

**KENYATTA NATIONAL HOSPITAL
STAFF SUPERANNUATION SCHEME
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022**

**VC KARANI & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS
BISHOPS ROAD
P.O. BOX 45481-00100
NAIROBI**

**Kenyatta National Hospital
Staff Superannuation Scheme
Annual Report and Financial Statements
For the year ended 30 June 2022**

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**Kenyatta National Hospital
Staff Superannuation Scheme
Trustees, Advisors and Other Information
For the year ended 30 June 2022**

TRUSTEES	Mr. Albert Ambune	- Chairman	Elected 1st October 2021
	Dr. Evanson Kamuri		
	Mr. Carylus Odiango		Retired 23rd April 2022
	Mr. Wycliffe Lisalitsa		Retired 30th September 2021
	Mr. Jared Owiny		Retired 30th September 2021
	Mrs. Ruth Mbithe		Re-elected 1st October 2021
	Mr. George Ooko		
	Mrs. Grace Akinyi		Elected 1st October 2021
	Dr. Kennedy Ondede		
	Dr. Kennedy Momanyi		
	Mrs. Winnie Mwangi	: Trust Secretary	

ADMINISTRATOR Minet Kenya Financial Services Limited
Minet House, Mamlaka Road
P.O Box 48279 - 00100
NAIROBI

INVESTMENT MANAGERS GenAfrica Asset Managers Limited
Arlington Block, 14 Riverside Business Park
P.O Box 40984 - 00100
NAIROBI

Britam Asset Managers (Kenya) Limited
Britam Centre, Mara & Ragati Road Junction
P. O. Box 30375-001000
NAIROBI

CUSTODIANS NCBA Bank Kenya PLC
NCBA House
Masaba Road
P. O. Box 44599 - 00100
NAIROBI

PROPERTY MANAGER Ebony Estates Limited
Hughes Building, 2nd Floor, Kenyatta Avenue
P.O Box 19815 - 00100
NAIROBI

**Kenyatta National Hospital
Staff Superannuation Scheme
Trustees, Advisors and Other Information
For the year ended 30 June 2022**

INDEPENDENT ACTUARY Actuarial Services (E.A) Limited
UAP-Old Mutual Towers, Upper Hill Road
P.O Box 10472-00100
NAIROBI

INDEPENDENT AUDITOR VC Karani & Associates
Certified Public Accountants
Forte Granite Flats, A6, Bishop Road
P O Box 45481 - 00100
NAIROBI

REGISTERED OFFICE Kenyatta National Hospital
Hospital Hill Road
P.O Box 20723 - 00202
NAIROBI

**Kenyatta National Hospital
Staff Superannuation Scheme
Report of the Trustees
For the year ended 30 June 2022**

The trustees present their report together with the audited financial statements for the year ended 30 June 2022 which disclose the state of affairs of the scheme.

1 Establishment, nature and purpose of the scheme

The scheme was established under irrevocable trust and commenced on 1st January 1991. It is governed by Original Trust Deed and Rules dated 17th July 1991 as subsequently amended with deeds of addendum.

It is a defined benefit scheme and provides, under the rules of the scheme, pension, lumpsum and other retirement benefits for members on retirement and relief for dependants of deceased members.

The scheme was closed to new entrants and future accrual of benefits save for continuing members with effect from 30th June 2011 in compliance with Treasury Circular No. 18 of 2010 which required the sponsor to close the existing defined benefit scheme and set up a new defined contribution scheme for future accrual of benefits effective 1 July 2011. Continuing members of the scheme are those members who had attained the age of 45 years or more at the closing date and who opted not to join the new defined contribution scheme but rather continue contributing and accruing benefits under the defined benefit scheme.

The scheme is an exempt approved plan (Income Tax Ref. 92291B/1634 and Exemption Certificate Serial No. 00642) under the Income Tax Act and is registered with the Retirement Benefits Authority (Scheme Ref.No. 0822 and Certificate No. 0054).

2 Contributions

Members contribute to the scheme at the rate of 5% of their pensionable emoluments while the Sponsor is required to contribute in each contribution year the amount required to meet the balance of the cost of retirement and other benefits provided under the Scheme's Trust Deed and Rules as advised by the actuary and after allowing for the members' contributions. The sponsor currently makes contributions at the rate of 10% of the members' pensionable emoluments. In addition, members are allowed to make additional voluntary contributions. Contributions are remitted monthly.

The sponsor has also been making special contributions towards settlement of the existing actuarial deficit.

3 Membership

The movement in membership of the scheme during the year was as follows:

	Active members	Deferred members	Pensioners	Total
At start of year	3,304	494	1,368	5,166
Entrants	-	10	102	112
Exits	(141)	(7)	(14)	(162)
At end of year	3,163	497	1,456	5,116

4 Financial review

The statement of changes in net assets available for benefits on page 12 shows a decrease in the net assets of the scheme for the year of Kshs.1,082,357,674 (2021:Kshs. 253,090,181 increase) and the statement of net assets available for benefits on page 13 shows the scheme's net assets as Kshs.6,403,244,461 (2021: Kshs. 7,485,602,135).

**Kenyatta National Hospital
Staff Superannuation Scheme
Report of the Trustees
For the year ended 30 June 2022**

5 Investment of funds

Under the terms of their appointment, GenAfrica Asset Managers Limited and Britam Asset Managers (Kenya) Limited are responsible for the investment of the scheme's funds.

However, the overall responsibility for investment and performance lies with the trustees.

The full investment allocation as at year end was as follows:

Investment Portfolio	Amount (Kshs)	Percentage (%) of Portfolio	(%) RBA Limits
Cash and bank balances	59,176,013	0.93%	5%
Fixed and call deposits	67,553,241	1.06%	30%
Kenya government securities (Treasury bonds and bills)	2,531,320,614	39.60%	90%
Corporate bonds and commercial paper	14,835,225	0.23%	30%
Quoted local and regional equities	859,116,896	13.44%	70%
Offshore private equity	324,620,438	5.08%	10%
Investment property	2,535,800,000	39.67%	30%
	6,392,422,427		

The value of investment property as at year end exceeded the statutory investment portfolio proportion limit of 30% due to the acquisition and revaluation of parcels of land (namely Kajiado/Kaputiei North/108933-109351 and Kajiado/Kaputiei North/109376-109378) acquired by the scheme for sub-division and resale. The parcels of land have been sub-divided and are due for resale. As at year end, the parcels of land were valued at Kshs. 697.3 million and once sold, the scheme's investment property portfolio proportion will fall within the statutory limit of 30%.

6 Actuarial position

An actuarial valuation was carried out as at 30th June 2021 by Actuarial Services (E.A) Limited, an independent firm of Actuaries, using the Attained Age Method.

The valuation results revealed an actuarial deficit of Kshs. 7.5 billion as at 30th June 2021. This represented a funding level of the scheme of 50.1% which was lower than the statutory minimum funding requirement of 100% prescribed in the Retirement Benefits (Minimum Funding Level and Winding up of Schemes) Regulations 2000.

Remedial Action Plan

Pursuant to the provisions of Regulation 4(2) of the Retirement Benefits (Minimum Funding Level and Winding up of Schemes) Regulations 2000 under the Retirement Benefits Act 1997 as amended, a closed scheme is required to submit to the Retirement Benefits Authority a Remedial Action Plan for settlement of the actuarial deficit valid for utmost three (3) years for approval.

6 Actuarial position (continued)

Remedial Action Plan

In this regard, the Actuaries determined and recommended that monthly repayments of Kshs. 264.2 million would be payable for three years starting 30th September 2021 in order to settle the actuarial deficit determined within the statutory period of three (3) years. During the year, the sponsor remitted Kshs. 100 million (2021: Kshs. 100 million) towards settlement of the actuarial deficit. The amount remitted was much lower than the amount recommended by the Actuaries. Consequently, the Actuaries' recommendation has not been fully honored by the sponsor and settlement of the actuarial deficit within the stipulated statutory three year timeframe seems uncertain.

7 Independent Auditors

VC Karani & Associates, Certified Public Accountants (Kenya), were appointed as independent auditors for the year and have indicated their willingness to continue in office.

For the Trustees:



.....
Chairman

Dated: 29th September 2022

**Kenyatta National Hospital
Staff Superannuation Scheme
Scheme Governance Disclosure Statement
For the year ended 30 June 2022**

1. Trustees in office

Name of Trustee	Age	Category (Member elected/Sponsor nominated/Professional)	No. of meetings attended	Certified (Yes/No)	Highest Qualification	Membership of other Boards
Mr Albert Ambune	57	Member Elected	3	Yes	CPA (K)	No
Mr George Ooko	59	Sponsor Nominated	4	Yes	Masters Degree	No
Dr Evanson Kamuri	51	Sponsor Nominated	2	Yes	Masters Degree	Yes; KNH DC
Dr Kennedy Momanyi	58	Sponsor Nominated	4	Yes	Masters Degree	No
Dr Kennedy Ondede	52	Sponsor Nominated	4	Yes	Masters Degree	No
Mrs Winnie Mwangi	47	Sponsor Nominated	4	Yes	Masters Degree	Yes; KNH DC
Ms Ruth Mbithe	56	Member Elected	4	Yes	Higher Diploma	No
Ms Grace Akinyi	59	Member Elected	3	Yes	Degree	No

2. The Board of Trustees held ...4.. meetings during the year ending **30th June 2022**. The meetings were held on the dates set hereunder:

- 25th July 2021
- 26th October 2021
- 11th April 2022
- 3rd June 2022

3. The composition of the Board of Trustees is as hereunder:

- Gender balance: Female 38% Male 62%
- Skills mix: No. of Trustees with financial skills: **Two (2)**
- Age mix: No. of Trustees younger than 35 years: **None** No. of Trustees older than 35 years: **Eight (8)**

4. Committees of the Board

Committee Name	No. of Meetings held	Any external advisors, invitees to meetings (Yes/No)	Allowances paid (Kshs.)
Property and Investment	9	Yes to assist in investment planning	754,216
Welfare and Administration	5	Yes to assist in reviewing the strategic plan	366,100
Audit and Risk	1	Yes to assist in developing risk register	112,000

5. Fiduciary Responsibility Statement

The Board of Trustees is the governing body of **Kenyatta National Hospital Staff Superannuation Scheme** and is responsible for the corporate governance of the scheme. The trustees are responsible for ensuring that the administration of the scheme is conducted in the best interests of the scheme's members and the sponsor. To achieve this, the trustees embraced their fiduciary responsibility by:

- Acting honestly and did not improperly use inside information or abuse their position;
- Exercising the highest degree of care and diligence in the performance of their duties that a reasonable person in a like position would exercise in the circumstances; and
- Performing their duties with the requisite degree of skill.

The scheme has complied with the laws, regulations and guidelines that govern retirement benefit schemes and the scheme's operations.

The trustees have ensured that the fund manager has carried out all scheme investments and that all scheme assets and funds are held by the custodian.

The Board charter for the scheme has been developed.

**Kenyatta National Hospital
Staff Superannuation Scheme
Scheme Governance Disclosure Statement
For the year ended 30 June 2022**

6. Responsible Corporate Citizenship

The scheme has participated in socially responsible investments and operations and has not been involved in any activity that may undermine the well-being of the sponsor, members or the community in which it operates.

7. Key Outcomes

The Board of Trustees seeks to achieve the following:

- a) Building trust with the members and sponsor of the scheme so that they are satisfied with the administration of the scheme;
- b) Supporting innovation and developing solutions that meet the members' and sponsor's needs; and
- c) Ensuring that the scheme's administrative processes remain transparent and accessible to members and the sponsor.

The Board of Trustees will measure the progress towards these outcomes through:

- a) Triennial members' survey score. **There was no survey conducted during the year.**
- b) Regular reports and feedback from the sponsor. **Sponsor updated regularly.**

8. Annual General Meeting

The Board of Trustees held the annual general meeting on **14th April 2022** at which **365 Members**, making up 7% of the scheme members attended. The Board adequately addressed the members' concerns.

9. The Board conducted the following sensitization activities:

Name of sensitization forum	Date held	No. of members who attended	Remarks
Retirement Planning and Members Day	18th May 2022	219	Members issues were addressed during the forum
	19th May 2022	165	
	20th May 2022	177	

10. Trustees remuneration policy

During the year under review, the trustees were paid a gross sum of **Kshs 2,754,516**. The payments complied with the trustees remuneration policy of the scheme.

11. Board of Trustees Evaluation

The board and individual trustees undertook board evaluation in the year under review on **2nd June 2022**. The board review process was facilitated externally and the process took the form of questionnaires.

For the Trustees:



.....
Chairman


Dated:.....2022

**Kenyatta National Hospital
Staff Superannuation Scheme
Statement of Trustees' Responsibilities
For the year ended 30 June 2022**

The Retirement Benefits (Occupational Retirement Benefit Schemes) Regulations, 2000 require the trustees to prepare financial statements in a prescribed form for each financial year. They also require the trustees to ensure that the scheme keeps proper accounting records of its income, expenditure, liabilities and assets and that contributions are remitted to the custodian in accordance with the rules of the scheme.

The trustees accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

- i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- ii) selecting suitable accounting policies and applying them consistently; and
- iii) making accounting estimates and judgements that are reasonable in the circumstances.

The trustees are of the opinion that the financial statements give a true and fair view of the financial transactions of the scheme and of the disposition of its assets and liabilities for the year ended, other than liabilities to pay pensions and benefits falling due after the end of the year, in accordance with the International Financial Reporting Standards and the Retirement Benefits Act, 1997.

Having made an assessment of the Scheme's ability to continue as a going concern and taking cognizant of the scheme's significant actuarial deficit, the trustees are of the opinion that the Scheme will continue to operate as a going concern owing to the sponsor's commitment and goodwill to settle the existing deficit.

The trustees acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

For the Trustees:



.....
Chairman



.....
Trustee

Dated: 29th September 2022

Partners

V.C. Karani B.Com, CPA(K), CPS(K) - CEO
E .O. Ogari Msc, BSc (Actuarial Science), CPA(K), CIFA - Managing

VC Karani & Associates
Certified Public Accountants



VCK/ARP/2022/159

REPORT OF THE INDEPENDENT AUDITOR TO THE BOARD OF TRUSTEES OF KENYATTA NATIONAL HOSPITAL STAFF SUPERANNUATION SCHEME

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Kenyatta National Hospital Staff Superannuation Scheme, set out on pages 12 to 26, which comprise the statement of net assets available for benefits as at 30 June 2022, the statement of changes in net assets available for benefits and statement of cash flows for the year then ended, and notes, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the scheme as at 30 June 2022 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Retirement Benefits Act 1997 as amended.

Emphasis of Matter

Without qualifying our opinion, we would like to note that an actuarial valuation carried out as at 30th June 2021 by Actuarial Services (E.A) Limited revealed an actuarial deficit of Kshs. 7.5 billion as at 30th June 2021. This represented a funding level of the scheme of 50.1% which was lower than the statutory minimum funding requirement of 100% prescribed in the Retirement Benefits (Minimum Funding Level and Winding up of Schemes) Regulations 2000. In addition, the sponsor has not fully honored the Actuary's recommended remedial action of remitting monthly contributions of Kshs. 264.2 million starting 30th September 2021. The foregoing constitute material uncertainties related to events or conditions that may cast doubt upon the scheme's ability to continue as a going concern into the unforeseeable future.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Scheme in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other information

The trustees are responsible for the other information. Other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Partners

V.C. Karani B.Com, CPA(K), CPS(K) - CEO

E.O. Ogari Msc, BSc (Actuarial Science), CPA(K), CIFA - Managing

VC Karani & Associates

Certified Public Accountants



REPORT OF THE INDEPENDENT AUDITOR TO THE BOARD OF TRUSTEES OF KENYATTA NATIONAL HOSPITAL STAFF SUPERANNUATION SCHEME

Responsibilities of Trustees for the Financial Statements

The trustees are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the Retirement Benefits Act, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Mistatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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 our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustees.

Partners

V.C. Karani B.Com, CPA(K), CPS(K) - CEO
E.O. Ogari Msc, BSc (Actuarial Science), CPA(K), CIFA - Managing

VC Karani & Associates
Certified Public Accountants



**REPORT OF THE INDEPENDENT AUDITOR
TO THE BOARD OF TRUSTEES OF
KENYATTA NATIONAL HOSPITAL STAFF SUPERANNUATION SCHEME**

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of the trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner responsible for the audit resulting in this independent auditor's report was CPA Evans Ogari Onwonga, Practising Certificate No. 1971.

For and on behalf of:
VC Karani & Associates
Certified Public Accountants
Nairobi

Dated: 30/09/2022



**Kenyatta National Hospital
Staff Superannuation Scheme
Statement of changes in net assets available for benefits
For the year ended 30 June 2022**

	Notes	2022 Kshs	2021 Kshs
Income from dealings with members			
Contributions receivable	3	218,672,535	233,931,160
Outgoings from dealings with members			
Benefits payable	4	(1,362,886,959)	(825,662,532)
Net reduction from dealings with members		(1,144,214,424)	(591,731,372)
Returns on investment			
Investment income	5	521,935,491	535,139,134
Change in fair value of investments	6	(381,117,590)	373,662,976
Less:			
Investment management expenses	7a	(20,590,421)	(20,774,915)
Property management expenses	7b	(27,895,753)	(22,289,549)
Impairment	7c	-	(350,757)
Net returns on investments		92,331,728	865,386,889
Administrative expenses	8	(30,474,979)	(20,565,336)
(Decrease) Increase in net assets for the year		(1,082,357,674)	253,090,181
Net assets available for benefits at start of year		7,485,602,135	7,232,511,954
Net assets available for benefits at end of year		6,403,244,461	7,485,602,135

**Kenyatta National Hospital
Staff Superannuation Scheme
Statement of Net Assets Available for Benefits
As at 30 June 2022**

	Notes	2022 Kshs	2021 Kshs
Assets			
Investment property	9	2,535,800,000	2,495,800,000
Financial assets	10	3,797,446,414	4,939,120,619
Contributions due	11	582,988	10,761,818
Other receivables and accrued income	12	47,013,198	23,591,421
Cash at bank	13	59,176,013	53,002,896
Trust fund assets	16	373,156,963	-
Total assets		6,813,175,576	7,522,276,754
Less: Liabilities			
Benefits payable	14	-	-
Other payables and accrued expenses	15	36,774,152	36,674,619
Trust fund benefits payable	16	373,156,963	-
Total liabilities		409,931,115	36,674,619
Net assets available for benefits		6,403,244,461	7,485,602,135
Financed by:			
Members' Fund		6,403,244,461	7,485,602,135

The financial statements on pages 12 to 26 were approved for issue by the trustees on 29/9/2022 and signed on their behalf by:


.....
Chairman


.....
Trustee

Kenyatta National Hospital
Staff Superannuation Scheme
Cash flow statement
For the year ended 30 June 2022

	Notes	2022 Kshs	2021 Kshs
Cash flow from operating activities			
Contributions received		228,851,365	234,847,696
Benefits paid to seceding members and pensioners		(1,362,886,959)	(825,662,532)
Administrative expenses paid		(27,170,107)	(20,626,768)
Rent deposits received		(3,336,444)	(1,192,152)
		<u>(1,164,542,144)</u>	<u>(612,633,755)</u>
Net cash flow from operating activities			
Cash flow from investing activities			
Investment income received		487,024,443	510,764,975
Investment and property management expenses paid		(48,355,068)	(36,597,298)
Purchase of financial assets		(608,418,883)	(576,446,930)
Additions to investment property		-	-
Proceeds from disposal and maturity of financial assets		1,228,778,096	739,706,988
		<u>1,059,028,587</u>	<u>637,427,734</u>
Net cash flow from investing activities			
		<u>(105,513,557)</u>	<u>24,793,979</u>
Net (decrease) increase in cash and cash equivalents			
		232,242,811	207,448,832
		<u>126,729,254</u>	<u>232,242,811</u>
Cash and cash equivalents at end of year			
Represented by:			
Cash at bank	17	59,176,013	53,002,896
Fixed and call deposits	17	67,553,241	179,239,915
		<u>126,729,254</u>	<u>232,242,811</u>

1 a) Basis of preparation

The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards, the Retirement Benefits Act 1997 as amended, and the Retirement Benefits (Occupational Retirement Benefit Schemes) Regulations, 2000.

The financial statements summarize the transactions of the scheme and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay pensions and benefits that fall due after end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the statement by the actuary and these financial statements should be read in conjunction with it.

The financial statements are presented in the functional currency, Kenya Shillings (Kshs) and are prepared under the historical cost convention as modified by the carrying of certain investments at fair value.

b) Adoption of new and revised International Financial Reporting Standards (IFRSs)

i New and revised standards effective

At the date of authorization of these financial statements, various new and revised standards and interpretations were issued and effective. Those that relate and have an impact on the scheme's operations have been adopted where applicable.

ii New and revised standards issued but not yet effective

At the date of authorization of these financial statements, various new and revised standards and interpretations were issued but not yet effective. Those that relate and have an impact on the scheme's operations will be adopted where applicable once they become effective.

iii Early adoption of standards

The trustees do not have any plans to adopt any new and revised standards until they become effective. Based on their assessment of the potential impact of application of these standards, they do not expect that there will be a significant impact on the scheme's financial statements.

c) Key sources of estimation uncertainty

In the application of the accounting policies, the trustees are required to make the judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

d) Significant judgements made by trustees in applying the scheme's accounting policies

Trustees have made the following judgements that are considered to have the most significant effect on the amounts recognised in the financial statements.

d) Significant judgements made by trustees in applying the scheme's accounting policies

i) Impairment of contributions due and other receivables

Contributions due

The scheme recognises contributions receivable on an annual basis. Contributions outstanding for more than 30 days are considered overdue. In determining whether overdue contributions are impaired, the trustees have made significant judgement as to whether there is any evidence indicating that the sponsor will not remit the overdue amount, if any, as stated.

Other receivables

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

ii) Impairment of financial assets

The trustees have adopted the expected credit loss (ECL) model provided under IFRS 9 in determining provision for impairment of financial assets. This model requires considerable judgement about how economic factors affect ECLs, which should be determined on a probability-weighted basis.

Based on the expected credit loss (ECL) model, the trustees are of the opinion that no provision for impairment of financial assets is necessary since the assets have been stated at their market values or fair values as at the end of the year. For financial assets stated at amortised cost, fair value has been determined as the nominal value plus accrued interest thereon.

iii) Fair value measurement and valuation process

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date under current market conditions regardless of whether the price is directly observable or estimated using another valuation technique. The trustees determine the fair value of the scheme's assets and liabilities, where required, as follows:

- For assets and liabilities traded in the open market, fair value is the market value.
- For assets and liabilities not traded in the open market, fair value is determined using market observable data to the extent it is available.

e) Contributions

Current service contributions are accounted for in the period in which they fall due while special contributions for actuarial deficit financing and other contributions are accounted for in the period in which they are received.

f) Benefit transfers

Benefit transfers are recognized in the period in which members join from or leave for other schemes.

g) Benefits payable

Pensions and other benefits payable are taken into account in the period in which they fall due.

h) Income from investments

Income comprises the fair value of the consideration received or receivable in the ordinary course of business.

The scheme's income mainly comprising of investment income is recognized when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the scheme and when the specific criteria of the income class has been met as described below:

- i) Interest income is recognized for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investments and accrued discount and premium on treasury bills and other discounted instruments.
- ii) Dividends are recognized as income in the period in which the right to receive payment is established.
- iii) Rental income is recognized in the period in which it is earned.

i) Financial instruments

The scheme recognizes financial instruments in accordance with **IFRS 9: Financial Instruments**. The standard sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

Recognition and measurement

Financial assets and liabilities are initially recognized in the scheme's statement of net assets at cost (including transaction costs) when the scheme becomes party to the contractual provisions of the instrument.

IFRS 9 requires subsequent classification and measurement of financial instruments to reflect the business model in which the financial instruments are managed and their cash flow characteristics.

The standard contains three principal classification categories for financial instruments namely:

- i) At amortised cost;
- ii) At fair value through other comprehensive income (FVTOCI)
- iii) At fair value through profit or loss (FVTPL)

A financial instrument that meets the following two conditions must be measured at amortised cost unless the asset is designated at FVTPL under the fair value option:

- **Business model test:** The financial asset is held within a business model whose objective is to hold financial assets to collect their contractual cash flows (rather than to sell the assets prior to their contractual maturity to realise changes in fair value).

- **Cash flow characteristics test:** The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial instrument that meets the cash flow characteristics test and is not designated at FVTPL under the fair value option must be measured at FVTOCI if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and sell financial assets.

i) **Financial instruments**

Financial assets

The scheme classifies its financial assets into the following categories:

i) Financial assets at amortised cost

These are financial assets that are held within a business model whose objective is to hold the assets to maturity in order to collect contractual cash flows, and for which the contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest amount. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised.

ii) Financial assets at fair value through other comprehensive income (FVTOCI)

These are financial assets that are held for collection of contractual cash flows that arise on the specified contractual dates, can also be traded depending on the liquidity needs of the scheme and are not designated at fair value through profit or loss (FVTPL). Movement in the carrying amounts are recognised through OCI, except for recognition of impairment gains or losses, return revenue and foreign exchanges gains and losses that are recognised directly in profit or loss. On disposal, gains and losses previously recognised in OCI are reclassified to profit or loss.

iii) Financial assets at fair value through profit or loss

These are financial assets that do not meet the criteria for amortised cost or FVTOCI and comprise of financial assets held specifically for trading purposes.

These assets are measured at fair value. In case of marketable securities, fair value is the market value. Fair value gains and losses arising on revaluation of these assets are dealt with in the statement of changes in net assets available for benefits.

iv) Receivables

These comprise of non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and which the company does not intend to trade. They are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Bad debts are written off after all efforts of recovery have been exhausted.

Impairment

IFRS 9 requires use of the 'expected credit loss' (ECL) model in determining impairment of financial assets. This model requires considerable judgement about how economic factors affect ECLs, which should be determined on a probability-weighted basis.

The impairment model is applicable to financial assets measured at amortised cost or FVTOCI except for investments in equity instruments and to contract assets.

The standard requires loss allowances to be measured on either of the following bases:

- **12-month ECLs:** these are ECLs that result from possible default events within the 12 months after the reporting date; and

- **Lifetime ECLs:** these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date.

i) Financial instruments

Impairment

The scheme recognizes a loss allowance for expected credit losses on debt instruments that are measured at amortised cost. The loss allowance is measured at an amount equal to the lifetime expected credit losses for trade receivables and for financial instruments for which: (a) the credit risk has increased significantly since initial recognition; or (b) there is observable evidence of impairment. If, at the reporting date, the credit risk on a financial asset other than a trade receivable has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowances are recognised in profit or loss as impairment gains or losses.

Expected credit losses are measured in a way that reflects an unbiased and probability - weighted amount determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial liabilities

All financial liabilities are recognised initially at fair value of the consideration given plus the transaction cost with the exception of financial liabilities carried at fair value through profit or loss, which are initially recognised at fair value and the transaction costs are expensed in the profit and loss account.

Subsequently, all financial liabilities are carried at amortised cost using the effective interest method except for financial liabilities through profit or loss which are carried at fair value.

Presentation

All financial assets are classified as non-current except financial assets at fair value through profit or loss, those with maturities of less than 12 months from the reporting date, those which the trustees have the express intention of holding for less than 12 months from the reporting date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

All financial liabilities are classified as non-current except financial liabilities at fair value through profit or loss, those expected to be settled in the scheme's normal operating cycle, those payable or expected to be paid within 12 months of the reporting date and those which the scheme does not have an unconditional right to defer settlement for at least 12 months after the reporting date.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or the scheme has transferred substantially all risks and rewards of ownership, or when the scheme has no reasonable expectations of recovering the asset.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged or cancelled or expires.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of net assets available for benefits only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

j) Investment property

Investment property comprises land and buildings held to earn rent income, for resale or for capital appreciation. They are initially recognized at cost (including incidental and transaction costs) and are subsequently carried at market value based on valuations by external independent valuers or at the lower of cost and net realisable value for property due for resale whose sale price has been determined. Repairs and maintenance expenses are charged to the statement of changes in net assets available for benefits during the financial period in which they are incurred. Investment property is not subject to depreciation.

Changes in carrying amounts of the investment property between net asset statement dates are recognized through the statement of changes in net assets available for benefits.

k) Provisions for liabilities

Provisions are recognised when the scheme has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

l) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

**Kenyatta National Hospital
Staff Superannuation Scheme
Notes to the financial statements
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3 Contributions receivable	2022 Kshs	2021 Kshs
Employer - Normal	81,580,768	92,071,072
Members - Normal	37,082,167	41,850,487
Members - Additional Voluntary Contributions	9,600	9,600
Employer - Actuarial Deficit Financing	100,000,000	100,000,000
	<u>218,672,535</u>	<u>233,931,160</u>
<p>Contributions for actuarial deficit financing paid by the sponsor during the year relate to the sponsor's commitment of Kshs. 100 million per financial year in settlement of the existing actuarial deficit.</p>		
4 Benefits payable	2022 Kshs	2021 Kshs
Lumpsum benefits to and on account of leavers	543,230,329	523,467,440
Pension to and on account of retirees	354,380,764	302,195,092
Benefits recomputation and adjustment for underpayment in prior years following ruling by RBA Tribunal	465,275,865	-
	<u>1,362,886,959</u>	<u>825,662,532</u>
5 Investment income		
Rent income	71,061,013	76,325,788
Dividends receivable from equities	64,566,189	52,549,699
Interest receivable:		
- Treasury bonds	344,081,860	354,138,758
- Treasury bills	511,134	7,608,395
- Corporate bonds	1,213,928	4,029,706
- Fixed and call deposits	18,415,877	5,974,944
Gain (Loss) on disposal or maturity of investments		
- Local and regional equities	25,680,657	30,614,756
- Treasury bonds	(3,758,936)	1,642,145
- Private equity	-	1,822,843
Other income	163,769	432,099
	<u>521,935,491</u>	<u>535,139,134</u>
6 Change in fair value of investments	2022 Kshs	2021 Kshs
Local and regional equities	(297,468,282)	295,209,099
Offshore private equity	(10,729,548)	98,007,234
Treasury bonds	(112,919,760)	(19,553,357)
Investment property	40,000,000	-
	<u>(381,117,590)</u>	<u>373,662,976</u>

**Kenyatta National Hospital
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7 Investment expenses	2022 Kshs	2021 Kshs
a Investment management expenses		
Management fees	13,594,304	13,764,873
Custody fees	6,996,117	7,010,042
	<u>20,590,421</u>	<u>20,774,915</u>
b Property management expenses		
Management fees	4,610,839	5,051,085
Property repair, maintenance and other expenses	23,284,914	17,238,464
	<u>27,895,753</u>	<u>22,289,549</u>

Other property expenses aggregated with property repair and maintenance expenses relate to costs incurred in respect of valuation, security services, caretaker services, cleaning services, garbage collection services, waterbills, electricity bills, land rent and rates and other miscellaneous expenses incurred in respect of the scheme's properties.

c Impairment	2022 Kshs	2021 Kshs
Rent receivable	-	350,757

Rent receivable impaired relates to rent arrears left by tenants who vacated the scheme's property after distress and whose attached goods did not fully settle the arrears. Consequently, recovery of the arrears is unlikely.

8 Administrative expenses	2022 Kshs	2021 Kshs
RBA Levy	5,000,000	5,000,000
Administration fees	5,750,993	5,000,000
Actuarial fees	696,000	-
Audit fees	420,000	420,000
Trustee election costs	801,698	-
Legal and consultancy expenses	888,579	419,000
Trustee allowances	2,754,516	5,486,318
Trustee training expenses	11,445,894	1,697,579
Trustee indemnity insurance cover	840,013	895,512
Annual General Meeting (AGM) expenses	82,476	77,922
Office and other expenses	72,960	47,994
Bank and other transaction charges	1,721,850	1,521,011
	<u>30,474,979</u>	<u>20,565,336</u>

Kenyatta National Hospital
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Property Description	Balance b/fwd at 01/07/2021 Kshs	Additions Kshs	Capitalised expenses Kshs	Disposals at average cost Kshs	Revaluation gain/(loss) Kshs	Balance b/fwd at 30/06/2022 Kshs
L.R No. 209/12470 (Ngong Road Apartments)	554,200,000	-	-	-	5,000,000	559,200,000
L.R No. 1/872 (Waridi Court)	136,600,000	-	-	-	7,500,000	144,100,000
L.R No. 209/118/17/2(Chemelil Road)	228,800,000	-	-	-	(19,800,000)	209,000,000
L.R No. 209/74/8 & 209/74/9(Westlands Road)	886,200,000	-	-	-	40,000,000	926,200,000
Kajiado/Kaputiei North/(108933-109351)	652,500,000	-	-	-	6,903,261	659,403,261
Kajiado/Kaputiei North/(109376-109378)	37,500,000	-	-	-	396,739	37,896,739
	2,495,800,000	-	-	-	40,000,000	2,535,800,000

Investment property relates to Land and Building owned by the Scheme. They have been stated at assessed market values determined by Regent Valuers International (K) Limited, registered valuers.

Investment property on L.R No. 209/12470 (Ngong Road Apartments), L.R No. 1/872 (Waridi Court), L.R No. 209/118/17/2(Chemelil Road) and L.R No. 209/74/8 & 209/74/9(Westlands Road) are developed and have been rented out.

Investment property in respect of Kajiado/Kaputiei North/(108933-109351) and Kajiado/Kaputiei North/(109376-109378) comprise of 419 and 3 undeveloped parcels of land respectively that were sub-divided from two parcels of land reference nos: Kajiado/Kaputiei North/94869 and Kajiado/Kaputiei North/9122 which were acquired by the scheme for sub-division and re-sale.

	Value at 01/07/2021 Kshs	Less: Accrued interest b/fwd Kshs	Purchases at cost Kshs	Disposals at average cost Kshs	Change in fair value Kshs	Add: Accrued interest c/fwd Kshs	Value at 30/06/2022 Kshs
a) At fair value	4,747,737,087	(76,607,657)	584,598,967	(1,186,549,734)	(421,117,590)	66,059,076	3,714,120,149
Treasury bonds	3,078,172,348	(76,607,657)	521,445,839	(945,767,029)	(112,919,760)	66,059,076	2,530,382,815
Local and regional equities	1,371,934,626	-	25,433,256	(240,782,704)	(297,468,282)	-	859,116,896
Offshore private equity	297,630,113	-	37,719,873	-	(10,729,548)	-	324,620,438
	4,747,737,087	(76,607,657)	584,598,967	(1,186,549,734)	(421,117,590)	66,059,076	3,714,120,149
b) At amortised cost							
Treasury bills	12,143,617	(235,647)	9,309,881	(20,306,641)	-	26,588	937,798
Corporate bonds	-	-	14,510,035	-	-	325,190	14,835,225
Fixed and call deposits	179,239,915	(2,239,915)	4,097,100,000	(4,206,600,000)	-	53,241	67,553,241
	191,383,532	(2,475,562)	4,120,919,916	(4,226,906,641)	-	405,020	83,326,265
Total Financial Assets	4,939,120,619	(79,083,219)	4,705,518,883	(5,413,456,375)	(421,117,590)	66,464,096	3,797,446,414

**Kenyatta National Hospital
Staff Superannuation Scheme
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10 Financial assets (continued)

The following investment classes exceed 5% of financial investments of the scheme:

	2022	2021
	% holding	% holding
Treasury bonds	66.63%	62.32%
Local and regional equities	22.62%	27.78%

The scheme does not hold more than 10% of equity of any quoted company.

11 Contributions due

	2022	2021
	Kshs	Kshs
Outstanding for less than 30 days	582,988	10,761,818
Outstanding for more than 30 days	-	-
Less: Excess contributions paid in prior months	-	-
	<u>582,988</u>	<u>10,761,818</u>

Outstanding for less than 30 days relates to the month of June 2022.

12 Other receivables and accrued income

	2022	2021
	Kshs	Kshs
Investment income receivable (Dividends)	23,509,028	2,058,575
Due from KNH Trust Fund - Group Life Claims	19,209,618	19,209,618
Prepaid trustee indemnity insurance cover	69,897	71,152
Rent receivable	8,097,997	6,125,417
Less: Impaired rent receivable- prior year	(3,873,341)	(3,522,584)
Less: Impaired rent receivable-current year	-	(350,757)
	<u>47,013,198</u>	<u>23,591,421</u>

13 Cash at bank

NCBA bank custody a/c- GenAfrica Asset Managers Limited	17,517,668	2,439,333
NCBA bank custody a/c- Britam Asset Managers (K) Limited	41,658,346	50,563,563
	<u>59,176,013</u>	<u>53,002,896</u>

14 Benefits payable

Benefits due to members	<u>-</u>	<u>-</u>
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15 Other payables and accrued expenses

RBA Levy	5,000,000	5,000,000
Investment management fees	6,375,998	8,778,589
Custody fees	2,796,149	2,033,513
Property management fees	2,281,233	510,172
Administration fees	4,554,872	1,250,000
Audit fees and disbursements	420,000	420,000
Rent deposit	13,617,466	16,953,910
Other payables	1,728,434	1,728,434
	<u>36,774,152</u>	<u>36,674,619</u>

**Kenyatta National Hospital
Staff Superannuation Scheme
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16 Trust fund

The Trust fund holds benefits in respect of deceased members from which payments are made to beneficiaries on regular basis or as otherwise agreed by the trustees and the beneficiaries. The funds held under the Trust fund are invested separately and income earned thereof is credited to the beneficiaries accounts. As at year end, the Trust fund held the following financial assets stated at market value:

	2022
	Kshs
Cash at bank: NCBA Bank Custody account	891,906
Fixed and call deposits	24,832,394
Treasury bills	28,793,563
Treasury bonds	318,639,100
	<u>373,156,963</u>

17 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank, fixed and call deposits.

	2022	2021
	Kshs	Kshs
Cash at bank	59,176,013	53,002,896
Fixed and call deposits	67,553,241	179,239,915
	<u>126,729,254</u>	<u>232,242,811</u>

18 Taxation

Kenyatta National Hospital Staff Superannuation Scheme has been approved by the Kenya Revenue Authority and is exempt from income tax on its investment income.

19 Contingent liabilities

The scheme's contingent liabilities as at 30 June 2022 mainly comprised of the liability to pay future pensions and other benefits.

In addition, the scheme has been issued a tax demand notice of Kshs. 15,450,936 by the Kenya Revenue Authority relating to the financial years 2018 - 2020. The scheme has filed an objection to the tax demand and the matter is still under review by Kenya Revenue Authority.

20 Related party transactions

Related parties comprise of the trustees, administrator and the sponsor. Except for the contributions receivable (note 3) and the payment of fees and expenses (note 8), there were no other transactions carried out with related parties during the year.

21 Financial risk management disclosures

The scheme's activities expose it to a variety of financial risks, including credit risk and the effects of changes in foreign currency exchange rates and interest rates. The scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance, but the scheme does not hedge any risks.

Risk management is carried out by the investment managers of the scheme in accordance with policies approved by the Board of Trustees as documented in the approved Investment Policy Statement.

Market risk

(i) Foreign exchange risk

The scheme has investments in offshore private equity funds and is therefore exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro.

21 Financial risk management disclosures

(ii) Cashflow and fair value interest rate risk

The scheme does not hold any interest bearing financial liability or asset at a variable rate which would expose the scheme to cash flow interest rate risk.

(iii) Credit risk

Credit risk refers to the risk that a counterparty will default on his obligations resulting in financial loss to the scheme and arises principally from the scheme's investments, contributions receivable and other receivables. The investment manager manages this risk by assessing the credit quality of each investment, and making investment decisions taking into account its credit rating. Individual risk limits are set based on internal or external ratings in accordance with limits set by the trustees in the scheme's Investment Policy Statement.

(iii) Credit risk

In the financial year 2015/2016, Imperial Bank Limited and Chase Bank Limited were placed under statutory receivership by the Central Bank of Kenya due to unsound business practices. At the time of placement of the banks into statutory receivership, the scheme held cash deposits with Imperial Bank Limited and a 7-year Corporate Bond with Chase Bank. The cash deposits held in Imperial Bank and accrued interest thereon totaling Kshs. 54,156,421 and the corporate bond held in Chase Bank of Kshs. 4,000,000 were fully impaired in the previous financial years 2016/2017 and 2017/2018. The amounts were fully impaired due to uncertainty on their recoverability and will be credited back to the scheme in the event they are recovered in the future. The scheme has since recovered Kshs. 4,783,703 from Imperial bank. The recovered amounts were credited to the scheme as other income in the financial years 2019/2020 and 2020/2021 in which they were recovered.

Also, the scheme held rent receivables of Kshs. 8,097,997 as at year end of which Kshs. 3,873,341 related to rent arrears left by tenants who vacated under distress and whose recovery is unlikely since the goods attached did not fully settle the arrears. Consequently, the cumulative rent arrears amount of Kshs. 3,873,341 relating to former tenants and whose recovery is uncertain has been fully impaired.

The amounts held in Imperial Bank and Chase Bank less recoveries made as well as rent arrears whose recovery is unlikely represent significant credit risk exposure to the scheme as at year end.

No collateral is held for any of the scheme's investments.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash balances to cover anticipated benefit and expense payments. The trustees advise the investment managers on regular basis on the liquidity needs of the scheme in order for the investment managers to carry out investment decisions taking into account the scheme's liquidity needs.

21 Capital management

The primary objective of the Scheme's capital management is to ensure that the Scheme's funds are invested in assets that provide optimal returns while complying with the approved investment policy and the set statutory investment guidelines in order to support its business and maximise members value.

The scheme maintains an actively managed capital base to cover risks inherent in the business. The total accumulated fund as at 30 June 2022 was Kshs.6,403,244,461 (2021: Kshs.7,485,602,135).