requirements.

- f. Significant arrears in statutory and other financial obligations. The outstanding debts from both the Sponsors continues to grow. The growth is as a result of delayed remittances and accrued interest thereupon by several sponsors. This causes liquidity and investment risks to LAPFUND and if not resolved, may affect LAPFUND's ability to meet its responsibility and the mission to refunds members promptly. The Board of Directors together continue to seek a permanent solution to this matter with the relevant Stakeholders.

5. Review Of the Economy and the Pension Sector

Kenya's retirement benefits industry is composed of the National Social Security Fund (NSSF), the civil service scheme, occupational retirement benefits schemes and individual pension schemes; whose legal structures are either through an Act of Parliament or a Trust Deed. These schemes are regulated by the Retirements Benefits Authority Act and the Pensions Act. Their models vary in terms of membership, funding, sector (formal or informal) and structure.

The Retirement Benefits Authority brought to the attention of the pension industry, the Kenya Tax Laws (Amendment) Act 2020 that was assented by His Excellency President Uhuru Kenyatta on the 25th of April 2020. The new Act has amended Section 38 of the Retirement Benefits Act (1997) to allow partial access of retirement benefits for purposes of purchase of a residential house.

The growth in the retirement benefits sector is projected to drop in the first half of 2020 given the effects of the Coronavirus (Covid-19) which negatively impacted the financial markets and is postulated to significantly affect the global economy. The schemes are expected to continue to invest in alternative assets given the broadening of the allowable investment categories and take advantage of the public infrastructural projects and more so under the big four agenda.

The pension sector continues to be the major economy driver world over. It is worth noting that most Kenyans have not embraced the savings culture. This is partially due to lack of knowledge on importance of saving and partially due to inability for most Kenyans to have extra income to save. In order to aid in bridging the gap, LAPFUND has developed an avenue for members to save, especially those in informal sector. Benefits paid to a retiring member can be invested or used as capital for starting a business during old age.

VIII. Environmental and Sustainability Reporting

LAPFUND exists to change lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, which is founded on four pillars: putting the customer/Citizen first, delivering relevant goods and services, and improving operational excellence. Below is a brief highlight of our achievements in each pillar.

1. Environmental performance

Purpose

LAPFUND acknowledges a responsibility to the environment, and we express our commitment towards implementing practices which will promote environmental sustainability. The following policy governs the management of the environmental aspects in our company, with specific focus on the conservation of resources and the reduction of waste.

This policy relates to how all operations in our company are continually reviewed and improved, so that we will truly be able to integrate environmental and social considerations into our everyday practices.

The company consistently strives to raise awareness in the community, encourage participation and train employees in environmental matters. The organization encourages employees to;

- a) Use Reusable Bags. Plastic grocery-type bags that get thrown out end up in landfills or in other parts of the environment. The company gives out reusable bags often
- b) LAPFUND encourages Printing as Little as Necessary.
- c) Recycle. Employees are advised to use a Reusable Beverage Containers.
- d) Employees are encouraged to save Electricity and water as much as possible. They are with notes on the switches to turn off lights that are not in use.

The following are the environmental Principles

- i. At LAPFUND we Comply with laws governing the environment, and actively look for ways to improve on these guidelines.
- ii. We Work towards the conservation of energy, water and resources in all our operations.
- iii. We Strive to better understand both the direct and indirect impact that our practices may have on the environment.
- iv. We Promote environmental awareness throughout all operations of the company.
- v. Provide training/newsletters/posters to staff on implementing our sustainable policies.
- vi. Dispose of waste thoughtfully, and develop an attitude of "reducing, recycling and reusing."
- vii. We lessen our environmental impact by purchasing environmentally-friendly products and services.
- viii. We Work with our entire supply chain in order to gain mutual benefits of incorporating environmentally sustainable goals into everyday business.
- ix. We Regularly review our business practices, and determine whether each practice is suitable in an environmental context.

LAPFUND has an E-Waste Policy since LAPFUND utilises a wide range of electronic products which results in e-waste. In addition, LAPFUND being one of the leading institutions in Retirement Benefits Administration in Kenya stands with the Government in seeking to mitigate against environmental concerns as articulated in the National Environmental Policy.

The following are the guiding principles of the e-waste policy:

1. Environmental Conservation.
The Organization endeavours to ensure environmental conservation and protection from the effects of e-waste.
2. Safe Disposal.
The Organization recognises the need to dispose e-waste in a manner that is safe and sound with respect to its staff, institutional operations, and stakeholders.
3. Public awareness.
The Organization acknowledges the importance of an informed society in the sustainable management of e-waste.

The success of implementing E-Waste policy is that all electronic wastes are disposed in guidance of the policy that have greatly reduced environmental impact of the organization's products like computers.

2. Employee welfare

LAPFUND is guided by the Human Resources Procedure Manual and Policy Number 1 on Recruitment and Selection Policy in all its hiring process which states that, Recruiting and selecting the right people is of paramount importance to the continued success of LAPFUND. This Recruitment and Selection Policy sets out how to ensure, as far as possible, that the best people are recruited on merit and that the recruitment process is free from bias and discrimination in accordance with the values and principles of Public Service as enshrined in the Constitution.

In particular, the process shall afford equal opportunity for the appointment of men, women, youth, members of all ethnic and religious groups and persons with disabilities. It is the responsibility of each Head of Department/Division to ensure that this policy is carefully followed within their department/division. In all our advertisement for job opportunities we also state clearly that LAPFUND is an equal opportunity employer and encourages all qualified candidates to apply.

We also comply with the gender mainstreaming provision of ensuring that not having more than 2/3 of either gender in the staff establishment. The data is submitted to the National Gender and Equality Commission every quarter and to the Public Service whenever it is called for. The policies are reviewed from time to time as guided by new practices and regulations or requirements.

In the spirit of promoting continuous improvement, LAPFUND ensures that all employees have opportunity to improve both the technical skills and knowledge while at work. This culture is guided by Training and Development Policy in the Human Resource Policy and Procedure Manual which states that; LAPFUND will have Training and Development programs to support and enhance capacity to achieve its objectives in accordance with the Training and Development policy. Staff shall be responsible for their own professional and career development while LAPFUND shall provide an enabling environment as per LAPFUND career planning and progression policy.

Training Needs are identified by both staff and supervisors. LAPFUND facilitates staff to attend both in house and External Training and workshops all year round. This process is spearheaded by the Training Committee which comprises of all Heads of Departments.

Performance Management

Performance Management Policy Number 3 is in the LAPFUND HR manual and guides the performance management system to implement the staff appraisal and progression. LAPFUND uses the Balance Scorecard and the Performance Contracting Targets to appraise staff and evaluate the performance of both individual employee and the organization.

Measures Put in Place to Enhance Health & Safety at The Workplace

LAPFUND, is primarily guided by Policy Number Sixteen: Health, Safety & Environmental Policy Manual. The manual ensures that LAPFUND complies with OSHA guidelines of the workplace so as to achieve the expected standards of a conducive work environment.

LAPFUND, has taken the following measures to ensure health and safety at the workplace:

- i. Appointment of a vibrant Health and Safety Committee whose core mandate is to ensure compliance to all OSHA guidelines
- ii. Registration of LAPFUND offices-All LAPFUND office are registered with the Directorate of Occupational Safety & Health (DOSH)
- iii. Annual Health and Safety Audits conducted in all LAPFUND offices
- iv. Participation and Involvement of staff in Health and Safety matters through continuous awareness and sensitization activities
- v. Conducting annual work environment surveys
- vi. Engagement of a cleaning company to ensure clean working environment
- vii. Fire Audits and Servicing of fire equipment
- viii. Provision of sanitary utilities
- ix. Prompt repair of fixtures, equipment and furniture
- x. Social distancing at the workplace- Shift working has been adopted to decongest workstations. Staff have been encouraged to fully use technology platforms provided in the offices to interact and communicate with colleagues

3. Market place practices

LAPFUND's efforts to responsible competition practice.

Responsible Competitiveness means markets where businesses are systematically and comprehensively rewarded for more responsible practices, and penalized for the converse

Responsible Competition strategies enhance productivity by shaping business strategies and practices, and the context in which they operate, to take explicit account of their social, economic, and environmental impacts.

LAPFUND operates in a competitive environment with direct and indirect competitors. The organization therefore has an established marketing and communication department who deal with sales of the product and services offered. While carrying out these activities, LAPFUND ensures that all staff and especially those charged with the function of marketing practice one of the core values of being professional in all the undertakings.

LAPFUND practices responsible marketing by delivering value proposition to members. Members are sensitized on the benefit they derive from our product offering in terms of convenience, easy access to information, quick turnaround time on payment process and other riders that benefit members. LAPFUND views competition as an opportunity to improve on areas that does not have a competitive advantage over such as product development and customer service.

In responding to member's queries, and dealings with other stakeholders, LAPFUND adheres to ethical practices, code of conduct, healthy dialogue and ensure that we deliver on the promises made in the service charter. LAPFUND endeavours to be proactive rather than reactive.

Responsible Supply Chain and Suppliers Relations

We do the following in Supply Chain Unit to maintain good business practises and treating suppliers responsibly.

- We ensure that the bid process is open, free and fair
- The procurement process is available to the public
- We adhere to PPDA Act 2015 and Regulations 2020
- All suppliers are paid within 30 days.

Responsible marketing and advertisement-outline efforts to maintain ethical marketing practice.

LAPFUND is actively present in the market place through marketing teams, social media, print & TV and outdoor advertisement through billboards. These activities are aimed at creating a strong brand proposition in the market. Strong brand equity creates customer loyalty that ensures business sustainability in a competitive environment.

LAPFUND promises quality and timely service delivery through by adhering to the quality statement and resolve service charter that is always available to the public in all

LAPFUND office premises and website (www.lapfund.or.ke). LAPFUND in selling its products and service to customers does not degrade rival product and create negative impression on competitors. LAPFUND is aware of the homogeneity of the product in the pension industry and strive to compete on packaging and delivery. In advertising LAPFUND brand and product, we ensure that client experiences exactly what is promised in the content.

LAPFUND ensures that the language and tone used in social media marketing reflect professionalism and respect for the consumers of the content. It ensures also that the privacy of the consumer's data is respected.

4. Community Engagements

Corporate social responsibility forms part of important activities of LAPFUND. The Fund ensures that all its operations are undertaken in a socially and environmentally responsible manner. The Fund has extended its hand to different needy groups and impacted positively on society and its environment. The involvement in social responsibilities enhances its values and improves the image to the public. The guiding principle for CSR activities is based on their sustainability and the impact they have on the scheme and society.

During the period under review, LAPFUND focuses on the following areas



FIG.1 Officer of LAPFUND in Bungoma County Distributing Books

FIG.2,3 & 4 Officers of LAPFUND presenting sanitary pads & food at Gede Primary School in Kilifi County.

a) Promoting of education

LAPFUND partnered with the County Government of Bungoma and Kilifi. The organization assisted the counties in their quest to improve early childhood development (ECDE) education by providing learning material which were CBC teacher handbooks, PP1, PP2 and assorted activity books. To accompany also donated COVID-19 personal protective equipment such as masks and sanitizers were distributed to care givers and learners in an effort to curb the spread of the virus in the learning institutions. LAPFUND also provided foodstuffs, water tanks and sanitary towels to the schools. The cost for the activity was Kshs.1,170,000.

Participation in community dialogue with cultural and opinion leaders.

LAPFUND participated in a community forum that engaged various stakeholders of the local community which included teachers, religious leaders, business community, administrative and law enforcement personnel such as chiefs and sub-chiefs as well as medical personnel such as doctors, nurses and clinical officers.

b) Sensitization of students on teenage pregnancies.

LAPFUND visited several schools within Rumuruti ward, Laikipia West Constituency which had registered the highest number of teenage pregnancies in the whole of Laikipia County with the objective of speaking to the youth generally on the dangers of engaging in pre-marital sex and associated issues such as teenage pregnancy and HIV infection.



FIG.5 LAPFUND Officer breaking the ice during sensitizing of pupils in Schools in Laikipia County On Pre-marital sex and associated issues



Fig 6. Officer of LAPFUND measuring Blood Pressure of a Patient

c) Visiting Children home

LAPFUND visited the two children's home in Nakuru County namely LAGCA children's home and Arap Moi children's home. Apart from encouraging the children, LAPFUND donated the following.

- Tree logs to both the children's home. Tree logs will be of great importance for cooking, heat, converting into furniture and all they see fit in bettering the children's homes.
- Donation of Kshs.100,000 to each children's home so that they can use for purchase of food, shopping, clothes, and expansion of classrooms like in the case of LAGCA Children's home.



FIG.7 LAPFUND Officers Arap Moi children's home

IX. Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended June 30, 2022 which show the state of LAPFUND's affairs.

Principal activities

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

Results

The results for the year ended June 30, 2022 are set out on page 1 to 26

Directors

The members of the Board of Directors who were appointed by the Cabinet Secretary for The National Treasury for a period of three years are shown on page v-ix. The tenure of the entire members of the Board started on 6th October 2021 for three years.

Dividends/Surplus Remission

LAPFUND being a Provident Fund, all the surplus is credited to member accounts and hence no remittance to the Consolidated Fund.

Auditors

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

By Order of the Board



David Koross

Secretary to the Board and Chief Executive Officer

Date: 21/12/22

X. Statement of Directors Responsibilities

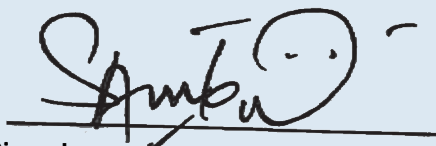
Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act; require the Directors to prepare financial statements, which give a true and fair view of the state of affairs at the end of the financial year and the operating results that year. The Directors are also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

The Directors are responsible for the preparation and presentation of the financial statements, which give a true and fair view of the state of affairs for and as at the end of the financial year ended on June 30, 2022. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

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


Approval of the financial statements

The entity's financial statements were approved by the Board on 2022 and signed on its behalf by:



Signature.....

Name: CS. Sellestina Kiuluku, EBS
Chairperson of the Board



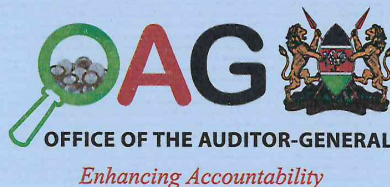
Signature.....

Name: David Koross
Accounting Officer

XI. Report of the Independent Auditors on the Local Authorities Provident Fund

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON LOCAL AUTHORITIES PROVIDENT FUND FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Local Authorities Provident Fund set out on pages 1 to 26, which comprise of the statement of financial position as

Report of the Auditor-General on Local Authorities Provident Fund for the year ended 30 June, 2022

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

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Local Authorities Provident Fund as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with, the Local Authorities Provident Fund Act, 1960 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 Local Authorities Provident 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 of the Auditor-General on Local Authorities Provident Fund for the year ended 30 June, 2022

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 governance were not effective.

Basis for Conclusion

Doubtful Recoverability of Long-Term Receivables from Exchange Transactions

As disclosed in Note 18 to the financial statements, the statement of financial position reflects long term receivables from exchange transactions balance of Kshs.20,272,160,000 after deducting cumulative impairment allowance of Kshs.22,175,383,000 and after transferring an amount of Kshs.1,165,921,000 to current receivables. The balance reflects an increase of Kshs.4,421,143,000 or 28% from previous year's balance of Kshs.15,851,017,000. The balance has been growing over the years, an indication that Management has not aggressively pursued the collection of the receivables to minimize levies on outstanding contributions which represent a significant portion of long-term receivables.

In the circumstances, existence of an effective mechanism to ensure the recoverability of the long-term receivables could not be confirmed.

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 Directors

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

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the 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 Directors 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 governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

08 February, 2023

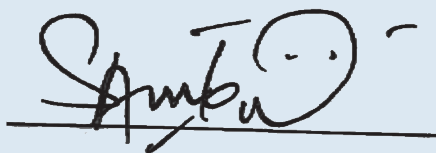
LAPFUND



XII. Statement of Financial Performance for the Year ended 30th June 2022

	Notes	2021/2022 <u>Kshs '000'</u>	2020/2021 <u>Kshs '000'</u>
Revenue from non-exchange transactions			
Revenue attributable to members	6	11,502,124	10,993,295
Revenue from exchange transactions			
Finance income - external investments	7	1,691,549	1,241,741
Other income	8	11,287	10,086
Total Revenue		13,204,960	12,245,122
Expenses			
Employee costs	10	405,449	389,865
Remuneration of Board members	11	32,138	-
Contracted services	12	31,994	18,876
Expenses on operations relating to Core Mandate	13	342,419	327,248
Administrative Expenses	14	193,933	145,933
Repairs and maintenance	15	6,381	5,873
Total expenses		1,012,314	887,795
Depreciation, amortization and provision costs	16	6,351,567	4,916,959
Total depreciation, amortization and provision costs		6,351,567	4,916,959
Unrealized gain on fair value of investments	9	(1,543,290)	599,454
Total other gains/(loses)		(1,543,290)	599,454
Administrative recharges	19	1,012,314	887,795
Surplus		5,310,103	7,927,617

The notes set out on pages 7 to 26 form an integral part of the Financial Statements.



Chairperson of the Board
Name: CS. Sellestina Kiuluku, EBS

Date: 21/12/2022



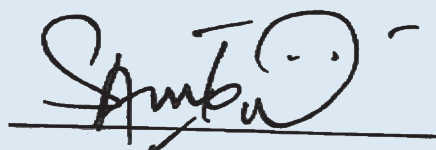
Accounting Officer
Name: Mr. David Koross

Date: 21/12/22

XIII. Statement of Financial Position as at 30th June 2022

	Notes	2021/2022 Kshs '000'	2020/2021 Kshs '000'
Assets			
Current assets			
Cash and cash equivalents	17	144,946	108,332
Receivables from exchange transactions	18	1,165,921	1,378,349
Receivables from non-exchange transactions	19	811,964	713,995
Current Investments	23	4,568,000	5,947,435
		6,690,831	8,148,111
Non-current assets			
Motor Vehicles, Computer, Equipment & Furniture	20	30,309	32,067
Intangible assets	21	16,377	23,095
Non-current investments	23	28,517,851	26,087,695
Long term receivables from non-exchange transactions	19	1,530,955	1,497,656
Long term receivables from exchange transactions	18	20,272,160	15,851,017
		50,367,652	43,491,529
Total assets		57,058,483	51,639,640
Liabilities			
Current Liabilities			
Trade and other payables from exchange transactions	22	314,681	205,937
Total Liabilities		314,681	205,937
Net Assets		56,743,802	51,433,703
Reserves		57,550	57,550
Accumulated surplus		56,686,255	51,376,153
		56,743,805	51,433,703
Total Net Assets and Liabilities		57,058,483	51,639,640

The Financial Statements set out on pages 1 to 26 were signed on behalf of the Board of Directors by:



Chairperson of the Board
Name; CS. Sellestina Kiuluku, EBS

Date: 21/12/2022



Accounting Officer
Name: Mr. David Koross

Date: 21/12/22

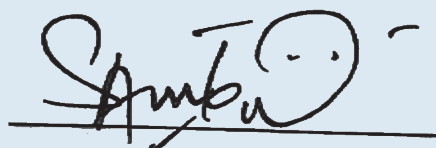
XIV. Statement of Changes in Net Assets for the Year Ended 30th June 2022

Attributable to members of LAPFUND	Reserve fund	Capital revaluation reserve	Accumulated surplus	Total
	<u>Kshs '000'</u>	<u>Kshs '000'</u>	<u>Kshs '000'</u>	<u>Kshs '000'</u>
Balance as at 30 June 2020	57,550	-	43,448,533	43,506,083
Surplus/(deficit) for the period			7,927,620	7,927,620
Transfers to accumulated surplus				-
Balance as at 30 June 2021	57,550	-	51,376,153	51,433,703
Surplus for the period			5,310,103	5,310,103
Balance as at 30 June 2022	57,550	-	56,686,256	56,743,806

LAPFUND

XV. Statement of Cash Flows for the Year Ended 30th June 2022

	Notes	2021/2022	2020/2021
		Kshs '000'	Kshs '000'
Cash flows from Operating Activities:			
Operating Surplus / Net Income		5,310,103	7,927,620
Add back depreciation	16	27,654	34,808
Less: Non-cash items			
-Change in fair value of motor vehicle	20	-	-
-Change in fair value of property investments	9	-	-
-Change in fair value of government bonds	9	523,801	72,662
-Change in fair value of quoted equities	9	1,019,489	(672,116)
Decrease / (Increase) in receivables from exchange transactions	18	(4,208,715)	(4,215,605)
Decrease / (Increase) in receivables from non-exchange transactions	19	(131,268)	(38,211)
(Decrease) / Increase in payables	22	108,744	27,496
Net cash from operating activities		2,649,808	3,136,654
Cash flows from Investing Activities:			
Purchase of Non - Current Assets			
Motor Vehicles	20	-	-
Computer and Equipment	20	(6,075)	(12,075)
Furniture and Fittings	20	(6,257)	(286)
Intangible assets - software	21	(6,847)	(21,349)
Purchase/Disposal of Investments			
Property	23	(198,217)	(1,274,931)
Government Bonds	23	(2,756,108)	(1,982,698)
Treasury Bills	23	379,575	870,078
Fixed deposits	23	624,417	(457,675)
Corporate bonds and commercial paper	23	(115,198)	121,783
Quoted shares	23	(528,481)	(422,803)
Net Cash generated from (Used in) Investing		(2,613,191)	(3,179,955)
Increase (Decrease) in Cash & Cash Equivalents		36,617	(43,302)
Cash & Cash Equivalents at Beginning of Year		108,332	151,633
Cash & Cash Equivalents at End of Year		144,949	108,332



Chairperson of the Board
Name; CS. Sellestina Kiuluku, EBS

Date 21/12/2022



Accounting Officer
Name: Mr. David Koross

Date 21/12/22

XVI. Statement of Comparison of Budget and Actual Amounts for the year ended 30th June 2022

	Original budget Kshs '000'	Adjustments Kshs '000'	Final budget Kshs '000'	Actual on comparable basis Kshs '000'	Performance difference Kshs '000'	% of utilization Kshs '000'	Variance Explanation Kshs '000'
Income							
Members contributions	8,380,707	(509,516)	7,871,191	8,390,106	(518,915)	7%	1
Interest on receivables	-	-	-	10,739,039	(10,739,039)		2
Benefits paid	(5,947,050)	(124,661)	(6,071,711)	(7,627,021)	1,555,311	26%	3
Revenue attributable to members	2,433,657	(634,176)	1,799,480	11,502,124	(9,702,643)	639%	
Investment Income	1,385,458	197,707	1,583,165	1,649,187	(66,021)	4%	4
Property Income	33,363	7,111	40,474	42,362	(1,887)	5%	5
Fair change in value of assets	-	118,475	118,475	(1,543,289)	1,661,764	(1,403)%	6
Other Incomes	9,441	395	9,837	11,288	(1,451)	15%	7
Total Investment income	1,428,262	323,688	1,751,951	159,548	1,592,405	(91)%	
Total Income	3,861,919	(310,488)	3,551,431	11,661,672	(8,110,238)	228%	
Expenses							
Employee costs	407,571	14,665	422,236	405,449	16,787	(4)%	8
Remuneration of Board members	27,294	2,706	30,000	32,138	(2,138)	7%	9
Depreciation and Amortization expense	967,863	11,406	979,269	982,048	(2,779)	0%	10
Contracted services	44,005	-	44,005	31,994	12,010	(27)%	11
Expenses on operations relating to Core Mandate	250,679	46,359	297,039	342,419	(45,380)	15%	12
Administrative Expenses	138,732	21,154	159,886	193,933	(34,047)	21%	13
Repairs and maintenance	4,140	(500)	3,640	6,381	(2,741)	75%	14
Total expenses	1,840,283	95,791	1,936,075	1,994,362	(58,288)	3%	
Surplus for the period	2,021,636	(406,279)	1,615,356	9,667,310	(8,051,950)	498%	

1	Revenue attributable to members was above the budget by 7% during the period due to: a) Disbursement of gratuities by County Governments and Assemblies to clear arrears before the end of contracts in August 2022. b) Additional recruitment of 9,607 new members into the scheme. c) An average of 3% annual salaries increment to County staff which is a by-product of pension contribution
2	Interest accrued on outstanding contributions was Kshs. 10.74bn. This was caused by late remittance of contributions by some sponsors and compounded interest charged on the outstanding amounts. This was not factored in during budgeting process
3	Members benefits were above the budget by 26% during the period. This was due to voluntary refunds to the exiting members of County Assemblies
4	Investment income was above the budget by 4% due to; a) Positive performance in the bond market posted during the year. The interest rates are expected to edge upward on account of the pressure on Kenya shilling and increased borrowing by the Government to meet the fiscal deficit. b) Increase in funds available for investment in various asset portfolio such as fixed deposits and treasury bills with better returns
5	Property income was above the budget by 5%. This was due to increase in the number of tenants paying rent on the Mariakani Estate
6	Fair value of government securities and equities have been declining due to the volatility in the regional markets on the back of increased risk aversion from the persistent Russia- Ukraine conflict, coupled with significant interest rate hike by major Central Banks. The Kenyan and Ugandan equity markets posted negative returns because of sustained sell-off from foreign investors exiting frontier markets
7	Other incomes relate to interest on the loans taken by staff. It was above the budget by 15% due to increase in staff loans resulting to increase in interest income than anticipated during budget period
8	Employee costs was within the budget variance of 5%
9	Board cost for the period was above the budget by 7% due to increase in Board activities during the period than anticipated. In particular, Annual General Meeting and launching of affording housing project in Kisumu.
10	The reflected comparison does not include provision for bad debts since we don't budget on the same.

11	Cost of contracted services during the period were below the budget by 27%. This was due to a reduction in the performance contracting cost than earlier anticipated.
12	<p>Expenses relating to the core mandate were above the budget of Kshs. 297m by 15% due to;</p> <ul style="list-style-type: none"> a) Hyped activities during the period to recruit more members into the scheme. b) Increase in custodial fees due to increase in funds under their custody. c) Increase in printing and stationary materials for printing of exiting members statements e) Launching of housing project in Kisumu which resulted to marketing and advertisement cost that were not anticipated.
13	<p>Administrative expenses were above the budget by 21% due to:</p> <ul style="list-style-type: none"> a) Acquisition of additional office space that resulted in increase in office rent, utilities and other office operating expenses like cleaning and security than earlier anticipated during the budgeting process. b) Increase in employee developments cost as a result of increase in training fees and charges than earlier anticipated.
14	<p>Repairs and maintenance cost was above the budget by 75%. This was due to</p> <ul style="list-style-type: none"> a) Frequent service to motor vehicles used for marketing and debt collection activities b) Increased costs relating to computer and network maintenance

XVII. Notes to the financial statements for the year ended 30th June 2022

1. General information

Local Authorities Provident Fund (LAPFUND) is established and derives its authority and accountability from the laws of Kenya, The Local Authorities Provident Fund Act, CAP 272, of 5th of July 1960. LAPFUND is wholly owned by the Government of Kenya and is domiciled in Kenya.

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

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

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

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

The 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, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying LAPFUND's accounting policies. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the LAPFUND.

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

3. Adoption of new and revised standards

- i. **New and amended standards and interpretations in issue effective in the year ended 30 June 2022.**
IPSASB deferred the application date of standards from 1st January 2022 owing to Covid 19. This was done to provide entities with time to effectively apply the standards. The deferral was set for 1st January 2023.
- ii. **New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022.**

Standard	Effective date and Impact:
IPSAS 41: Financial Instruments	<p>Applicable: 1st January 2023:</p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Entity's future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. <p>Not relevant to LAPFUND</p>
IPSAS 42: Social Benefits	<p>Applicable: 1st January 2023</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <p>(a) The nature of such social benefits provided by the Entity.</p> <p>(b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the Entity's financial performance, financial position and cash flows.</p> <p>The standard has no impact</p>
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	<p>Applicable: 1st January 2023:</p> <ol style="list-style-type: none"> Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p> <p>The standard has no impact to LAPFUND</p>

Standard	Effective date and Impact:
Other improvements to IPSAS	<p>Applicable 1st January 2023</p> <ul style="list-style-type: none"> IPSAS 22 Disclosure of Financial Information about the General Government Sector. Amendments to refer to the latest System of National Accounts (SNA 2008). IPSAS 39: Employee Benefits Now deletes the term composite social security benefits as it is no longer defined in IPSAS. IPSAS 29: Financial instruments: Recognition and Measurement Standard no longer included in the 2021 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023. <p>The standard is not relevant to LAPFUND</p>
IPSAS 43	<p>Applicable 1st January 2025</p> <p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p> <p>The standard is not relevant to LAPFUND</p>
IPSAS 44: Non-Current Assets Held for Sale and Discontinued Operations	<p>Applicable 1st January 2025</p> <p>The Standard requires,</p> <p>Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> <p>Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p> <p>The standard is not relevant to LAPFUND</p>

iii. Early adoption of standards

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

4. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions – IPSAS 23

Member Contributions and fines

LAPFUND recognizes revenues from member contributions and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to LAPFUND and the fair value of the asset can be measured reliably.

Transfers from other government entities

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

ii) Revenue from exchange transactions – IPSAS 9

Interest income

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

Rental income

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

iii) Benefit Payable.

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

b) Budget information – IPSAS 24

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

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

c) Taxes – IAS 12

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

d) Investment property – IPSAS 16

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property. Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition.

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

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

e) Property, plant and equipment – IPSAS 17

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

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

f) Intangible assets – IPSAS 31

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

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

g) Financial instruments – IPSAS 29

Financial assets

Initial recognition and measurement

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

Loans and receivables

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

Held-to-maturity

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

Impairment of financial assets

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

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

Amortized Costs

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

h) Provisions – IPSAS 19

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

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

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

i) Contingent liabilities

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

j) Contingent assets

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

k) Nature and purpose of reserves

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

Reserves

LAPFUND has reserve fund which was established to take into account any potential future diminution in value of assets and also used for transfer of interests to members in case member's balances exceeds the surplus for the year. LAPFUND has found it prudent to transfer these reserves to accumulated surplus which LAPFUND has recognized as retrospective change of accounting policies.

l) Changes in accounting policies and estimates – IPSAS 3

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

m) Employee benefits – IPSAS 25

Retirement benefit plans

LAPFUND provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

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

n) Related parties Transactions – IPSAS 20

LAPFUND regards related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

n) Service concession arrangements – IPSAS 32

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

o) Cash and cash equivalents

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

p) Comparative figures

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

q) Subsequent events

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

5. Significant judgments and sources of estimation uncertainty

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. LAPFUND based its

assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of LAPFUND. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 16. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

LAPFUND makes provision for;

i) Depreciation

This is provided for on a straight-line method over four years.

ii) Bad & Doubtful Debts

When due contributions are not remitted by 15th of the following month, a 3% compounded interest is charged. The management makes a provision of 50% on the interest charged and still outstanding at the end of the financial year

XVIII. Notes to the Financial Statements

	2021/2022 Kshs'000'	2020/2021 Kshs'000'
6 Revenue attributable to members		
Normal contributions	8,224,406	4,791,286
Gratuity contributions	-	775,896
Voluntary contributions	30,099	516,180
LAPFUND Staff Contribution	79,063	74,502
Diaspora Contributions	-	-
Amal Contributions	56,538	66,939
Accrued Contributions	-	908,135
Total Revenue Attributable to Members	8,390,106	7,132,938
Less: Benefits to members		
Retirement Benefits	7,157,034	3,668,770
Death Benefits	369,426	351,778
Insured Benefits	83,974	98,807
Amal Benefits	4,990	-
Voluntary Refunds	3,515	650
Transfers out	8,082	4,388
Total Benefits to members	7,627,021	4,124,393
Levies on outstanding contributions	10,739,039	7,984,750
Revenue attributable to members	11,502,124	10,993,295
7 Finance income - external investments		
Fixed income		
Government Bonds	1,352,702	965,513
Treasury Bills	32,219	46,767
Interest on deposits	63,396	91,481
Corporate bonds	7,784	9,216
Commercial paper	-	-
	1,456,101	1,112,977
Dividend income		
Investments in quoted equities	197,929	95,007
	197,929	95,007
Gain on sale of investments		
Gain on sale of treasury bonds	-	-
(Loss)/Gain on sale of quoted shares	(4,843)	2,231
	(4,843)	2,231
Property Income		
Rentals	34,348	23,778
Hospitality	-	-
Real Estate	550	750
Land banking	7,464	6,998
	42,362	31,526
Total finance income – external investments	1,691,549	1,241,741
8 Other income		
Car Loan Interest	1,190	925
Mortgage Loan Interest	10,097	9,035
Disposal of Assets Income	-	-
Other misc. incomes	-	126
Total other income	11,287	10,086
9 Unrealized gain/(loss) on fair value of investments		
Property investments	-	-
Government bonds investments	(523,801)	(72,662)
Quoted shares investments	(1,019,489)	672,116
Net unrealized gain/loss	(1,543,290)	599,454

	2021/2022 Kshs '000'	2020/2021 Kshs '000'
10 Employee costs		
Salaries and wages	241,948	229,761
Contributions to pensions	43,863	41,713
Contributions to medical aids	32,074	30,378
Commuter, subsistence and other allowances	43,226	43,633
Gratuity	2,753	6,361
Housing allowances	41,585	38,019
Total employee costs	405,449	389,865
11 Remuneration of board members		
Chairman allowances	765	-
Meeting costs	26,608	-
Medical aid contributions	980	-
Travel, conferences and other costs	3,785	-
Total board members' remuneration	32,138	-
12 Contracted services		
Legal Fees	24,128	8,517
Performance contracting costs	7,866	10,359
Total contracted services	31,994	18,876
13 Expenses on operations relating to Core Mandate		
Members costs	98,192	103,298
Strategy and business devt costs	7,399	10,922
Corporate and Public Relations	32,291	27,685
Investment management fees	38,857	32,797
Custodial fees	21,097	16,902
Debt management fees	39,935	81,879
Statutory costs	5,850	5,850
Property & Finance Costs	89,309	43,332
Procurement costs	9,489	4,583
Total expenses on operations relating to Core Mandate	342,419	327,248

	2021/2022 <u>Kshs '000'</u>	2020/2021 <u>Kshs '000'</u>
14 Administrative Expenses		
Office operating expenses	126,670	92,964
HR & employee development	39,373	23,384
ICT costs	21,134	24,887
Audit, risk and compliance	5,434	3,683
Finance charges	1,322	1,015
Total administrative expenses	193,933	145,933
15 Repairs and maintenance		
Computers & network maintenance costs	2,630	2,794
Motor Vehicles	2,846	2,245
Office maintenance	905	834
Total repairs and maintenance	6,381	5,873
16 Depreciation, amortization and provision costs		
Plant and equipment	14,089	16,940
Intangible assets	13,565	17,868
Total depreciation	27,654	34,808
Administrative recharges amortized	954,394	889,776
Provision for doubtful debts	5,369,519	3,992,375
Total amortization costs and provisions	6,323,913	4,882,151
Total depreciation, amortization and provisions	6,351,567	4,916,959

	2021/2022 Kshs '000'	2020/2021 Kshs '000'
17 Cash and cash equivalents		
Cash in Bank	144,572	107,307
Cash-on-hand	374	428
Cash on transit	~	597
Total cash and cash equivalents	144,946	108,332

17(a) Cash and cash equivalents

	Account Number		
a) Bank Accounts			
Co operative Bank Operation	011361982401	8,742	7,980
KCB Operation Account	1149212292	101,320	86,577
NCBA - Golf View Operations	1002063316	215	591
Co op Bank Collection	011361982400	5,222	9,526
KCB Collection	114898767	25,099	1,575
NBK - Collection	01002000903700	2,706	2
NCBA - Golf View Collection ksh	1001667951	63	269
NCBA - Golf View Collection Usd	1001667967	22	25
AMAL Collection - Gulf Bank	0350006401	1,019	617
AMAL Collection -KCB Sahl	1239065043	164	145
Sub- Total		144,572	107,307
b) Cash-on-hand			
Petty Cash Nairobi		180	200
Petty Cash Kisumu		7	2
Petty Cash Mombasa		38	60
Petty Cash Nyeri		27	18
Petty Cash Nakuru		29	33
Petty Cash Wajir		~	~
Petty Cash Mandera		~	~
Petty Cash Isiolo		30	30
Petty Cash Garissa		5	20
Petty Cash CEO's Office		49	50
Pettycash Mavoko		9	15
Petty Cash Golf View		~	~
Sub- Total		374	428
c) Cash on transit			
Golfview Mpesa Pay bill	512934	~	597
Funds Transfers		~	~
Sub- Total		~	597
Total cash and cash equivalents		144,946	108,332

	2021/2022 Kshs '000'	2020/2021 Kshs '000'
18 Receivables from exchange transactions		
Current receivables		
Contributions due	1,165,921	1,378,349
Total current receivables	1,165,921	1,378,349
Non-current receivables		
Contributions due	43,613,464	34,035,229
Less: impairment allowance	(22,175,383)	(16,805,863)
	21,438,081	17,229,366
Current portion transferred to current receivables	(1,165,921)	(1,378,349)
Total non-current receivables	20,272,160	15,851,017
Total receivables	21,438,081	17,229,366

employees.

	2021/2022 Kshs '000'	2020/2021 Kshs '000'
19 Receivables from non-exchange contracts		
Current receivables		
Administrative re-charges due	1,012,315	887,793
Less: impairment allowance	(202,463)	(177,559)
Total current receivables	809,852	710,234
Staff loans	0	-
Other debtors	2,112	3,761
Total current receivables	811,964	713,995
Non-current receivables		
Administrative re-charges due	8,212,468	7,200,154
Less: impairment allowance	(6,281,158)	(5,326,764)
	1,931,310	1,873,390
Current portion transferred to current receivables	(809,852)	(710,234)
Total non-current receivables	1,121,458	1,163,156
Staff loans	409,497	334,500
Total non-current receivables	1,530,955	1,497,656
Total receivables	2,342,919	2,211,651

Impairment allowance is 50% of the interest levied on the unremitted contributions

Administrative expense receivable relates to outstanding recharges of administrative expenses to be recovered from Local Authorities in line with Section 4(4) of Local Authorities Fund Act, however, due to the doubtful nature of recoverability of the same, the Board approved a 20% provision on a straight-line basis

Staff debtors relate to the staff (Car and Mortgage) loan scheme set up by the board for the benefit of the employees.

20 Motor Vehicles, Computer, Equipment & Furniture

	Motor Vehicle	Computer & Equipment	Furniture Fixtures & Fittings	Total
	<u>Kshs '000'</u>	<u>Kshs '000'</u>	<u>Kshs '000'</u>	<u>Kshs '000'</u>
Cost				
At 1 July 2020	27,862	138,396	218,280	384,538
Additions/Revaluation	-	12,075	286	12,361
Disposals	-	-	-	-
At 30 June 2021	27,862	150,471	218,566	396,899
Additions/Revaluation	-	6,075	6,257	12,332
Disposals	-	-	-	-
At 30 June 2022	27,862	156,546	224,823	409,231
Depreciation and impairment				
At 1 July 2020	-	132,697	215,194	347,891
Depreciation	6,966	7,278	2,697	16,941
Disposals	-	-	-	-
At 30 June 2021	6,966	139,975	217,891	364,832
Depreciation	6,966	5,508	1,616	14,090
Disposals	-	-	-	-
At 30 June 2022	13,932	145,483	219,507	378,922
Net book values				
At 30 June 2022	13,930	11,063	5,316	30,309
At 30 June 2021	20,896	10,496	675	32,067

21 Intangible Assets - Software

	<u>Kshs '000'</u>
Cost	
At 1 July 2020	61,051
Additions/Revaluation	21,349
At 30 June 2021	82,400
Additions/Revaluation	6,847
At 30 June 2022	89,247
Amortization and impairment	
At 1 July 2020	41,437
Amortization	17,868
At 30 June 2021	59,305
Amortization	13,565
At 30 June 2022	72,870
Net book values	
At 30 June 2022	16,377
At 30 June 2021	23,095

Depreciation is provided for at a straight-line method at the following rates:

- Motor Vehicles	25.00%	- Computers	33.33%
- Office Equipment and Furniture	33.33%	- Fixture and Fittings	33.33%

	<u>2021/2022</u> <u>Kshs '000'</u>	<u>2020/2021</u> <u>Kshs '000'</u>
22 Trade and other payables from exchange transactions		
Trade payables	38,050	31,772
Benefits payable	146,516	59,412
Other payables	130,115	114,753
Total trade and other payables	314,681	205,937

Benefits payable to members relates to claims received on or before balance sheet date whose payment was pending at the same date.

23 Investments

	Property	Government Bonds	Treasury Bills	Fixed deposits	Corporate and commercial paper	Quoted shares	Unquoted shares	Total
	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'
Fair value								
At 1 July 2020	15,769,989	7,106,020	1,249,652	1,483,514	136,783	2,531,754	11,720	28,289,431
Additions	1,274,931	4,234,242	376,779	15,432,566	-	499,611	-	21,818,129
Maturity/Disposals	-	(2,251,544)	(1,246,856)	(14,974,892)	(121,783)	(79,040)	-	(18,674,115)
Change in fair value	-	(72,662)	-	-	-	674,347	-	601,685
At 30 June 2021								
Total investments	17,044,920	9,016,056	379,575	1,941,188	15,000	3,626,672	11,720	32,035,130
Total current investments	-	-	379,575	1,941,188	-	3,626,672	-	5,947,435
Total non-current investments	17,044,920	9,016,056	-	-	15,000	-	11,720	26,087,695
Additions	1,398,217	4,357,182	254,400	12,857,558	112,410	691,268	-	19,671,035
Maturity/Disposals	(1,200,000)	(1,601,075)	(633,975)	(13,481,975)	2,787	(157,943)	-	(17,072,181)
Change in fair value	-	(523,801)	-	-	-	(1,024,332)	-	(1,548,133)
At 30 June 2022								
Total investments	17,243,137	11,248,362	0	1,316,771	130,197	3,135,665	11,720	33,085,851
Total current investments	-	115,564	(0)	1,316,771	-	3,135,665	-	4,568,000
Total non-current investments	17,243,137	11,132,798	0	(0)	130,197	0	11,720	28,517,851

Property investment includes an amount of Kshs. 1,381,929,333.89 which comprises of development of Shopping Centre, Nursery school and 131 units Maisonettes (LAPFUND Gardens) in Mavoko Sub-County, Machakos County which are on sale. The amount is net of costs, deposits and fully sold units.

Two parcels of Bellevue land, Blocks 98/104 & 98/105 were identified for acquisition by the government through a gazette notice (Special Issue) Vol. CXXII-No. 163 dated 4th September 2020 to be used in construction of Nairobi Expressway Road Project. National Land Commission has so far compensated for the acquisition to the tune of Kshs. 1,200,000,000

Quoted shares of Kshs 1,543,288,000 is net of unrealized loss on fair value of investments as reflected in note 9.

24. Employee Benefit Obligations

LAPFUND operates a defined contribution scheme for all full-time employees. We operate a defined contributions scheme for all full-time employees. The employee contributes 12% and employer 15% of the monthly gross salary. At the time of retirement, the employee is refunded the total contributions plus the interest earned less tax.

LAPFUND also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. LAPFUND's obligation under this scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

25. Financial risk management

LAPFUND's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. LAPFUND's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

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

i) Credit Risk

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

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

ii) Liquidity risk management

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

iii) Market risk

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

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

responsibility for managing market risk rests with the Audit Committee.

LAPFUND's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies. There has been no change to the LAPFUND's exposure to market risks or the manner in which it manages and measures the risk.

iv) Foreign currency risk

LAPFUND has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate. At the end of the period, LAPFUND did not have any carrying amount of foreign currency denominated in monetary assets and monetary liabilities.

v) Interest rate risk

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

Management of interest rate risk

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

vi) Capital Risk Management

The objective of LAPFUND's capital risk management is to safeguard the Local Authorities Provident Fund Board's ability to continue as a going concern.

26. Relates Party Disclosures

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

	Loans due from related parties	Ksh '000'
	Loans advanced to management	117,538
i	Loans to management carry 3% interest. Difference between interest charged by LAPFUND and the statutory rate as per Sec 27(1) b of Income Act of 2004 is compensated by taxed loan benefit received. The loans advanced to management are recovered through their salaries.	
ii	Remuneration to management	98,675
	Contributions due from County Governments, Water companies and other companies	
iii	County Governments & Assemblies	38,151,563
	Water Companies	5,250,521
	Other Companies	194,170
	Total	43,596,254
iv	Remuneration to Board members	32,138
	Receipts from related parties	
v	County Governments, County Assemblies, Water companies and other companies	9,470,463
	Staff repayment loans	9,028
	Total	9,479,491

27. Events After the Reporting Period

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

28. Ultimate and Holding Entity

LAPFUND is a State Corporation/or a Semi- Autonomous Government Agency under the Ministry of National Treasury and Planning. Its ultimate parent is the Government of Kenya.

29. Currency

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

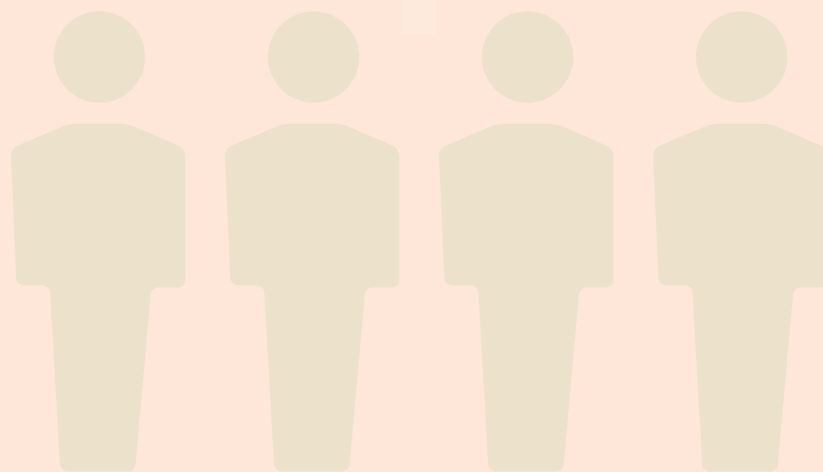
Implementation Status of Auditor-General's Recommendations

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)

There were no issues raised in previous Audit Report.

LAPFUND



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