

PERFORMANCE AUDIT REPORT ON

ADMINISTRATION OF PUBLIC SERVICE

PENSIONS SCHEME

BY

THE NATIONAL TREASURY



“There has been extensive delays in payment of benefits to Pensioners and Dependants”

APRIL 2019

VISION

Accountability and effective management of public resources

MISSION

To audit and report on the management of public resources for improved service delivery to the Kenyan people.

CORE VALUES

Integrity

Objectivity

Professionalism Competence

Innovation

Team Spirit

MOTTO

Enhancing Accountability

Foreword by the Auditor-General

I am pleased to present this performance audit report which assessed the Administration of the Public Service Pensions Scheme by the Pensions Department (PD) of the National Treasury. My Office carried out the audit under the mandate conferred to me by the Public Audit Act, 2015 Section 36. The Act mandates the Office of the Auditor –General to examine the Economy, Efficiency and Effectiveness with which public money has been expended pursuant to Article 229 of the Constitution.

Performance, financial and continuous audits form the three pillar audit assurance framework that I have established to give focus to the varied and wide scope of the audit work done by my office. The framework is intended to provide a high level of assurance to stakeholders that public resources are not only correctly disbursed, recorded and accounted for, but that the use of the resources results in positive impacts on the lives of all Kenyans. The main goal of our performance audits is to ensure effective use of public resources and promote services delivery to Kenyans.

Our performance audits examine compliance with policies, obligations, laws, regulations and standards, and whether the resources are managed in a sustainable manner. They also examine the economy, efficiency and effectiveness with which public resources have been expended. I am hopeful that corrective action will be taken in line with our recommendations in the report.

The report shall be tabled in Parliament in accordance with Article 229 (7) of the Constitution. I have as required in Section 36 (2) of the Public Audit Act, submitted the original copy of the report to Parliament. In addition, I have remitted copies of the report to the Cabinet Secretary, National Treasury and Planning, the Cabinet Secretary, Ministry of Public Service, Youth and Gender Affairs, the Principal Secretary, National Treasury and the Secretary Presidential Delivery Unit.

FCPA Edward R.O. Ouko, CBS

AUDITOR – GENERAL

23 April, 2019

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GLOSSARY OF TERMS

CEO	-	Chief Executive Officer
COB	-	Controller of Budget
DAG-SA	-	Deputy Auditor General - Specialized audit
ICT	-	Information and Communication Technology
ID	-	Identification Card
INTOSAI	-	International Organization of Supreme Audit Institutions
ISA	-	International Standards on Auditing
ISACA	-	Information Systems Audit and Control Association
IT	-	Information Technology
IPPD	-	Integrated Payroll and Personnel Database
KCB	-	Kenya Commercial Bank
KNHRC	-	Kenya National Human Rights Commission
KRA	-	Kenya Revenue Authority
MDAs	-	Ministries, Departments and Agencies
NT	-	National Treasury
OAG	-	Office of the Auditor General
PD	-	Pensions Department
PIN	-	Personal Identification Number
PMIS	-	Pensions Management Information System
PSPS	-	Public Service Pension Scheme
RBA	-	Retirement Benefits Authority
SAI	-	Supreme Audit Institutions
SQL	-	Structured Query Language
TSC	-	Teachers Service Commission
WCPS	-	Widows and Children Pension Scheme

EXECUTIVE SUMMARY

Introduction

1. Pension is an amount of money an employer pays on a monthly basis to an employee who is no longer in service upon; attaining mandatory retirement age, voluntary retirement on attainment of 50 years of age, injury, ill health or abolition/reorganization of office; or paid to a deceased officer's surviving dependents. A gratuity is an amount of money paid in lump sum to retired officers or their dependants. Officers who exit the public service are expected to receive gratuities, pension and other allowances as terminal benefits for the number of years of services rendered. This aims at ensuring a secure future for pensioners and dependants and enables them access basic services such as health care, shelter and education.
2. The payment of pensions and other related benefits to Civil Servants in Kenya is governed by the Pensions Act (Cap.189), plus other nine Acts of Parliament that make provisions for granting and regulating the payment of pensions, gratuities and other allowances in respect of the public service for officers under the Government of Kenya. The Pensions Department is responsible for processing and paying retirement benefits, that is pensions and gratuities to civil servants, teachers, military personnel, members of parliament, retired president and their legal personal representatives and dependants. These benefits are paid under the Public Service Pensions Scheme (PSPS) which is a non-contributory pension scheme.

Why efficient processing and payment of pension benefits is important

3. The Auditor-General authorized the audit after reviewing the following factors:
 - i. The government had spent Ksh 199 billion on payment of pensions and gratuities to pensioners and dependants between 2012/2013 and 2016/2017 financial years. On average, this expenditure has been increasing at an average rate 25% every year over this period.
 - ii. A report dated January 2016 from the Commission on Administrative Justice (Office of the Ombudsman) reported on systematic issues inherent in payment of pensions, gratuities and other benefits. The issues in question ranged from unresponsiveness, discourtesy, inefficiency, delay, refusal to pay, discrimination and abuse of power in the processing of

retirement benefits.

- iii. The Vision 2030 identifies the role of retirement benefits as crucial in rendering financial and social security in retirement, thereby providing a secure future for pensioners and their families especially given the breakdown of traditional support systems that catered for elderly members of the community during times of distress.
- iv. There was delay to operationalize the Superannuation Act, 2012, which was intended to change the pension scheme from non-contributory to contributory. This was meant to ease the burden of the government on payment of pension. The initial commencement date for the contributory scheme was 01 July 2012.

Audit Objective

4. The main objective of the audit was to assess the extent and the reasons for delays in payment of gratuity and pension to pensioners and dependants, and specifically to assess the extent and reasons for delays in submitting individual pension claims by the ministries and departments; the extent and reasons for delays in processing and payment of pensions and gratuities by the Pension Department and the reasons and impact on delays in operationalizing the Contributory Pension Scheme.

What the Audit Examined

5. The audit team examined the delivery of services to pensioners and dependants in relation to the administration of the Pensions Scheme at the Pensions Department. The audit team also examined sampled files in a sample of ten Ministries and Departments. The audit covered a period of five financial years; from 2012/2013 to February, 2018.

Findings of the Audit

- a) **Unexplained delays in processing and payment of pensions and gratuities by Pensions Department**
6. According to Citizen Delivery Charter for the PD, processing and payment of pension benefits is expected to take 21 days from the time a duly completed and supported claim is accepted at PD. The capture date in the PMIS indicates the date the claim is enrolled for processing. From a sample of 581 files drawn from 10 ministries/ departments which had been processed and paid in the financial years 2012/13 to 2016/17, only 108(19%) files of

the claims were processed and paid within the stipulated period of 21 days. 473 (81%) files of the claims delayed.

7. Investigations on the reasons for the delay showed that there was no indication from the files or valid explanation as to why 372 (79%) of these claims were delayed. Only 101 (21%) of the claims had reasons which included errors and omissions, late submission of documents from the ministries/ departments, pensioners and dependants, late clearance of Government liability by the pensioner, use of banks that are not recognized by the PD, and a combination of two or more of the above reasons.
8. The effect of delayed processing and payment of claims is that pensioners and dependants are not able to access their money in time to cater for their basic and other needs. This affects their social welfare and can be depressing considering that they are no longer in employment thus no steady income they previously received.

b) Late submission of claims by ministries and departments

9. According to the Human Resource Policies and Procedures Manual for Public Service, 2015, claims for normal retirement should be submitted at least 9 months before officer's date of exit to allow verification of claims and correction of errors when the officer is still in service. Claims for officers whose mode of exit is marriage, on medical grounds, death or public interest should be submitted to the PD earliest time possible after the said exit. In addition, for a claim file to be accepted by the PD for processing, it must be submitted by the authorized officer and must be free from errors and be complete with the necessary support documents.
10. Analysis of the 503 normal retirement files indicated that only 10 (2%) files were submitted at least 9 months to exit date as required by the law. Though 106 (21%) claims were submitted within 9 months before the exit date, majority of the claims i.e. 295 (59%) were submitted within a year after the exit date while 92 (18%) claims were submitted over a year after the officer had retired from service. Review of 104 files for officers whose mode of exit was marriage, medical grounds, death and public interest revealed that, only 6 (6%) claim files were prepared and submitted within 6 months from the date of officer's exit, 21(20%) claims took between 6 months and 1 year, while 77 (74%) claims took more than 1 year to be submitted to the PD for

processing payments.

11. In addition, review of seven out of nine incoming claims registers for the financial years 2015/16 and 2016/17 showed that out of the 12,965 claims received, only 4,985 (38%) were passed the first time they were submitted to the PD. 7,980 (62%) claims had errors or lacked supporting documents and had to be returned to the ministries/departments of origin with remarks on the amendments or additional supporting documents.
12. While the causes for delays in submission of claims files to the PD could be attributed to errors/ omissions, delayed submission of documents by the pensioners and failure to clear Government liability, there was no indication from the files or any valid explanation provided for delays in submitting majority of the files. Interviews conducted during the audit revealed that late submission of claims and submission of incomplete claims was also attributed to lack of sensitization of pensioners, dependants and the employers by the PD. This was evidenced by the fact that the PD lacks a communication strategy for pensioners and dependants, there is inadequate sensitization of employers by Pension Department and the Ministries/Departments issue incomplete retirement notices which does not indicate all the documents required and the set timelines.
13. The effect of delays in submission of claims and submission of incomplete and/or erroneous claims is the prolonged time pensioners have to wait to receive their pensions benefits since this further delays commencement in processing of claims by the PD.

c) Inadequacies in the Pensions Management Information System

14. The Pensions Management Information System (PMIS) is the system used by the PD in processing and payment of pension benefits. The most important characteristics of any Management Information System are those that give decision-makers confidence that their actions will have the desired consequences. Specifically, the system should ensure relevance, accuracy, usefulness, timeliness and completeness. It should therefore eliminate data duplication, reduce errors, enhance data security, reliability, robustness and increase user confidence.
15. As at February 2018 the PMIS contained 306,712 records for pensioners and integrity tests using Structured Query Language (SQL) and analysis

of these records indicate that the system falls short of characteristics of a good system since it has allowed; Irregular enrollment of pensioners, payment of lump sum before officers' date of exit, shared Identification Numbers (IDs), irregular IDs and Tax Personal Identification Numbers (PINs). Other irregularities noticed include; Shared Bank Account numbers and Officers not in Permanent and Pensionable Terms of service being enrolled into the Pensions Management Information System (PMIS) for payment of pension. The summary of the type of irregularity, the number of claimants affected and the amount of money paid out is indicated in the table below.

Type of irregularity	Total No. of claimants	Amount paid in Ksh
1. Claimants irregularly enrolled in the system	419	555,935,178
2. Claimants enrolled on dates beyond 2018	273	26,964,826
3. Lump sum paid before exit date	962	1,617,667,312
4. Claimants with irregular and no tax pin	221,590	44,067,511,002
5. Claimants with irregular IDs	7,166	-
6. Claimants with shared IDs	232	152,849,767
7. Claimants with shared bank accounts	29,387	20,961,070,886
8. Claimants not on Pensionable terms of service	213	492,168,318
Total	260,242	67,874,167,290

16. The audit attributes the system anomalies to lack of separation of duties for PMIS administration and lack of system triggers which could detect and flag such irregular entries. The effect of the anomalies contained in the PMIS is irregular payments that have compromised the operations and has resulted to many beneficiaries waiting for too long to get paid yet the provision of funding for payment of pensions has been at 99%.

Lack of procedures to identify deceased pensioners and dependants

17. Section 20 of the Widows and Children Pensions Act

requires the PD to obtain proof that the claimant of pension is alive and in case beneficiaries fail to furnish the department with such proof, payment may be refused until this requirement is met. Upon death of pensioners and dependants, the PD is therefore supposed to remove their names from the payroll in order to stop further payments to their bank accounts. The audit revealed that pensioners and dependants do not present life certificates and neither do the PD follow-up to have them submitted. On the contrary the PD relies on expectation that the family of the pensioner will report the death when it occurs and that banks will return non-collected pension dues to the Accounts Section.

18. However, these declarations are usually not made, or are not made on time especially in cases where family members have access to the bank accounts of the deceased pensioners. Review of a sample of 271 returns from Post Bank of Kenya and the Kenya Commercial Bank for the period between 2012/13 and 2015/16 revealed that the PD continued to pay into the accounts of deceased pensioners and dependants for a period ranging from one month to seven years. There is therefore a likelihood that; banks do not return all the non-collected pension payments and; dependants of deceased pensioners continue to receive payments indefinitely.

d) Delay in operationalization of the contributory scheme

19. The Civil Service Pension Scheme is currently operated under a non-contributory defined benefit plan under the Pensions Act, Cap 189. The scheme is not funded and no assets have been set aside or invested. Pension benefits are paid out of the Consolidated Fund Services. The Public Service Superannuation Scheme Act was enacted in 2012 to establish the Contributory Public Service Superannuation Scheme for providing retirement benefits to persons in the public service and for connected purposes. The Superannuation is expected to be mandatory for all pensionable employees below 45 yrs of age and the new officers joining Government.

20. Despite the pension burden being on the increase at an average annual rate of 25% during the period 2012/13 to 2016/17, the Government has not implemented the Contributory Scheme that was meant to ease the pensions burden through members' contributions.

Conclusions

21. There are extensive delays in processing and paying pension benefits by the Pensions Department. There was no valid explanation provided for most of the delays except that for some files, acceptance of erroneous and incomplete claims from ministries/ departments hampered timely processing as files moved back and forth for further action and documentation.
 22. There are extensive delays in preparation and submission of pension claims to Pensions Department by Ministries/Departments. No clear and valid reasons were given for most of these delay except that some delays could be attributed to; Lack of sensitization to pensioners and dependants by Pensions Department about the pension benefits and the required documentation, most of the staff involved in claims preparation in ministries/departments have not been adequately trained, retirement notices issued by Ministries/ Departments to the retiring officers do not stipulate all the documents required for preparation of claims and the time frame within which these documents should be submitted.
 23. The Pension Management Information System has not been offering foolproof support in the processing and payment of pensions and gratuities since the system has allowed irregular entries and duplications in the information entered and processed.
 24. The Government may have been losing money sent to bank accounts of deceased pensioners and dependants since there are no measures put in place by the Pensions Department to seek proof of life that would help identify deceased pensioners and dependants.
 25. The National Treasury has not yet implemented the Contributory Pensions Scheme and this has led to an annual increase in funds required from the Consolidated Funds Services Account to meet pension obligations. The Government has therefore been losing out on the 7.5% employees' contribution towards the pension budget.
- complete claims, the Pensions Department should put in place a strategy to regularly educate the pensionable employees, pensioners and dependants on the benefits entitled to them, the documents and timeliness required in submission of the claims.
28. To enhance timeliness and accuracy in preparation of claims, the Pensions Department together with all ministries and departments should develop an all-inclusive programme for training officers involved in claims preparation in ministries/ departments. The ministries/departments should always ensure that the staff handling preparation of these files have been trained and attend regular workshops for pension related issues.
 29. To ensure timeliness and completeness in preparation of claims, the ministries/departments should attach to the retirement notices the PD checklist listing all the documents required to support a claim and give time frame within which the documents should be submitted. The National Treasury should consider issuing a circular to this effect.
 30. To enhance data integrity, the National Treasury should consider system configurations that will ensure the Pensions Management Information System has; constraints that prevent invalid data and forbid duplicate values, have a field to capture the payroll number from the IPPD to ensure tracking of Government employees in the payroll, and requirement for the vital credentials like ID and tax PIN. There should also be in place an ICT policy specifically to govern the operations of the Pensions Management Information System.
 31. The National Treasury should enforce follow up by the PD on filling of life certificates to identify deceased pensioners and dependants and hence ensure that payment is only made to legitimate persons. Collaboration with the Civil Registration Department should also be considered as they can provide monthly data of registered deaths, identify deceased pensioners and dependants and hence ensure payments are only made to legitimate persons.
 32. The National Treasury should rethink the implementation of the Contributory Pensions Scheme to ensure that the Government employees that are below 45 years in age start contributing for their pension. This will eventually ease the pension burden for the Government and ensure timely payments of pension dues by the Scheme manager.

Recommendations

26. The National Treasury should hold the Pensions Department accountable for the delays in processing claims to ensure that pensioners and dependants access their benefits within the stipulated time.
27. To ensure submission of timely, accurate and

CHAPTER 1

1.0 BACK GROUND OF THE AUDIT

Introduction

- 1.1 The Office of the Auditor-General conducted a Performance Audit on the Administration of the Public Service Pensions Scheme by the Pensions Department (PD) of the National Treasury. Section 36 of the Public Audit Act 2015, gives the Auditor - General the mandate to conduct Performance Audits and report to Parliament on the economy, efficiency and effectiveness with which public money has been expended pursuant to Article 229 of the Constitution.
- 1.2 Pension is an amount of money an employer pays on a monthly basis to an employee who is no longer in service upon; attaining mandatory retirement age, voluntary retirement on attainment of 50 years of age, injury, ill health or abolition/reorganization of office; or paid to a deceased officer's surviving dependents. A gratuity is an amount of money paid in lump sum to retired officers or their dependants. Officers who exit the public service are expected to receive gratuities, pension and other allowances as terminal benefits for the number of years of services rendered. This aims at ensuring a secure future for pensioners and dependants and enables them access basic services such as health care, shelter and education.
- 1.3 The payment of pensions and other related benefits to civil servants, teachers, military personnel, members of parliament, retired presidents and legal personal representatives and dependants is administered by the PD of the National Treasury. This is done in line with the provisions of the Pensions Act (Cap.189), of the Laws of Kenya. Currently payment of pension benefits is operated through the Public Service Pensions Scheme (PSPS)¹ which is a non-contributory pension scheme.
- 1.4 Besides the Pensions Act, the pensions benefits are payable under nine other Acts of Parliament² based on different pension formulae and considering the length of service, terms of service and the salary one was receiving at the time of

leaving service. These benefits fall under eight categories which include; normal retirement, service gratuity, compassionate gratuity, death gratuity, dependants pension, marriage gratuity, injury pension and annual allowance. The Kenya Public Service Pension Scheme covers approximately 406,000 civil servants, teachers, police and prison staff and over 200,000 pensioners.

- 1.5 Retirement benefits are payable to those leaving the service on attainment of 50 years of age; attainment of the mandatory retirement age of 60 years; re-organisation/abolition of office; termination of service in public interest; retirement on medical grounds; resignation upon marriage for female officers and completion of 12-20 years for subordinate officers, the police, administration police, prison and forest guards.

Motivation for the Audit

- 1.6 The Auditor-General authorized the audit after reviewing the following factors:
 - i. The government had spent Ksh 199 billion on payment of pensions and gratuities to pensioners and dependants between 2012/2013 and 2016/2017 financial years. The expenditure has been increasing at an average rate 25% every year over this period.
 - ii. A report dated January 2016 from the Commission on Administrative Justice (Office of the Ombudsman) reported on systematic issues inherent in payment of pensions, gratuities and other benefits. The issues in question ranged from unresponsiveness, discourtesy, inefficiency, delay, refusal to pay, discrimination and abuse of power in the processing of retirement benefits.
 - iii. The Vision 2030 identifies the role of retirement benefits as crucial in rendering financial and social security in retirement, thereby providing a secure future for pensioners and their families especially given the breakdown of traditional support systems that catered for elderly members of the community during times of distress.
 - iv. There was delay to operationalize the Superannuation Act, 2012, which was intended to change the pension scheme from non-contributory to contributory. This was meant to ease the burden of the government on payment of pension. The initial commencement date for the contributory scheme was 01 July 2012.

1 Hereby referred in this report as 'The Pensions Scheme'

2 The nine acts of parliament are: Pensions (Increase) Act; Provident Fund Act; Widows' and Orphans' Pensions Act; Asian Widows' and Orphans' Pensions Act; Asians Officers' Family Pensions Act; Widows and Children's Pensions Act; Parliamentary Pensions Act; Retirement Benefits Act and Kenya Defence Forces Act.

CHAPTER 2

2.0 DESIGN OF THE AUDIT

Audit Objective

- 2.1 The main objective of the audit was to assess the extent and the reasons for delays in payment of gratuity and pension to pensioners and dependants, and specifically to assess;
- The extent and reasons for delays in submitting individual pension claims by the ministries and departments.
 - The extent and reasons for delays in processing and payment of pensions and gratuities by the Pension Department.
 - The reasons and impact of delays in operationalizing the Contributory Pension Scheme.

Audit Questions

- 2.2 The main audit question that guided the team in carrying out the audit was; “To what extent are payments of gratuities and pension benefits delayed and what are the reasons for delays?” The sub questions were;
- How long do the ministries and departments take to prepare and submit individual claims and in case of delays what are the reasons?
 - How long does Pensions Department take to process and pay gratuity and pension and in case of delays what are the reasons?
 - Why has the National Treasury delayed in operationalizing the Contributory Public Service Superannuation Scheme and what are the cost implications on the pension payments?

Audit Scope

- 2.3 The audit team examined the delivery of services to pensioners and dependants by the Pensions Department. We also examined sampled files in a sample of ten Ministries and Departments that is, Ministry of Foreign Affairs, National Treasury, Health, the Department of Prisons, Transport, Water, Investment and Industry, Social Protection, Judiciary and the Teachers’ Service Commission. The criteria used to select the sample was based on; number of officers in the Payroll as at 31st October 2015 where the team selected organizations at the top, middle and lower levels, ministries that have been merged,

ministries that have never been merged and the largest PD client.

- 2.4 The scope of the audit was from financial year 2012/2013 to February 2018. The areas of focus were timeliness and completeness of the claims submitted to the PD by ministries and departments; timeliness in processing and payment of pensions and gratuities; the measures put in place by the PD to ensure that the Pensions Management Information System (PMIS) fully supports the processing and payment of pensions and gratuities; and the cost implications of delays in the implementation of the contributory pension scheme.

Methods Used in Gathering Audit Evidence

- 2.5 The team conducted the audit in accordance with performance auditing guidelines issued by the International Organization of Supreme Audit Institutions (INTOSAI) and audit policies and procedures established by the Office of the Auditor- General (OAG). The guidelines and policies fulfil the requirements of the International Standards on Auditing (ISA) that requires that the auditor and the Supreme Audit Institution (SAI) be independent, possess required competence and exercise due care to provide a guide on execution and reporting audit findings. The following methods were used for data collection;

Documentary Review

- 2.6 To ascertain whether the PD has fulfilled its mandate in the administration of the Pensions Scheme, the team reviewed the National Treasury’s Strategic Plan 2013/14 - 2017/18, Pension Acts, the PD Service Charter and the Human Resource Policies and Procedures Manual for the Public Service, May 2016. The team also reviewed records maintained by ministries/departments with regard to timeliness in submission of duly completed claims to the PD and records maintained by the PD with regard to processing and payment of pensions and gratuities.

Interviews

- 2.7 To gain a better understanding and knowledge of systems and operations of the PD with regard to Administration of the Pensions Scheme and preparation and submission of claims by the ministries/departments the team conducted interviews with various PD staff and staff in charge of preparation of claims at sampled ministries/ departments. The team also interviewed sampled pensioners, potential pensioners and dependants

to obtain their view on the process of preparation and payment of their pension dues.

System Interrogation

2.8 The team extracted data from Pensions Management Information System using Structured Query Language (SQL) commands and interrogated the integrity of the system data using Microsoft Excel to generate sample output. The evidence collected was analysed using IDEA and Microsoft Excel analysis tools and presented using tables as appropriate.

Assessment Criteria

2.9 The assessment criteria used to assess the PD in the administration of the Pensions Scheme and the ministries/departments in preparation and submission of claims includes:

- i. According to the Citizen Service Delivery Charter for the Pensions Department, processing and payment of retirement and dependants' benefits is expected to take 21 working days from the time a claim is submitted to the PD.
- ii. The Human Resource Policies and Procedures Manual for the Public Service, May 2016 states that, in cases of normal retirement, submission of complete documents for processing the benefits should be done at least 9 months prior to officers' retirement date by the ministries/ departments.
- iii. According to the PD Citizens Delivery Charter, Retirement benefits should be supported by letters of appointment, confirmation, promotion, upgrading and retirement; last pay slip, Integrated Payroll & Personnel Database (IPPD) deletion sheet, certified copy of the identification card, bank details form, income tax clearance certificate, option form to show whether pensioner opts to be paid reduced or unreduced pension and form indicating next-of-kin. In processing dependants' pension the following documents are required; duly completed widow/widower declaration form or a guardianship certificate form, certified copy of the identification card of the claimant, original death certificate and children's birth certificates and marriage certificate, letter from area chief/ administration, bank details form and letters from schools or college for the children.
- iv. One of the PD's functions is to carry out public communication with retired officers and their dependants on the Pensions Scheme and administration of their benefits.

- v. The PD has a role of advising the Government on matters relating to Pensions administration. This includes the ministries and departments whose role is to prepare and submit claims.
- vi. Section 20 of the Widows and Children Pensions Act (Cap 195) requires Pensions Department to obtain proof that the claimant of pension is alive and in case beneficiaries fail to furnish the department with such proof, payment may be refused until this requirement is met.
- vii. According to Information Systems Audit and Control Association journal, based on best practice, Segregation of duties is a central issue for enterprises to ensure compliance with laws and regulations. The importance of Segregation of duties arises from the consideration that giving a single individual complete control of a process or an asset can expose an organization to risk. Data administration separates the business aspects of data resource management from the technology used to manage data. Best practice requires separation of duties for database administrator, system administrator, programmer and network and security personnel. Separation of duties helps to ensure accountability in the management of the system.
- viii. The Super Annuation Act, 2012 establishes a Contributory Public Service Superannuation Scheme and article 5(1) indicates that it is mandatory for a person who at the commencement of the Act, is employed in the public service on permanent and pensionable establishment and has not attained the age of forty-five years. Further, article 6(1) indicates that every member of the Scheme shall make a mandatory contribution to the Scheme at the rate of seven and a half per cent (7.5%) which shall be deducted from his monthly pensionable emoluments; and article 6(2) specifies that the Government shall make a contribution for each member of the Scheme at the rate of at least fifteen per cent (15%) of the member's monthly pensionable emoluments.

2.10 The sources of the audit criteria are outlined in **Annexure 1**

CHAPTER 3

3.0 DESCRIPTION OF THE AUDIT AREA

3.1 The National Treasury has five Directorates which are further divided into technical departments. The Pensions Department is one of the technical departments under the Directorate of Portfolio Management of the National Treasury.

Statutory Mandate for Pensions Department

3.2 The National Treasury derives its mandate from the Constitution of Kenya, 2010 and the Pensions Act (CAP 189) which makes provision for granting and regulating gratuities, pensions and other allowances in respect of public service officers. This mandate is achieved through performance of the following main functions:

- i. Processing and payment of pensions, death gratuities and other benefits to retired, deceased or terminated officers in the public service as well as their dependants and legal representatives. This includes teachers, military personnel and members of parliament.
- ii. Implementation and periodic review of the pension Acts, the Service Commissions Act, other relevant statutes and the civil service code of regulations as it relates to pensions.
- iii. Advising the government on the public service pension policy.
- iv. Scrutinizing and processing of pension claims and verification of information relating to retirement documents.
- v. Authorization of refunds under Widows and Children Pension Scheme (WCPS).
- vi. Carrying out public communication with retired officers and their dependants on Public Service Pension Policy and administration of their benefits.

Process description for processing of pensions claims

A. Process description for normal retirement claims

- 3.3 Normal retirement claims are made for officers who exit the public service through:
- i. retirement on age grounds;
 - ii. re-organization/abolition of office;
 - iii. termination of service in public interest;

- iv. retirement on medical grounds;
- v. female officers on resignation upon marriage and
- vi. subordinate officers, the police, prison and forest guards on completion of 12 – 20 years in service.

Forms GP. 178 which contains summary details of the retiree and GP. 213 that gives summary contributions by the employee towards the WCPS are received from the ministries and departments at the claims section of the PD.

3.4 These forms are accompanied by the following documents;

- i. letters of first appointment, confirmation, promotion, upgrading and retirement,
- ii. last pay slip,
- iii. IPPD deletion sheet,
- iv. option form to show whether pensioner opts to be paid reduced or unreduced pension,
- v. certified copy of ID,
- vi. bank details form and
- vii. income tax clearance certificate.

Once received the claims go through data capture where pensioners' service details are keyed into the system and a pension number electronically generated for each claim. At assessment level details captured in the system are confirmed against those in individual physical files.

3.5 The claim then moves to audit level 1 and 2 where the Controller of Budget Office examines and confirms the accuracy of the assessor's calculations, checks whether relevant Acts have been applied and if satisfied signs and rubber stamps the pension claim. Directorate - where the claims are approved by designated officers on behalf of the Director of Pensions and accounts section where voucher preparation, authorization and approval is done.

B. Process description for preparing dependants claims

3.6 These claims are prepared for dependants either of officers who die in service or of deceased pensioners. For officers who die in service, benefits are paid in two parts; the death gratuity which is a lump-sum paid through the Public Trustee and

dependants' pension which is paid to widows and children of the deceased officer (WCPS). However, as at 1st July, 2017 through Circular No. PEN/CLAIMS/GEN/2017(18) dated 30th May 2017, payment of death gratuity was revised to enable payment directly to a nominated dependant(s).

3.7 Dependants of a deceased pensioner receive 5PN which is pension equivalent to what the pensioner was receiving on monthly basis before his/her death for five years and/or Widows and Children Pension Scheme (WCPS) benefits if the deceased was a contributor to the scheme. These claims are prepared by employers in case of death of an officer or the dependants in case of death of a pensioner.

3.8 The claims are received at the claims section of PD accompanied by the following documents;

- i. duly completed widows' declaration form or a guardianship certificate form,
- ii. certified copy of ID card of the claimant,
- iii. original death certificate and children's birth certificates and marriage certificate, letter from area chief/administration,
- iv. bank details form and

- v. letters from schools or college for the children.

The claim then goes through data capture where pensioners' service details are keyed into the system and a pension number electronically generated for each claim. At assessment level details captured in the system are confirmed against those in individual physical files.

3.9 The claim then moves to audit level 1 and 2, where the Controller of Budget Office examines and confirms the accuracy of the assessor's calculations, checks whether relevant Acts have been applied and if satisfied signs and rubber stamps the dependent claim. Directorate and accounts section where voucher preparation, authorization and approval is done. Once the death gratuity is paid for officers who die in service, the claim is taken back to data capture for processing of dependants' pension.

Sources of Funding

3.10 The payment of pensions and gratuities is funded from the Consolidated Funds Services account which is the main bank account of the Government. During the period 2012/13 to 2016/17, over Ksh 199 billion was used on payment of pensions and gratuities as shown in **Table 1**.

Table 1: Budgeted Funds and Total Expenditure for Payment of Pensions Benefits

Financial Year	(A) Budgeted Amount in Ksh	(B) Actual Receipts in Ksh	(C) Actual Expenditure in Ksh	(B/A) % Receipts over Budget	% Annual Expenditure Increase
2012/13	24,853,285,347	25,030,000,000	24,860,746,967	101%	-
2013/14	28,146,892,198	27,710,000,000	27,881,088,906	98%	12%
2014/15	35,356,038,229	35,081,980,000	35,270,693,993	99%	27%
2015/16	51,691,127,700	50,860,000,000	51,250,699,446	98%	45%
2016/17	60,691,127,700	58,487,602,400	59,757,695,779	96%	17%
Total	200,738,471,174	197,169,582,000	199,020,925,091		
Average				99%	25%

Source: OAG Analysis of financial data for PD

3.11 Analysis of budget figures in **Table 1** reveals that over the last 5 financial years, the PD's budget was almost fully funded at an average of 99% and that all the funds received were used up. In five financial years, 2013/14 to 2016/17 the department used slightly more than was received and the explanation provided was that the extra funds were from the pensions monies returned by banks for pensioners and dependants who did not make withdrawals as a result of closure of accounts or upon death of the beneficiary. The table also indicates that expenditures have been rising at an average rate of 25% over the last five years, the greatest increase being 45% in year 2015/16 compared to 2014/15.

CHAPTER 4

4.0 AUDIT FINDINGS

4.1 Payment of pensions and gratuities to retirees or dependants is expected to guarantee continued financial and social support to the pensioners and dependants. The PD should therefore ensure efficient and effective processing and payment of pensions and gratuities. During the period 1st July 2012 to 30 June 2016 Pensions Department processed a total number of 44,575 out of the 45,766 claims lodged which translates to 97% of the claims lodged.

4.2 However, evidence gathered during the audit revealed the following weaknesses in the processing and payment of pension and gratuities to beneficiaries:

- i. Delays in processing and payment of pensions and gratuities claims that have been received by the PD;
- ii. Late submission of claims and submission of incomplete and/or erroneous claims to the PD by the ministries/departments;
- iii. Inadequacies in the Pension Management Information System;

- iv. Lack of procedures to identify deceased pensioners and dependants; and
- v. Delay in operationalization of the Contributory Pension Scheme.

A. Unexplained delays in processing and payment of pensions and gratuities by the Pensions Department.

4.3 According to Citizen Delivery Charter for the PD, processing and payment of pension benefits is expected to take 21 days from the time a duly completed and supported claim is accepted at the PD. The capture date in the PMIS indicates the date the claim is enrolled for processing. Review of 731 claim files from the sampled 10 ministries and departments revealed that 581 (79%) files had complete information showing the capture date and the date the file was stamped as paid. 144 files had either or both of these critical dates missing making it impossible to establish how long the files took to be processed while 6 claims were indicated to have been paid before stamp date which is irregular. Of the 581 files that had complete information 108 (19%) claims were processed and paid within the stipulated 21 days, 377 (65%) claims took between 22 days and 6 months, 79 (14%) took between 6 months to a year while 17 (3%) took over one year to be processed and paid as shown in **Table 2**.

Table 2: Days Taken by the PD to Process Claims

Ministry / Department	Days taken between capture and stamp pay					Total with complete information	Claims without capture date, stamp date or both	Claims paid before stamp date	Total number of files reviewed
	Paid within 21 days	22 days to 6 months	6 months to 1 year	Over 1 year					
Prisons	16	44	5	2	67	10	1	78	
Investment	3	18	3	2	26	9	1	36	
Social Protection	3	13	2	5	23	10	0	33	
National Treasury	17	42	7	1	67	12	3	82	
Transport	5	18	2	1	26	8	0	34	
Water	12	29	1	0	42	12	0	54	
Foreign Affairs	3	20	9	2	34	13	0	47	
Health	12	38	7	1	58	19	0	77	
Judiciary	5	6	1	1	13	19	0	32	
TSC	32	149	42	2	225	32	1	258	
Total	108	377	79	17	581	144	6	731	
% of files with complete info.	19%	65%	14%	3%					

Source: OAG analysis of time taken to process and pay claims by the PD

4.4 Further, analysis of total time taken by the PD to process and pay claims revealed that the claims took longer in some specific processing stages. There was an average of 46 days' delay between claim submission to the PD and stamping to acknowledge acceptance of a claim; 48 days' delay before capturing the stamped claim into the system; and 26 days' delay between stamping 'paid' and actual payment of a claim. The analysis of time taken in these stages is as shown in **Table 3**.

Table 3: Weighted Average days claims Took in Various Sections of PD³

Ministry/ department	Time between submission and acceptance of claims			Time between stamping of claims and capture into the system			Time before actual payment of a claim after it has been stamped 'paid'		
	No. of claims	Average time	Total average time	No. of claims	Average time	Total average time	No. of claims	Average time	Total average time
Prisons	54	69	3726	65	45	2925	16	23	368
Investment	31	44	1364	29	38	1102	10	42	420
Social Protection	21	68	1428	23	45	1035	9	14	126
National Treasury	46	27	1242	70	32	2240	16	31	496
Transport	23	40	920	31	86	2666	8	23	184
Foreign Affairs	10	41	410	27	56	1512	13	20	260
Health	32	45	1440	57	57	3249	24	26	624
Judiciary	17	17	289	21	46	966	8	17	136
TSC	77	39	3003	242	48	11616	99	28	2772
Water	30	59	1770	37	43	1591	10	14	140
Total	341		15,592	602		28,902	213		5,526
Weighted Average			46			48			26

Source: OAG analysis of time taken by claims in various sections of PD

4.5 Out of the 581 claims that had complete information, 473 (81%) claims had not been paid within the stipulated 21 days. Investigations on the reasons for the delay showed that there was no indication from the files or valid explanation as to why 372 (79%) of these claims were delayed. Only 101 (21%) of the claims had reasons which included errors and omissions, late submission of documents from the ministries/departments, pensioners and dependants, late clearance of Government liability by the pensioner, use of banks not prequalified by the PD, and a combination of two or more of these reasons as shown in **Table 4**.

³ Since not all 731 files had complete information, separate sets of files, depending on information available, were used to calculate timing for the 3 categories indicated in the table.

Table 4: Reasons for Delay in Processing of Claims

Reasons for delays in processing of claims	No. of files	In %
1. Errors/omissions	22	5%
2. Late submission of documents from the ministry	19	4%
3. Pensioner's delayed submission of required documents	6	1%
4. Dependants' delayed submission of required documents	11	2%
5. Pensioner had not cleared Government liability	20	4%
6. A combination of more than one of the above issues	21	4%
7. No reason from the files	372	79%
8. Use of banks not prequalified by PD	2	0%
Total files with complete information	473	

Source: OAG analysis for reasons for delay in processing of claims for normal retirement

4.6 In the event that a claim is returned to the Ministry/ Department by the Pensions Department, there should be a communication indicating the exact requirement or omission that needs to be acted upon or rectified by either the pensioner or employer. The fact that majority of the delayed claims did not have such a communication means that the reason for delay could only be attributed to inefficiencies within the PD. That claims are received by the PD with errors/omissions and missing documentation means there is either lack of keenness by the receiving officers or possibility of loss of supporting documents during claim movement. This affects the processing time since the erroneous ones are later returned to ministries and departments for correction while those with missing documents pend at the PD to await the ministries/departments to avail these documents.

4.7 The effect of delayed processing and payment of claims is that pensioners and dependants are not able to access their money in time to cater for their basic and other needs. This affects their social welfare and can be depressing considering that they are no longer in employment thus no steady income they previously received.

B. Late Submission of Claims by Ministries and Departments

4.8 For a pensioner/dependant to receive their payment as fast as possible, the claims should be submitted within the set time for each type of claim. The audit however revealed that there was delayed submission of the claims files for the different modes of exit as discussed in the following paragraphs;

Delayed Submission of Normal Retirement Claims

4.9 According to the Human Resource Policies and Procedures Manual for Public Service, 2015, claims for normal retirement should be submitted at least 9 months before officer's date of exit to allow verification of claims and correction of errors when the officer is still in service. Review of 596 normal retirement pension claim files revealed that 503 had submission dates while 93 files lacked submission dates. Analysis of the 503 files that had submission dates indicated that only 10 (2%) files were submitted at least 9 months to exit date as required by the law. Though 106 (21%) claims were submitted within 9 months before the exit date, majority of the claims i.e. 295 (59%) were submitted within a year after the exit date while 92 (18%) claims were submitted over a year after the officer had retired from service as shown in **Table 5**.

Table 5: Days Taken to Prepare and Submit Retirement Claims

Ministry /Department	Claims with submission date	Claims submitted at least 9 months to exit date	Claims submitted in less than 9 months to exit date	Claims submitted within 1 year after exit	Claims submitted after one year
Prisons	69	1	39	27	2
Investment	22	1	15	4	2
Social Protection	22	2	7	10	3
National Treasury	73	3	23	38	9
Transport	32	1	14	17	0
Water	35	0	0	26	9
Foreign Affairs	12	0	4	8	0
Health	26	1	4	12	9
Judiciary	23	0	0	12	11
TSC	189	1	0	141	47
Total	503	10	106	295	92
% of the total		2%	21%	59%	18%

Source: OAG analysis of time taken to prepare and submit claims by ministries/departments

4.10 While the causes for delays in submission of claims files to the PD could be attributed to errors/omissions, delayed preparation of claim files by the Ministry/Department, delayed submission of documents by the pensioners and failure to clear Government liability, there was no indication from the files or any valid explanation provided for not submitting 285 (57%) claim files at least 9 months before officer’s exit date as shown in **Table 6**.

Table 6: Reasons for Delay in Submission of Claims - Normal Retirement

Ministry/ Department	Errors/ omissions	Delayed preparation of claim files by the ministry/ department.	Delayed submission of documents by pensioners	Pensioner not cleared Government Liability	Multiple issues (More than 2 of these)	No reason from the files	Total
Foreign Affairs	0	1	1	0	7	4	13
Health	1	6	1	0	1	15	24
Judiciary	6	2	0	0	4	10	22
Water	9	3	0	0	11	12	35
TSC	19	20	21	0	21	108	189
Transport	1	1	3	0	15	11	31
Prisons	3	3	0	0	13	49	68
Investment	1	1	0	1	1	17	21
Social Protection	0	3	0	0	4	13	20
Treasury	4	5	0	0	15	46	70
Total	44	45	26	1	92	285	493
% of the total	9%	9%	5%	0%	19%	57%	

Source: OAG analysis on reasons for delay in preparation of normal retirement claims

Delayed Submission of Claims for Other Modes of Exit (other than Normal Retirement)

4.11 Best practice requires that, claims for officers whose mode of exit is marriage, on medical grounds, death or public interest should be submitted to the PD earliest time possible after exit. Review of 135 files for officers whose mode of exit was marriage, medical grounds, death and public interest revealed that 104 claim files had submission dates while 31 lacked submission dates. Out of the 104 files with submission dates, only 6 (6%) claim files were prepared and submitted within 6 months from the date of officer's exit, 21(20%) claims took between 6 months and 1 year, while 77 (74%) claims took more than 1 year to be prepared as shown in **Table 7**.

Table 7: Time Taken to Submit Claims for Officers whose Mode of Exit was Not Normal Retirement

Ministry / Department	Claims with submission date	Claims submitted between 0 to 6 months	Claims submitted between 6 months and 1 year	Claims submitted after 1 year
Investment	14	3	5	6
Social Protection	5	0	2	3
National Treasury	3	0	0	3
Transport	2	0	0	2
Water	0	0	0	0
Foreign Affairs	1	0	0	1
Health	11	1	2	8
Judiciary	1	0	1	0
TSC	67	2	11	54
Total	104	6	21	77
		6%	20%	74%

Source: OAG analysis of time taken to prepare and submit claims by ministries/departments

4.12 Review of the 104 files with with submission dates, indicated that for majority of the claims the delays could be attributed to errors and omissions, late submission of documents by the pensioners and dependants, late clearance of Government liability and a combination of two or more of the above reasons. However, there was no indication in the files or valid explanation as to why 26 (25%) files were not submitted on time. These details are as shown in **Table 8**.

Table 8: Reasons for Delay in Preparation of Claims for other Forms of Exit from Service

Min/Dept.	Errors/omissions	Late compilation of claim files by the ministry/department.	Delayed submission of documents by pensioners	Pensioner not cleared Govt. Liability	Multiple issues (More than 2 of these)	No reason from the files	Total
Foreign Affairs	1	0	0	0	0	0	1
Health	0	2	1	0	6	2	11
Judiciary	0	0	0	0	0	1	1
Water	0	0	0	0	0	0	0
TSC	5	2	32	1	10	17	67
Transport	0	0	0	0	1	1	2
Prisons	0	0	0	0	0	0	0
Investment	0	2	4	1	3	4	14
Social Protection	0	1	1	0	2	1	5
Treasury	0	0	0	0	3	0	3
Total	6	7	38	2	25	26	104
% of the total	6%	7%	36%	2%	24%	25%	

Source: OAG analysis on reasons for delay in preparation of claims for other forms of exit

Submission of Erroneous and Incomplete Claims to the Pensions Department

4.13 For a claim to be accepted by the PD for processing, it must be submitted by the authorized officer and must be free from errors and be complete with the necessary support documents. These include; letter of first appointment, confirmation, promotion/upgrading and retirement; last pay slip; IPPD deletion sheet; certified copy of ID; bank details; clearance of government liability and income tax clearance certificate. However, review of seven out of nine incoming claims registers for the financial years 2015/16 and 2016/17 showed that out of the 12,965 claims received, only 4,985 (38%) were passed the first time they were submitted to the PD. 7,980 (62%) claims had errors or lacked supporting documents and had to be returned to the ministries/ departments of origin with remarks on the amendments or additional supporting documents required as shown in **Table 9**:

Table 9: Percentage of Claims Returned to Ministries/Departments

Financial Year	Total No. of Claims Received	No. of Claims Passed	% of claims passed	No. of Claims Queried	% of claims queried
2015/16	4291	1419	33%	2872	67%
2016/17	8674	3566	41%	5108	59%
Total	12965	4985	38%	7980	62%

Source: OAG analysis of claims passed or returned

4.14 Further, analysis of the claims submitted to the PD by four out of the ten sampled ministries/departments during the financial years 2015/16 and 2016/17 revealed that 63% and 65% of the claims for the two years respectively, were returned due to errors or lack of supporting documents as shown in **Table 10**.

Table 10: Number of Claims Passed and Queried for Four Ministries Sampled

Ministry	2015/16			2016/17		
	Total Claims received	Claims Passed	Claims Queried	Total Claims received	Claims Passed	Claims Queried
1. Health	794	295	499	1185	400	785
2. Prisons	328	131	197	401	145	256
3. Water	45	8	37	276	98	178
4. National Treasury	82	24	58	206	85	121
Total No. of claims received	1249	458	791	2068	728	1340
% of claims passed and queried		37%	63%		35%	65%

Source: OAG analysis of number of claims passed and returned to ministries/departments by PD

4.15 Interviews conducted during the audit revealed that late submission of claims and submission of incomplete claims was due to lack of communication strategy for pensioners and dependants, inadequate sensitization of employees by the Pensions Department and issuance of incomplete retirement notices as explained below:

a) Lack of an Effective Communication Strategy for Pensioners and Dependants

4.16 One of the PD's functions is to carry out public communication with retired officers and their

dependants on Public Service Pension Policy and administration of their benefits. However, interviews conducted with the Public Relations division revealed that the communication strategy in place is not effective for communication modalities between the department and pensioners/dependants. Interviews with 53 pensioners and dependants at the PD's customer care division revealed that, the PD had not communicated with 26(49%) of them while 27(51%) did not respond to the question since they were a third party and did not have all the relevant information.

- 4.17 The Huduma Centres across the counties have a pension's desk that is supposed to act as a link between the PD headquarters and the customers by ensuring smooth communication and prompt resolution of all customer pension related matters. This is by checking status of delayed pension claims in the system, ensuring that letters written by the PD during processing of claims are properly interpreted to customers and assisting them understand the benefits they are entitled to. However, of the 53 interviewees, 45(84%) indicated that they had travelled to the PD headquarters to enquire on the status of their pension claims an indication that the Huduma centres may not be offering satisfactory services.
- 4.18 In addition, as at 2017 the PD had not established a permanent public platform through which they could constantly interact with the general public concerning the Pensions Scheme but used platforms organised by Retirement Benefits Authority (RBA) and Kenya National Human Rights Commission (KNHRC). Since 2011, the PD's public relations division collaborated with RBA during national trade fairs. In 2017 the KNHRC gave the PD an opportunity to speak to the public on matters relating to the Pensions Scheme during their three days public lectures. The collaboration with the two organisations came up as a result of pension enquiries that were being raised by the public regarding the administration of the public service pension scheme during public forums which could only be handled by the PD. This is an indication that the public has been deprived of this information and results to seek the information in any forum that they would be listened to. It is only in 2018 that the PD established its own stand in the national trade fairs. Considering that trade fair events happen only once per year, and in less than half of the counties in the country, this is still not adequate to address the information needs of about 300,000 pensioners and dependants across the country.
- 4.19 Further, analysis of monthly reports by the PD's accounts section showed that there was accumulated balance of the returned pensions amounting to Ksh 3.2 billion as at June 2017. This is the amount returned by banks to the PD due to provision of wrong bank account numbers, death of pensioners and dependants, change of bank accounts among other errors and which is not reclaimed. While some of the beneficiaries of the returned pensions are not aware of this money, some know but they do not know how to go about claiming it. The audit also noted that for returns made after June 2016, it is only Post Bank of Kenya that indicates the reasons for return. The other banks have not been indicating and this poses a challenge to the PD as they can not take action especially in cases where account holders are deceased and requires removal from the payroll.
- 4.20 The PD did not provide any justifiable explanation as to why pensioners/dependants lacked knowledge on the benefits entitled to them, what documents they were expected to submit and when to submit in claiming their benefits. The effect of dependants having no knowledge about the benefits entitled to them is that, they may lose their entitlements after the death of a serving officer or pensioner despite the availability of these benefits. While some get to know of their entitlement later in life, the process of recovering such benefits is usually much more tedious than when claiming them immediately the death occurs.
- b) Inadequate Sensitization of Employers by Pension Department**
- 4.21 The PD is charged with the responsibility of advising the government on matters relating to pensions administration. This includes sensitizing officers from the ministries/ departments who are involved in preparation and submission of pension claims to PD. The aim of sensitizing officers is to ensure accuracy and timeliness in preparation and submission of pension claims. Interviews with officers at the PD revealed that between 01 July 2015 and 06 July 2017, three sensitization workshops initiated by the PD were held with various ministries/ departments. The need for this sensitization was triggered by various shortcomings that the PD was experiencing in claims preparation and submission by Ministries/ Departments. The shortcomings ranged from poor filling of GP 178 and 213, improper attachment of supporting documents, non-attachment of required documents to re-submitting of claims without attending to amendments done on them.
- 4.22 The Workshop held in 2015 was to sensitize the claims officers on the regulations governing pension preparation and payment, how to prepare the claim and the covering letter. This workshop involved all the 10 sampled ministries/ departments. In 2016, another sensitization workshop was held to help the claims officers minimize delays in preparation and submission of pension claims to the PD where 4 out of the 10

sampled ministries/departments were involved. A workshop on verification of pension claims was also held between 05 June and 06 July 2017 where 2 out of the 10 sampled ministries were involved. Out of the sampled 10 ministries/departments, only 3 got involved in the three sensitization workshops.

4.23 However, analysis of claims prepared after the sensitization workshops revealed that quality of

output did not improve since for 51% of the claims, there was no reason for delays while 37% of causes for delay were still attributed to claim preparation in ministries/departments. Only 11% were as a result of delays in submission of documents by pensioners/dependants. In addition, only 3 out of the 10 sampled ministries/departments forwarded one (1) claim each at least 9 months prior to the date of officers' exit as shown in **Table 11**.

Table 11: Status of Claims Prepared after PD Conducted Sensitizations

Ministry/ Department	Claims forwarded at least 9 months before date of exit	Causes related to preparation of claims	Causes related to pensioners/ dependants	No reason from the files	Total
Foreign Affairs	1	9	0	3	13
Health	0	14	2	16	32
Judiciary	0	13	0	11	24
Water	0	23	0	11	34
TSC	1	43	32	75	151
Transport	1	15	4	11	31
Kenya Prisons	0	6	1	22	29
Investment	0	6	6	11	23
Social Protection	0	6	1	12	19
National Treasury	0	14	1	36	51
Total	3	149	47	208	407
In Percentage	1%	37%	11%	51%	

Source: OAG analysis of the claims prepared after sensitization of ministries/departments by PD

4.24 The analysis above indicates that adhoc sensitizations have not been effective and as a result the ministries/departments keep submitting erroneous and incomplete claim which cannot be processed. This leads to inefficiency at PD as they keep returning claim for updates. The pensioners/dependants thus must wait longer for their payments to come through.

c) Issuance of Incomplete Retirement Notices

4.25 According to the Human Resource Policies and Procedures Manual for Public Service, 2015, the Head of the Human Resource Management division in a ministry/department or an officer duly authorized to sign Notices of Retirement will be held responsible for accurate and timely submission of the relevant service records to facilitate the submission of an acceptable retirement benefits claim to the Director of Pensions. The retiring officer should submit all the documents stipulated in the retirement notice within the time frame. Notice for retirement on age grounds is given one year prior to the date

of officer's exit. The notices contain a list of documents, as stipulated in the PD's checklist, that the pensioner should submit to the human resource division to facilitate preparation of his pension claim. These documents include: letter of first appointment, confirmation, promotion/upgrading and retirement; last pay slip; IPPD deletion sheet; certified copy of ID; bank details; clearance of government liability and income tax clearance certificate.

4.26 Interviews and review of documents however revealed that out of the ten ministries/departments sampled, only four had a checklist which they used to confirm the accuracy and completeness of claims before submission to the PD. Out of the four, only one of the checklist conformed to the standards of the PD's checklist in terms of content while the other three lists were not comprehensive.

4.27 Review of 70 notices for retirement from pensioners' files randomly drawn from the sampled ten Ministries/departments revealed

that, on average 7 out of 10 ministries/departments issued notices for retirement at least one year before the date of exit. The other three ministries/departments issued notices 9,10 & 11 months prior to officers' date of exit which is less than the stipulated one year. Out of the 70 notices reviewed, only 5 from 2 of the sampled ministries/departments had requested for all documents, while 65 notices did not request for all the documents. Further, of the 70 notices issued, only 5 had stipulated the time frame within which officers should submit the documents, while 65 notices did not give a time frame as shown in **Table 12**.

Table 12: Time Frame of Notices Issued to retirees

Ministry/ Department	Number of notices reviewed	Time between issuance of retirement notice and date of exit (months)	Number of Notices that had requested for all documents	Number of Notices for Retirement that gave a time frame within which documents should be submitted
Foreign Affairs	7	14	0	0
Health	7	11	0	0
Investment	7	13	1	0
Judiciary	7	14	0	0
National Treasury	7	13	0	4
Prisons	7	10	0	0
Social Protection	7	19	0	0
Transport	7	16	0	0
TSC	7	13	0	1
Water	7	9	4	0
Total	70		5	5

Source: OAG analysis of retirement notices

4.28 Interviews with officers involved in claims preparation in the ten sampled ministries/departments indicated that delay in submission of documents by pensioners was the most prevalent cause for delay in preparation of claims. However, the analysis above shows that preparation of claim files is the main cause of delays as well as inefficiencies at the Ministries/departments since there was no reason for delays for most claims. The effect of issuing incomplete notices is that inadequate information is provided to the pensioners therefore they submit incomplete information and the claims had to be returned by the PD resulting to delays in processing.

4.29 The effect of delays in submission of claims and submission of incomplete and/or erroneous claims is the prolonged time pensioners have to wait to receive their pensions benefits since this further delays commencement in processing of claims by the PD. The pensioners and dependants also have to keep making numerous follow ups which is agonizing and draining considering that the pension payments was expected to be a sure source of income after exit of service.

C. Inadequacies in the Pension Management Information Systems

4.30 The Pensions Management Information System (PMIS) is the system used by the PD in processing and payment of pension benefits. The claimants' information is captured in the system at the data capture level after they are verified against the accompanying documents. The system uses the data captured to generate the amount payable according to the type of claim. The office of Controller of budget verifies the accuracy of the claims through the system while the directorate level of the PD does the final approval for the award of the pension claim. The claims are finally sent to accounts section where the system generates a voucher and a letter addressed to the beneficiary with details of payment. The system users use an electronic alert to pass information from one stage of claim processing to the other.

4.31 The most important characteristics of any Management Information System are those that give decision-makers confidence that their actions will have the desired consequences. Specifically, the system should ensure relevance, accuracy, usefulness, timeliness and completeness. A good system should therefore eliminate data duplication, reduce errors, enhance data security, reliability, robustness and increase user

confidence. The PMIS should therefore be a good and reliable system that can be trusted for data integrity. As at February 2018 the PMIS contained 306,712 records for pensioners and integrity tests using Structured Query Language (SQL) and analysis of these records indicate that the system falls short of characteristics of a good system since it has allowed: -

a) Irregular Enrolment of Pensioners into the System

4.32 Enrolment entails capturing of pensioners/ dependants details into the PMIS for processing. Notice for retirement is supposed to be issued to officers 1 year before their date of exit. Out of the 306,712 records that the team analyzed, 419 pensioners were enrolled into the system more than a year before they exited the service which is an irregularity. The total amount paid to the 349 of these pensioners was approximately Ksh556 Million while 70 have not been paid as indicated in **Annexure 2**. The system also revealed that 273 pensioners were enrolled into the system with enrollment dates indicating years beyond 2018 and the dates ranged between year 2022 and 2099. 117 of these pensioners have been paid approximately Ksh27 Million while 156 of them are yet to be paid as shown in **Annexure 3**. Though the PD indicated that these entries could have been in error, the total amount of Ksh 583 Million paid out is significant to the pensioners awaiting payment.

b) Payment of Lumpsum before Officers' Date of Exit

4.33 Exit date is the last working date of an officer who is retiring from service. Claims that are forwarded to pensions department prior to an officer's retirement date should only be processed up to the level of Voucher Preparation if all documents are attached. At this point the processing have to wait for the IPPD deletion sheet which ensures the officer is no longer in the payroll, clearance for government liability as well as tax clearance certificate. These three documents can only be obtained after the date of exit. However, analysis of records in the PMIS revealed that 962 pensioners received their lump sum way before end of service date totalling to Ksh.1.6 Billion as detailed in **Annexure 4** of the report. The range for the period the payments were done is as shown in **Table 13**:

Table 13: Range in Days Between Time of Payment and Date of Exit

Ranges in days between time of payment and date of exit	
1 - 30 days	812
31 - 60 days	81
Above 60 days	69
Total number of pensioners	962

Source: OAG analysis of the PMIS data

4.34 No valid explanation was provided as to why a pensioner could be paid while they were still in the payroll yet the IPPD deletion sheet is a vital requirement for final processing of pension dues. This would mean the officers were drawing a salary after receiving the pension which is irregular.

c) Shared and Irregular Credentials

4.35 It is a requirement that every citizen above the age of 18 acquires a National Identification Card (ID) that uniquely identifies the person as a citizen. It is also mandatory that every citizen earning an income acquires a Personal Identification Number (PIN) for tax purposes. These two important credentials are standardized and are unique to each individual and each pensioner is therefore expected to have these two important documents. However, integrity tests on the 306,712 records revealed that 228,988 (75%) pensioners had either shared IDs, irregular IDs, irregular tax PIN or lacked these credentials entirely and in total were paid an amount of approximately Ksh 44.2 billion as shown in **Table 14**. The irregular IDs had either less than three or more than nine characters or contained characters like '&' and '?' as opposed to numerals. The irregular tax PIN did not start and end with alphabets and did not have the required 9 digits in between the alphabets. The details of these shared, missing and irregular credentials are contained **Annexure 5a, 5b & 5c**. No valid explanation was provided as to why the system would allow processing of payments without these important documents.

Table 14: Amount Paid to Claimants with Shared and Irregular Credentials

Credentials	No. of claimants	Amount paid Ksh
Irregular or no tax PIN	221,590	44,067,511,002
Irregular IDs	7,166	-
Shared IDs	232	152,849,767
Total	228,988	44,220,360,769

Source: OAG analysis of the PMIS data

d) Shared Bank Accounts

4.36 Further, tests on bank account numbers obtained from the system revealed that 870 account numbers are shared by 29,387 pensioners whose payment totaled Ksh 21 billion as shown in **Annexure 6**. The explanation provided was that the sharing could have been by beneficiaries or pensioners who are receiving several categories of pension. However, scrutiny of these data does not support the explanation as some of the account numbers do not follow the conventional banking rules e.g. an account number as ‘o’ which

is shared by 26,121 people. A system which allows such entries is prone to manipulation which may lead to funds being channeled to wrong individuals.

e) Enrollment of Officers whose Terms are Not on Pensionable Basis

4.37 For an officer to qualify to be paid pension, they should have been confirmed into permanent and pensionable terms of service. A confirmation letter is required to accompany a pension claim to PD as evidence that the officer is eligible for pension. However, analysis of IPPD data obtained from the 10 sampled ministries/departments indicate that out of the 662 officers that were not on permanent and pensionable terms of service, 213 (32%) of these officers had been enrolled into the PMIS as pensioners and paid approximately Ksh492 million as detailed in **Annexure 7** and as summarized in **Table 15**. Though the explanation provided is that probably these could have been support staff who were getting annual allowance, it’s not clear how a casual could for example get an allowance of over a million as is the case of about a hundred of these payees.

Table 15: Number of Officers not on Pensionable Terms of Service but enrolled in the System

Ministry/ Department	Total No. of officers not on permanent and pensionable basis	No. of officers enrolled but are not on pensionable basis	In Percentage
Health	273	57	21%
Investment	7	3	43%
Judiciary	0	0	0%
Prisons	8	1	13%
Social Protection	26	12	46%
Transport	0	0	0%
Treasury	18	10	56%
Water	94	13	14%
TSC	198	95	48%
Foreign Affairs	38	22	61%
Total	662	213	32%

Source: OAG analysis of the PMIS data

4.38 Though in most cases the staff of PD indicated that there could have been errors when the system was being migrated in 2009, the explanation does not appear valid since as at the time of audit in 2018 which is 9 years after migration, the errors ought to have been noted and corrected. The anomalies are evidence that the Pension Management Information System lacks integrity and puts to risk an amount of Ksh 67.9 billion as summarised in **Table 16**.

Table 16: Summary of Irregular Payments Allowed by the PMIS

Type of irregularity	No. of claimants paid	No. with no payments done	Total No. of claimants	Amount paid in Ksh	Annexure
1. Claimants irregularly enrolled in the system	349	70	419	555,935,178	2
2. Claimants enrolled on dates beyond 2018	117	156	273	26,964,826	3
3. Lump sum paid before exit date	962	-	962	1,617,667,312	4
4. Claimants with irregular and no tax pin	82,972	138,618	221,590	44,067,511,002	5a
5. Claimants with irregular IDs	-	7,166	7,166	-	5b
6. Claimants with shared IDs	232	-	232	152,849,767	5c
7. Claimants with shared bank accounts	29,387	-	29,387	20,961,070,886	6
8. Claimants not on Pensionable terms of service	196	17	213	492,168,318	7
Total	114,215	146,027	260,242	67,874,167,290	

Source: OAG analysis of the PMIS data

4.39 The Ksh 67.9 billions was paid to 114,215 claimants which is at an average of Ksh 594,267 million per claimant. The system still contains 146,027 claimants who at the time of audit in June 2018 had not been paid and if they ere each to be paid the same average of Ksh 594,267 million, a further amount of at least Ksh 86.8 billion could be at risk if the system errors are not corrected.

4.40 The audit attributes the system anomalies to lack of separation of duties for PMIS administration and lack of system triggers which could detect and flag such irregular entries. Personnel involved in the administration of systems include; Database administrator, System administrator, Programmer and Networking and Security administrator. Segregation of duties ensures prevention of conflict of interest, wrongful acts, abuse and errors. It also helps in detection of control failures that include security breaches, information theft and circumvention of security controls. Segregation of duties therefore ensures that individuals do not have conflicting responsibilities or are not responsible for reporting on themselves or their superior.

4.41 A Database administrator is responsible for the day to day running of the Database. He plans, designs, install and monitor performance of the database, perfoms data back up and recovery and troubleshoot the database on a day to day

basis. A system administrator is responsible for the running of all the computer systems running the database, while a programmer patches logic of incoming operational changes. Networking and security officer has the role of installation of software and hardware security measures to ensure that there are no internal and external threats.

4.42 Best Best practice requires that these duties be handled by different personnel to mitigate conflict of interest, wrongful acts, abuse and errors. These segregation of duties is lacking in the administration of PMIS. As a database administrator, the PD IT officer stores and organizes data that relates to pensioners and dependants in the PMIS. This also entails backing up of the data and ensuring its security.

4.43 A system administrator allocates passwords to the various staff that access the system and ensures that boundaries to access information from the system are well set. Additionally, he ensures that file alerts move promptly from one Division to another to ensure smooth work flow. As a programmer he effects changes into the system, for example to ensure that PD complies with a new Act, an amendment to an existing Act or a Regulation that affects pension. This poses the risks such as inappropriate or unauthorized transaction and administrative errors which may

not be detected. The officer plays all these roles with all the privileges of manipulating the system, which can also bring about conflict of interest.

4.44 The effect of the anomalies contained in the PMIS is irregular payments that have compromised the operations and has resulted to many beneficiaries waiting for too long to get paid yet the provision of funding for payment of pensions during the period under review has been at 97%. This has denied the authentic claimants their pay thus negatively affecting their livelihoods.

D. Lack of Procedures to Identify Deceased Pensioners and Dependants

4.45 Section 20 of the Widows and Children Pensions Act requires the PD to obtain proof that the claimant of pension is alive and in case beneficiaries fail to furnish the department with such proof, payment may be refused until this requirement is met. Upon death of pensioners and dependants, the PD is supposed to remove their names from the payroll in order to stop further payments to their bank accounts.

4.46 However, interviews with staff at the PD disclosed that pensioners and dependants do not present life certificates and neither do the PD follow up to have them submitted. There are also no triggers in the system for payment to be stopped after a certain period of time to necessitate furnishing of proof of life. On the contrary the PD relies on expectation that the family of the pensioner will report the death to the PD with the original and a copy of the Death Certificate along with the pension number of the deceased for certification. PD also relies on banks to return non-collected pension dues to the Accounts Section and family members to make such declarations. These declarations are usually not made in time especially in cases where family members have access to the bank accounts of the deceased pensioners and dependants

4.47 Review of a sample of 271 returns from Post Bank of Kenya and the Kenya Commercial Bank for the period between 2012/13 and 2015/16 revealed that the PD continued to pay into the accounts of deceased pensioners and dependants for a period ranging from one month to seven years as shown in **Table 17**.

Table 17: Time after which PD continued to Deposit Monies into Deceased Beneficiaries' Bank Accounts

Duration In Years	0 – 1 year	1 – 2 years	2 – 3 years	3 – 4 years	Above 4 years
Post Bank	97	65	33	22	20
KCB	21	5	2	2	4
Total	118	70	35	24	24

Source: OAG analysis of PD's bank returns

4.48 There is therefore a likelihood that; banks do not return all the non-collected pension payments and; dependants of deceased pensioners continue to receive payments indefinitely thus denying authentic beneficiaries.

E. Delay in operationalization of the contributory scheme

4.49 The Civil Service Pension Scheme is currently operated under a non-contributory defined benefit plan under the Pensions Act, Cap 189. The scheme is not funded and no assets have been set aside or invested. Pension benefits are paid out of the Consolidated Fund from general revenues. Over the years the civil service pension liability has been increasing with a possibility that this fiscal burden could over time rise to unsustainable levels and hence impact on other priority expenditures.

4.50 In a move that was meant to reduce the

increase of the number of new pensioners, the government raised retirement age from 55 to 60 years with effect from 01 April 2009. The period of five years was meant to create room for the government to budget for resources to fund a contributory scheme, allow for its introduction and operationalize it. However, as at the time of audit in June 2018, 9 years had lapsed and the contributory scheme was not in place.

4.51 The Public Service Superannuation Scheme Act, 2012 gives provisions for the Establishment of the Board of Trustee and its composition. This Board will be accountable to the Government and the Members of the Scheme and will be responsible for setting up a National Pensions Fund. Currently, the Chairman of the Board has already been appointed. Members of the board are also provided for in the Act, but are yet to be gazetted. The functions of the Board as stipulated

in the Act include; collecting contributions from members, optimally investing the contributions collected, protecting members' contributions as well as providing pension and other benefits to the members of the Scheme and their dependants.

4.52 The Act also provides for appointment of the Chief Executive Officer by the Board of Trustees and who will be the Secretary to the Board and responsible for the Management of the National Pensions Fund. The Board is also expected to appoint an Administrator of the Scheme whose functions among others include; opening retirement savings accounts for each member with a personal pension number, credit the members' retirement savings accounts with their contributions each month, facilitate payment of members' retirement dues which includes making all calculations necessary. However, as at June 2018 the Administrator of the Scheme had not yet been appointed.

4.53 The Public Service Superannuation Scheme Act was enacted in 2012 to establish the Contributory

Public Service Superannuation Scheme for providing retirement benefits to persons in the public service and for connected purposes. The Contributory Scheme aimed to improve social security of members by pooling employees' and employers' contributions, ensure that members receive their retirement benefits as and when they become due, and ensure uniformity in the administration and payment of retirement benefits. Membership to the Scheme would be mandatory for serving employees below the age of 45 years, optional for those aged 45 years and above and all new employees appointed to the Service would be required to join the Scheme. All members of the scheme would be required to contribute 7.5% of their basic salary to the scheme while the Government would contribute 15%.

4.54 Despite the pension burden being on the increase at an annual average rate of 25% during 2012/13 to 2016/17 financial years as shown in **Table 18**, the government has not implemented the Scheme that was meant to ease the pension burden.

Table 18: Annual Rate of Increase in Pension Expenditure

Financial Year	Actual Expenditure	Increase in Ksh	Increase in %
2012/13	24,860,746,967	-	-
2013/14	27,881,088,906	3,020,341,939	12%
2014/15	35,270,693,993	7,389,605,087	27%
2015/16	51,250,699,446	15,980,005,453	45%
2016/17	59,775,695,775	8,524,996,329	17%
Total Expenditure	199,020,925,091		
Average Annual Increase		8,728,737,202	25%

Source: OAG analysis of the increase in the pension's expenditure

4.55 Interviews with the staff at the PD revealed that the major reason as to why the Scheme is not yet operational is because the Act also indicates that should the Government fail to make a contribution in any month, a penalty at the rate of the return of the Fund for the previous financial year shall apply on the unpaid amount. Section 6(3) further indicates that these contributions shall be a direct charge on the Consolidated Fund. These poses a challenge because the Government must set funds aside so as to operationalize the Contributory Scheme without the risk of incurring penalties for defaulting. These funding has not been set aside yet.

CHAPTER 5

5.0 CONCLUSIONS

- 5.1 Overall, there were extensive delays in processing and paying pension benefits by the Pensions Department. There was no valid explanation provided for most of the delays except that for some files, acceptance of erroneous and incomplete claims from ministries/ departments hampered timely processing as files moved back and forth for further action and documentation.
- 5.2 There are extensive delays in preparation and submission of pension claims to the Pensions Department by Ministries/Departments. No clear and valid reasons were given for most of these delay except that some delays could be attributed to:
 - i. Lack of sensitization to pensioners and dependants by the Pensions Department about the pension benefits and the required documentation and thus preparation and submission of claims to the PD takes long
 - ii. Most of the staff involved in claims preparation in ministries/departments have not been adequately trained leading to submission of erroneous and incomplete claims to the PD which have to be returned for rectification
- iii. Retirement notices issued by Ministries/ Departments to the retiring officers do not stipulate all the documents required for preparation of claims and the time frame within which these documents should be submitted.
- 5.3 The Pension Management Information System has not been offering foolproof support in the processing and payment of pensions and gratuities since the system has allowed irregular entries and duplications in the information entered and processed.
- 5.4 The Government may have been losing money sent to bank accounts of deceased pensioners and dependants since there are no measures put in place by the PD to seek proof of life that would help identify deceased pensioners and dependants.
- 5.5 The National Treasury has not yet implemented the Contributory Pensions Scheme and this has led to an annual increase in funds required from the Consolidated Funds Services Account to meet pension obligations. The Government has therefore been losing out on the 7.5% employees' contribution towards the pension budget.

CHAPTER 6

6.0 RECOMMENDATIONS

- 6.1 To ensure the pensioners and dependants access their benefits within the stipulated time, The National Treasury should be held responsible for the delays in processing claims as there has been failure to institute disciplinary action for the MDAs that continually fail to submit duly completed and supported pension claim files within the stipulated timelines.
- 6.2 To ensure submission of timely, accurate and complete claims, Pensions Department should consider putting in place a strategy to regularly educate the pensionable employees, pensioners and dependants on the benefits entitled to them, the documents and timeliness required in submission of the claims.
- 6.3 To enhance timeliness and accuracy in preparation of claims, Pensions Department together with all ministries and departments need to develop an all-inclusive programme for training officers involved in claims preparation in ministries/departments. The ministries/departments should always ensure that the staff handling preparation of these files have been trained and attend regular workshops for pension related issues.
- 6.4 To ensure timeliness and completeness in preparation of claims, the ministries/departments should attach to the retirement notices the PD checklist listing all the documents required to support a claim and give time frame within which the documents should be submitted.
- 6.5 To enhance data integrity, the National Treasury should consider system configurations that will ensure the Pensions Management Information System has; constraints that prevent invalid data and forbid duplicate values, have a field to capture the payroll number from the IPPD to ensure tracking of Government employees in the payroll, and requirement for the vital credentials like ID and tax PIN. There should also be in place an ICT policy specifically to govern the operations of the Pensions Management Information System to ensure integrity of the system.
- 6.6 The National Treasury should enforce follow up by PD on filling of life certificates to identify deceased pensioners and dependants and hence ensure that payment is only made to legitimate persons. Collaboration with the Civil Registration Department should also be considered as they can provide monthly data of registered deaths, identify deceased pensioners and dependants and hence ensure payments are only made to legitimate persons.
- 6.7 The National Treasury should hasten the implementation of the Contribution Pensions Scheme to ensure that the Government employees that are below 45 years in age start contributing for their pension. This will eventually ease the pension burden for the Government and ensure timely payments of pension dues by the Scheme manager.

ANNEXURES

ANNEXURE 1: Sources of Audit Criteria

- i) The Pensions Act CAP 189, 2009
- ii) Widows and Children Pensions Act CAP195
- iii) The Public Service Superannuation Scheme Act, 2014
- iv) The National Treasury Strategic Plan 2013/14 – 2017/18
- v) Citizen’s Service Delivery charter for the Pensions Department
- vi) The Human Resource Policies and Procedures Manual for the Public Service, May 2016
- vii) Legal provisions of the Pensions Act
- viii) National Treasury circular number 18/2010
- ix) Pensions Department publications
- x) Generally accepted practices in the pension administration
- xi) ISACA Journal 2016: Implementing Segregation of Duties - A Practical Experience Based on Best Practice

THE ANNEXURES LISTED BELOW ARE LARGE SO WILL BE SUBMITTED AS SOFT COPY: -

Annexure 2: Pensioners enrolled more than a year before exit date

Annexure 3: Enrolment Dates indicating years beyond 2018

Annexure 4: Pensioners received Lump Sum before end of Service Date

Annexure 5(a), 5(b) and 5(c): Irregular Credentials

Annexure 6: Shared Bank Account Numbers

Annexure 7: Pensioners Not Permanent & Pensionable but Enrolled into PMIS

ANNEXURE 8: Client's Response and Auditor's Remarks to Response

FINDINGS OF AUDITORS	PENSIONS DEPARTMENT'S RESPONSE AND COMMENTS	AUDITOR'S REMARKS
<p>4.0 Audit Findings</p>	<p>4.0 While generally in agreement with some of your findings, here are comments on specific finding of the audit.</p>	
<p>4.1 Payment of pensions and gratuities to retirees or dependants is expected to guarantee continued financial and social support to the pensioners and dependants. The pensions department should therefore ensure efficient and effective processing and payment of pensions and gratuities. During the period 1st July, 2012 to 30th June, 2016, Pensions Department processed a total number of 44,575 out of the 45,766 claims lodged which translates to 97% of the claims lodged.</p>	<p>4.1 We agree and concur with your findings that the department should be efficient and effective in processing and payment of pensions and that during the period 1st July 2012 to 30th June, 2016, the Pensions Department (PD) processed a total number of 44,575 out of the 45,766 claims lodged which translate to 97% of the claims lodged.</p>	<p>The finding remain as reported.</p>
<p>4.2 However, evidence gathered during the audit revealed the following weaknesses in the processing and payment of pension and gratuities of beneficiaries:</p> <ul style="list-style-type: none"> i. Delays in processing and payment of pensions and gratuities claims that have been received by the PD; ii. Late submission of claims and submission of incomplete and/or erroneous claims to the PD by the ministries/ departments; iii. Inadequacies in the Pension Management Information System; iv. Lack of procedures to identify deceased pensioners and dependants; and v. Delay in operationalization of the Contributory Pension Scheme. 	<p>4.2 Please see our response below:</p>	

<p>A. Unexplained delays in processing and payment of pensions and gratuities by the Pensions Department</p>	<p>Kindly Note the following:</p>	
<p>4.3 According to Citizen Delivery Charter for the PD, processing and payment of pension benefits is expected to take 21 days from the time a duly completed and supported claim is accepted at the PD. The capture date in the PMIS indicates the date the claim is enrolled for processing. Review of 731 claim files from the sampled 10 ministries and departments revealed that 581 (79%) files had complete information showing the capture date and the date the file was stamped as paid. 144 files had either or both of these critical dates missing making it impossible to establish how long the files took to be processed while 6 claims were indicated to have been paid before stamp date which is irregular. Of the 581 files that had complete information 108 (19%) claims were processed and paid within the stipulated 21 days, 377 (65%) claims took between 22 days and 6 months, 79 (14%) took between 6 months to a year while 17 (3%) took over one year to be processed and paid as shown in Table 2.</p>	<p>4.3 The National Treasury (NT) concurs with the finding that the PD was not able to process and pay most claims within the set 21 days as per the Performance Contract (PC) then. The current PC has been readjusted to reflect this reality and the department has been given a target to pay 100 claims per day. Please see the current PC attached as Annex 1. <i>(Annexure 1 and other annexures referred by PD, on this column are not attached to this report but are available)</i></p> <p>This is largely due to the state of the Pensions Management Information System (PMIS) which has reached its end of user support.</p> <p>The NT is in now migrating data to the new Integrated Financial Management Information System (IFMIS) super servers and also developing, enhancing and Re-engineering PMIS.</p> <p>Please note:</p> <ol style="list-style-type: none"> 1. That in the processing of the pensions awards, the time the claim takes with the Controller of Budget is not factored into the 21 days as per the service charter. <ol style="list-style-type: none"> i. That in the processing of pensions claims queries raised at any level must first be corrected before payment is made. ii. Each case is processed and paid on its own merit. iii. It is noted that your sample did not include the Department of Defence and Parliament. These two organizations have good record keeping and work flow and hence their claims are processed within 21 days as per the Charter. 	<p>4.3 We appreciate the readjustment of the Performance Contract (PC) to reflect the reality. However, the PC is bidding between National Treasury/ Pensions Department and the Employer while Service Delivery Charter (SDC) is a commitment by the National Treasury to the recipients of the services expected from Pensions Department and is a required commitment for all Government institutions.</p> <p>In addition, processing 100 claims per day does not specifically address timeliness/ efficiency because those files could have taken many days in the processing system.</p> <p>Response (iii) indicates that it's possible to process benefits within 21 days which is the commitment given to the citizens as this has been possible with the two named institutions. These institutions claim files still pass through the Controller of Budget, still have queries and are also treated on own merit.</p> <p>Sample criteria: Our Sample Criteria was based on number of officers in the Payroll as at 31st October 2015 where the team selected organizations at the top, middle and lower levels, ministries that have been merged, ministries that have never been merged and the largest PD client (Para. 2.2) and this was discussed during the entry meeting.</p>

<p>4.4 Further, analysis of total time taken by the PD to process and pay claims revealed that the claims took long in some specific processing stages. There was an average of 46 days' delays between claim submission to the PD and stamping to acknowledge acceptance of a claim; 48 days delay before capturing the stamped claim into the system; and 26 days' between stamping "paid" and actual payment of a claim. The analysis of time taken in these stages is as shown in Table 3.</p>	<p>Please see our response in 4.3</p>	<p>We are of the opinion that if the National Treasury was to look into the shortcomings reported it will be possible to process the claims within the committed timelines.</p>
<p>Files returned to the Ministries/ Departments.</p>		
<p>4.5 Out of the 581 claims that had complete information, 473 (81%) claims had not been paid within the stipulated 21 days. Investigations on the reasons for the delay showed that there was no indication from the files or valid Explanation as to why 372 (79%) of these claims were delayed. Only 101 (21%) of the claims had reasons which included errors and omissions, late submission of documents from the Ministry/Departments, pensioners and dependants, late clearance of Government liability by the pensioner, use of banks not prequalified by PD, and a combination of two or more of these reasons as shown in 4.26. Interviews and review of documents however revealed that out of the ten ministries/ departments sampled, only four had a checklist which they used to confirm the accuracy and completeness of claims before submission to the PD. Out of the four, only one of the checklist conformed to the standards of the PD's checklist in terms of content while the other three lists were not comprehensive.</p>	<p>4.5 and 4.6 We wish to clarify that files are not returned to the Ministries or Departments and Agency (MDA) as indicated in your report. Kindly note that claims from the MDAs contain copies of documents in the MDAs file. In case there is a query, communication in form of a letter is done to the MDAs to bring a document or to explain an issue.</p> <p>The NT cannot control the timelines in which MDAs may provide such information.</p> <p>MDAs are supposed to bring claims to the Department at least nine months before the retirement date so that there is enough time to scrutinize the claims and pay the correct person. There is a Treasury Circular to that effect.</p> <p>See a copy of the Personnel Circular attached as Annex 2</p>	<p>4.5 We have adjusted the report to read claims returned instead of files returned.</p> <p>While the NT cannot control timeliness within MDAs our sample indicated that 81% of 581 claims had complete information so the delay for the majority of the claims was not attributed to MDAs but to PD. The claim files did not have any indication as to why they were delayed.</p> <p>The responsibility of enforcing the provisions of the said Circular lies within the. There was no evidence to indicate that any disciplinary action had been taken against the Human Resource officers responsible as indicated in the circular.</p> <p>The NT is still culpable and we believe if NT was keen on instituting disciplinary actions and providing actionable warnings to the MDAs, the claim files would be submitted on time and with minimal errors and it will be easier for PD to deliver this noble service to the senior citizens and their dependants.</p>

Pensions Management Information System (PMIS)		
<p>4.6 In the event that a file is returned to the Ministry/Department by the PD there should be a communication indicating the exact requirement or omission that needs to be acted upon or rectified by either the pensioner or employer. The fact that majority of the delayed claims did not have such a communication means that the reason for delay could only be attributed to inefficiencies within PD. That claims are received by PD with errors/omissions and missing documentation means there is either lack of keenness by the receiving officers or possibility of loss of supporting documents during file movement. This affects the processing time since the erroneous ones are later returned to ministries and departments for correction while those with missing documents pend at PD to await the ministries/departments to avail these documents.</p>	<p>4.6 We write letters to MDAs and give copies to the pensioner or the dependants.</p> <p>These letters are carried by our field officers to the respective MDAs, or we use normal mail and we have a contract with the Postal Corporation of Kenya in this regard.</p> <p>See a copy of the contract and sample of such letter as Annex 3 and 4.</p>	<p>4.6 We acknowledge that NT/PD writes these letters. However, during the audit, out of a sample of 581 claim files reviewed, only 107 (21%) of files had copies of these correspondences showing the various reasons for delay eg errors and omissions. A majority of the sample claim files 473 (81%) did not have copies of these correspondence.</p> <p>If NT addresses this issue it will be easier for any internal/ external reviewer to ascertain the real cause of delay and address the issue with the responsible parties.</p>
<p>4.7 The effect of delayed processing and payment of claims is that pensioners and dependants are not able to access their money in time to cater for their basic and other needs. This affects their social welfare and can be depressing considering that they are no longer in employment thus no steady income they previously received.</p>	<p>4.7 We concur with your observations and add that to address the delay the three stakeholders must be involved. I.e. the pensioner himself or the dependent, the MDAs and the PD plus the other stakeholder like Public Trustee, Banks etc.</p> <p>The NT through the PD has continued to support MDAs in sensitization of staff and also training the officers handling pensions.</p>	

<p>B. Late submission of claims by Ministries and Departments</p>		
<p>4.8 For a pensioner/dependant to receive their payment as fast as possible, the claims should be submitted within the set time for each type of claim. The audit however revealed that there was delayed submission of the claims files for the different modes of exit as discussed in the following paragraphs;</p>	<p>4.8 and 4.9 We concur with your observations and wish to add that the Chief of Staff and Head of Public Service in the Presidency and the Ministry of State for Public Service, Youth and Gender Affairs and the Public Service Commission in the year 2016 convened several meetings to try to resolve this issue of delay. It was resolved that the MDA should forward their claims on time. The situation has improved considerably.</p> <p>MDAs has indicated to the NT that ministries have challenges and poor documentation.</p> <p>See attached the communication form the HoPS and Ministry of public Service on the same marked as Annex 5 and 6</p>	<p>4.8 We acknowledge the efforts done by the Head of the Public service towards service delivery to the pensioners and dependents. However, our audit was concluded in 2018, and the gaps presented in our findings indicate that more needs to be done.</p> <p>The timeline is known as per the Circular. However, if no action is ever taken the status quo remains and the claimants keep suffering. Follow up after such meetings would help to address the challenges facing the MDAs in this area.</p>
<p>Delayed submission of normal retirement claims</p>		
<p>4.9 According to the Human Resource Policies and Procedures Manual for Public Service, 2015, claims for normal retirement should be submitted at least 9 months before officer's date of exit to allow verification of claims and correction of errors when the officer is still in service. Review of 596 normal retirement pensions claim files revealed that 503 had submission dates while 93 files lacked submission dates. Analysis of the 503 files that had submission dates indicated that only 10 (2%) files were submitted at least 9 months to exit date as required by the law. Though 106 (21%) claims were submitted within 9 months before the exit date, majority of the claims i.e. 295 (59%) were submitted within a year after the exit date while 92 (18%) claims were submitted over a year after the officer had retired from service as shown in Table 5.</p>	<p>4.9 The NT and PD will monitor and follow MDA to forward claims on time, as per Treasury Circular – that is, that claims be forwarded to the National Treasury, at least Nine months before retirement.</p>	<p>The finding remains as reported</p>

<p>4.10 While the causes for delays in submission claims files to PD could be attributed to errors/omissions, delayed preparation of claim files by the Ministry/Department, delayed submission of documents by the pensioners and failure to clear Government liability, there was no indication from the files or any valid explanation provided for not submitting 285 (57%) claim files at least 9 months before officer's exit date as shown in Table 6.</p>	<p>4.10 From the 2016 meetings with MDAs and the subsequent trainings done by the staff of the department, the situation has now largely improved. However, we still have challenges due to the sheer size of the Nakuru Teachers Court award were 52,000 retirees were awarded revised pensions.</p> <p>The PD has to process these files concurrently with the normal cases. The Nakuru Teachers court case involves the teachers who retired between 1997 and 2003. These cases were processed manually then.</p> <p>The NT has increased and improved capacity in the PD and by posting 30 Human Resources officers to the department. Please see evidence of such attached as Annex 6 and 7</p>	<p>The finding remains as reported</p>
<p>4.11 Best practice requires that, claims for officers whose mode of exit is marriage, on medical grounds, death or public interest should be submitted to PD earliest time possible after exit. Review of 135 files for officers whose mode of exit was marriage, medical grounds, death and public interest revealed that 104 claim files had submission dates while 31 lacked submission dates. Out of the 104 files with submission dates, only 6 (6%) claim files were prepared and submitted within 6 months from the date of officer's exit, 21(20%) claims took between 6 months and 1 year, while 77 (74%) claims took more than 1 year to be prepared as shown in Table 7.</p>	<p>4.11 We concur and will liaise with the MDAs to fast track the claims.</p>	<p>The finding remains as reported</p>

<p>4.12 Review of the 104 files with submission dates, indicated that for majority of the claims the delays could be attributed to errors and omissions, late submission of documents by the pensioners and dependants, late clearance of Government Liability and a combination of two or more of the above reasons. However, there was no indication in the files or valid explanation as to why 26 (25%) files were not submitted on time. These details are as shown in Table 8.</p>	<p>4.12 We concur largely with these findings, NT and PD are taking action and steps to address the situation now by training MDAs staff and collaborating with them.</p>	<p>The finding remains as reported</p>
<p>4.13 For a claim file to be accepted by PD for processing, it must be submitted by the authorized officer and must be free from errors and be complete with the necessary support documents. These include; letter of first appointment, confirmation, promotion/upgrading and retirement; last payslip; IPPD deletion sheet; certified copy of ID; bank details, clearance of government liability and income tax clearance certificate. However, review of seven out of nine incoming claims registers for the financial years 2015/16 and 2016/17 showed that out of the 12,965 claims received, only 4,985 (38%) were passed the first time they were submitted to PD. 7,980 (62%) claims had errors or lacked supporting documents and had to be returned to the ministries/departments of origin with remarks on the amendments or additional supporting documents required as shown in Table 9:</p>	<p>4.13 This is largely true but queries can be made at any stage while processing the claim.</p> <p>Please note that claims must be Approved by the Controller of Budget (COB). The Constitution of Kenya 2010 provides that the COB is an independent office which the National Treasury does not control.</p> <p>We have trained the MDAs and the situation has improved considerably.</p>	<p>4.13 Our finding is on claims that has not yet been accepted by PD. Our understanding is that only claims that have been accepted will be taken to the Controller of Budget as one of the review stages.</p>

<p>4.14 Further, analysis of the claims submitted to PD by four out of the ten sampled ministries/ departments during the financial years 2015/16 and 2016/17 revealed that 63% and 65% of the claims for the two years respectively, were returned to due to errors or lack of supporting documents as shown in Table 10.</p>	<p>4.14 We support this and measures are being taken to address the situation.</p>	<p>4.14 If the National Treasury would follow up to address the issues that are resulting to errors and omissions at the MDAs, and which are affecting majority of the claims, completeness of the claim files would be enhanced and these delays will be reduced/ eliminated.</p>
<p>4.15 Interviews conducted during the audit revealed that late submission of claims and submission of incomplete claims was to lack of communication strategy for pensioners and dependants, inadequate sensitization of employees by the Pensions Department and issuance of incomplete retirement notices as explained below:</p>	<p>4.15 This is not accurate See answer below.</p>	

Lack of communication strategy for pensioners and dependants		
<p>4.16 One of PD's functions is to carry out public communication with retired officers and their dependants on Public Service Pension Policy and Administration of their benefits. However, interviews conducted with the Public Relations division revealed that there was no communication strategy put in place to guide on communication modalities between the department and pensioners/dependants. Interviews with 53 pensioners and dependants at the PD's customer care division revealed that, the PD had not communicated with 26 (49%) of them while 27 (51%) did not respond to the question since they were a third party and did not have all the relevant information.</p>	<p>4.16 Pensions Department is a department under the National Treasury and therefore operates with the Strategic Plan and the Communication Strategy of the NT.</p> <p>The PD has domesticated the NT communication strategy and has a communications work plan.</p> <p>Please see the Strategic Plan and the communication work plan attached as Annex 9 and 10</p> <p>The department has a mandatory requirement to communicate to the retiree, dependant's and parent ministries, department and Agency in writing on the benefits due and on other pertinent issues related to their claim.</p> <p>The department also interact with clients and stake holders at the Pensions Department headquarters in Bima house, in the Huduma Centers country wide and through the Provincial Administration (we use Chief and County Commissioners).</p> <p>The Department can also be reached via Treasury website, www.treasury.go.ke.</p> <p>The Dpt. Maintains an active presence in the social media through its Facebook, twitter accounts and WhatsApp, Communication is also carried out through Telephone and suggestion boxes.</p> <p>Field visits are conducted regularly to assess performance in MDAs, the Huduma Centres and we also liaise with County Commissioners Staff.</p>	<p>4.16 We acknowledge the presence of a communication strategy (Though an approved document hasn't been provided) and have amended the finding to read '<i>lack of an effective communication strategy for pensioners and dependants</i>'.</p> <p>We find that the communication strategy in place focuses more on the primary audience as opposed to secondary audience where individual pensioners and dependants are as customers. One of the guiding principles in the strategy is an open two-way communication, which is clearly lacking as far as information flow between PD and the pensioners/dependants is concerned. Interviews with pensioners and dependants indicated that 49% had not received any communication while 51%, who received communication, did not respond to the question because they were either a third party and did not have all the relevant information or for unexplained reasons.</p> <p>There is therefore need for NT to improve on information flow to this kind of audience. While the PD is present on the social media and web-page, it is worth noting that majority of these customers are above 60 years old and may not be active on these platforms.</p>

<p>4.17 The Huduma Centres across the counties have a pension's desk that is supposed to act as a link between the PD headquarters and the customers by ensuring smooth communication and prompt resolution of all customer pension related matters. This is by checking status of delayed pension claims in the system, ensuring that letters written by the PD during processing of claims are properly interpreted to customers and assisting them understand the benefits they are entitled to. However, of the 53 interviewees, 45 (84%) indicated that they had travelled to the PD headquarters to enquire on the Status of their pension claims an indication that the Huduma Centres may not be offering satisfactory services</p>	<p>4.17 This is not entirely accurate.</p> <p>The PD introduced pension desks and officers in all Huduma centers and in all Counties in Kenya and they provide various services to pensioners and dependants. Huduma centers offer front office services and we have back end where the processing and payment takes place at Bima house Nairobi.</p> <p>However, we have not been able to have real time pension's enquiry in to the PMIS and this is being addressed through re-engineering to enable officers view PMIS real time.</p>	<p>4.17 A visit to Huduma Centres during the planning phase of these audit revealed that only the following services were offered at the PD Desks;</p> <ul style="list-style-type: none"> i. Enquiries about status of claims ii. Issuance of Application forms for dependants claims iii. Enquiries about monies returned by banks to PD due to non-collection and returned claims iv. Change of pay point <p>This means that if a pensioner's/ dependant's query at the Huduma Centre cannot be answered because it's a System issue, they have to travel to Bima House because they were not served satisfactorily. This is the case of 84% of the persons we interviewed at Bima house. An indication that much still needs to be done at Huduma Centres.</p> <p>We believe NT will address this and take this service closer to the people.</p>
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<p>4.18 In addition, the PD has not established a permanent public platform through which they can constantly interact with the general public concerning the Pensions Scheme other than using platforms organized by retirement Benefits Authority (RBA) and Kenya National Human Rights Commission (KNHRC). Since 2011, the PD's public relations division has been collaborating with RBA during national trade fairs. In 2017 KNHRC gave the PD an opportunity to speak to the public on matters relating to the Pensions Scheme during their three days public lectures. The collaboration with the two organizations came up as a result of pension enquires that were being raised by the public regarding the administration of the public service pension scheme during the public forums which could only be handled by the PD. This is an indication that the public is deprived of this information and results to seek the information in any forum that they would be listened to.</p>	<p>4.18 Not Accurate</p> <p>We wish to clarify that the PD has its own stand in all Agricultural Society of Kenya (ASK) shows through-out-the Country from the year 2018, but hitherto used the services and collaborated with the sister organization, the Retirement Benefits Authority (RBA) which is under the National Treasury.</p>	<p>4.18</p> <p>We acknowledge that from the year 2018, PD has established its own stand in the national trade fairs aimed at providing information to the citizens. However, in consideration of the fact that, trade fair events happen only once per year, and in less than half of the counties in the country, this is still not adequate to address the information needs of about 300,000 pensioners and dependants across the country.</p> <p>The National Treasury still needs to enhance information flow to potential pensioners, pensioners and their dependants.</p>
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Returned Pension		
<p>4.19 Further, analysis of monthly reports by the PD's accounts section showed that there was accumulated balance of the returned pensions amounting to Ksh 3.2 billion as at June 2017. This is the amount returned by banks to the PD due to provision of wrong bank account numbers, death of pensioners and dependants, change of bank accounts among other errors and which is not reclaimed. While some of the beneficiaries of the returned pensions are not aware of this money, some know but they do not know how to go about claiming it. The audit also noted that for returns made after June 2016, it is only Post Bank of Kenya that indicates the reasons for return. The other banks have not been indicating and this poses a challenge to the PD as they cannot take action especially in cases where account holders are deceased and requires removal from the payroll.</p>	<p>4.19 We concur with your findings.</p> <p>The returned pension of Ksh3.2Billion is the cumulative figure over the years as at 2017. The PD processed and paid over Ksh63.5 billion in the year 2017/18 alone. In the year 2016/17 it paid Ksh58 billion and yet in the year 2015/2016 it was Ksh45 billion.</p> <p>The PD is addressing the issue of the returned pensions through PMIS Re-engineering, sensitizing the Banks and pensioners.</p> <p>From February 2019 the PD is conducting pensioner head count for all pensioners paid by the PD. This exercise will cleanse the payroll and be used to sensitize pensioners on the requirement that they must communicate to the PD when they change their banking particulars or when a pensioner passes on.</p>	<p>4.19 The head count is commendable. The National Treasury needs to rethink proof of life other than just waiting for pensioners and dependants to report deaths, this has not been very effective and may still not be in future.</p>

<p>4.20 There was no valid explanation why the PD lack a communication strategy and in it's absence the pensioners/ dependants lack knowledge on the benefits entitled to them, what documents they are expected to submit and when to submit in claiming their benefits. The effect of dependants having no knowledge about the benefits entitled to them is that, they may lose their entitlements after the death of a serving officer or pensioner, despite the availability of these benefits. While some get to know of their entitlement later in life, the process of recovering such benefits is usually much more tedious than when claiming them immediately the death occurs.</p>	<p>4.20 This is not accurate. Please see answer in 4.16</p>	<p>Response addressed in 4.16 – 4.19</p>
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<p>a) Inadequate sensitization of employers by Pension Department</p>	<p>Not accurate Kindly see your finding in 4.21 where you acknowledge that the PD sensitizes the MDAs.</p>	
<p>4.21 The Pensions department is charged with the responsibility of advising the government on matters relating to pensions administration. This includes sensitizing officers from the ministries/departments who are involved in preparation and submission of pension claims to the PD. The aim of sensitizing officers is to ensure accuracy and timeliness in preparation and submission of pension claims. Interviews with officers at the PD revealed that between 01 July 2015 and 06 July 2017, three sensitization workshops initiated by the PD were held with various ministries/departments. The need for this sensitization was triggered by various shortcomings that the PD was experiencing in claims preparations and submission by Ministries/Departments. These shortcomings ranged from poor filling of GP 178 and 21, improper attachment of supporting documents, non-attachment of required documents to re-submitting of claim files without attending to amendments done on claims.</p>	<p>4.21 The department continue to organize these workshops and continue to receive request to facilitate and train MDAs.</p> <p>We wish to clarify that Advising the Government on pension's matters is not the same thing as sensitizing staff on pension's matters.</p> <p>In all MDA there is the Human Resources department (HR) and in the HR department there is always the Pensions section. The officers in HR are very much Informed on matter to do with pensions payment and calculation.</p> <p>We shall pass this message to the MDAs to improve their processing and bring the files to PD on time.</p>	<p>4.21 Our finding is that the sensitization was done but was not effective since the situation did not improve. In the 10 sampled MDAs, we interviewed Heads of Human Resource and personnel dealing with pensions and they indicated they lacked adequate training/ information.</p> <p>We believe that if the National Treasury continually engages with these staff at MDAs in addition to taking disciplinary action where necessary, the submission and completeness of files will greatly improve.</p>

<p>4.22 The workshop held in 2015 was to sensitize the claims officers on the regulations governing pension preparation and payment, how to prepare the claim and the covering letter. This workshop involved all the 10 sampled ministries/departments. In 2016, another sensitization workshop was held to help the claims officers minimize delays in preparation and submission of pension claims to the PD where 4 out of the 10 sampled ministries/departments were involved. A workshop on verification of pension claims was also held between 05 June and 06 June 2017 where 2 out of the 10 sampled ministries were involved. Out of the samples 10 ministries/departments, only 3 got involved in the three sensitization workshops.</p>	<p>4.22 We concur and say that the department will continue to organize these workshops and to train personnel as they receive request to facilitate in MDAs.</p>	<p>The finding remains as reported</p>
<p>4.23 However, analysis of claims prepared after the sensitization workshops revealed that quality of output did not improve since for 51% of the claims, there was no reason for delays while 37% of causes for delay were still attributed to claim preparation in ministries/departments. Only 11% were as a result of delays in submission of documents by pensioners/dependants. In addition, only 3 out of 10 sampled ministries/departments forwarded one (1) claim each at least 9 months prior to the date of officers' exit as shown in Table 11.</p>	<p>4.23 We concur and say that the department and say that there is job mobility in MDA and the PD will continue to organize these workshops.</p>	<p>The finding remains as reported</p>

<p>4.24 The analysis above indicates that ad hoc sensitizations have not been effective and as a result the Ministries/ departments keep submitting erroneous and incomplete claims file which cannot be processed. This leads to inefficiency at PD as they keep returning claim files for updates. The pensioners/ dependants thus must wait longer for their payments to come through.</p>	<p>4.24 We concur with these findings and MDAs should be advised to improve.</p>	<p>The finding remains as reported</p>
<p>c) Issuance of incomplete retirement notices</p>	<p>This is the mandate of the Human Resources personnel in MDAs</p>	
<p>4.26 Interviews and review of documents however revealed that out of the ten ministries/departments sampled, only four had a checklist which they used to confirm the accuracy and completeness of claims before submission to the PD. Out of the four, only one of the checklist conformed to the standards of the PD's checklist in terms of content while the other three lists were not comprehensive.</p>	<p>4.26 This is not correct.</p> <p>We wish to state that we have provided all MDAs with check lists in the past and will continue</p> <p>This is the mandate of Human resource staff in the MDAs and they will be informed to do better.</p>	<p>4.26 Documentary review of the checklist in use showed otherwise. The back and forth communication between the PD and MDAs before files are accepted for processing is clear proof that providing the checklist is by itself not enough. <i>For example, as indicated in Para 4.13, review of seven out of nine incoming claims registers for the financial years 2015/16 and 2016/17 showed that out of the 12,965 claims submitted to PD 7,980 (62%) claims had errors or lacked supporting documents and had to be returned to MDAs of origin with remarks on the amendments or additional supporting documents</i></p> <p>The National Treasury might need to follow up and be stricter on the use of and adherence to the checklists provided.</p>

<p>4.27 Review of 70 notices for retirement from pensioners' files randomly drawn from the sampled ten ministries/ departments revealed that, on average 7 out of 10 ministries/departments issued notices for retirement at least one year before the date of exit. The other three ministries/departments issued notices 9, 10 & 11 months prior to officers' date of exit which is less than the stipulated one year. Out of the 70 notices reviewed, only 5 from 2 of the samples ministries/departments had requested for all documents, while 6 notices did not request for all documents. Further, of the 70 notices issued, only 5 had stipulated the time frame within which officers should submit the documents, while 65 notices did not give a time frame as shown in Table 12.</p>	<p>4.27 This is the work of Human resource staff in the MDAs and we will inform them to do better.</p>	<p>4.27 The National Treasury has an upper hand as far as issues regarding pensions are concerned. Any failure to the pensioners/ dependants is seen as failure by the NT as opposed to MDAs. It is therefore the onus of the NT to ensure compliance to the laid down procedures/ regulations by the MDAs and to institute disciplinary action as per the stated Circular.</p>
<p>4.28 Interviews with officers involved in claims preparation in the ten sampled ministries/ departments indicated that delay in submission of documents by pensioners was the most prevalent cause for delay in preparation of claims. However, the analysis above shows that preparation of claim files is the main cause of delays as well as inefficiencies at the Ministries/departments since there was no reason for delays for most claims. The effect of issuing incomplete notices is that inadequate information is provided to the pensioners therefore they submit incomplete information and the claims has to be returned by the PD resulting to delays in processing.</p>	<p>4.28 We concur and support. This is the work of Human resource staff in the MDA and they will be informed to do better.</p>	<p>Informing them to do what they already know they should be doing may not yield much success. We believe if The National Treasury becomes stricter on the adherence of the laid down regulations and procedures, there will be great improvement in delivery of this service.</p>

<p>4.29 The effect of delays in submission of claims and submission of incomplete and/or erroneous claims is the prolonged time pensioners have to wait to receive their pensions benefits since this further delays commencement in processing of claims by the PD. The pensioners and dependants also have to keep making numerous follow ups which is agonizing and draining considering that the pension payments was expected to be a sure source of income after exit of service.</p>	<p>4.29 We concur and add that this is the work of Human resource staff in the MDAs and they will be informed to do better.</p>	
<p>C. Inadequacies in the Pension Management Information Systems</p>	<p>This is not accurate</p>	
<p>4.30 The Pensions Management Information System (PMIS) is the system used by the PD in processing and payment of pension benefits. The claimants' information is captured in the system at the data capture level after they are verified against the accompanying documents. The system uses the data captured to generate the amount payable according to the type of claim. The office of Controller of Budget verifies the accuracy of the claims through the system while the directorate level of the PD does the final approval for the award of the pension claim. The claims are finally sent to accounts section where the system generates a voucher and a letter addressed to the beneficiary with details of payment. The system users use an electronic alert to pass information from one stage of claim processing to the other.</p>	<p>4.30 We concur with your finding as a statement of fact and wish to clarify that the physical file move alongside the alert at every stage in the processing of pensions in the PMIS.</p>	

<p>4.31 The most important characteristics of any management Information System are those that give decision-makers confidence that their actions will have the desired consequences. Specifically, the systems should ensure relevance, accuracy, usefulness, timeliness and completeness. A good system should therefore eliminate data duplication, reduce errors, enhance data security, reliability, robustness and increase user confidence. The PMIS should therefore be a good and reliable system that can be trusted for data integrity. As at February 2018 the PMIS contained 306,712 records for pensioners and integrity tests using Structured Query Language (AQL) and analysis of these records indicate that the system falls short of characteristics of a good system since it has allowed:-</p>	<p>4.31 We wish to clarify that it is our understanding that the PMIS is a good system which has served the PD well since it was commissioned in 2009.</p> <p>The system is able to process the Pensions payroll which was hitherto done by the Government Computer Services (GCS).</p> <p>It has a calculation engine which automatically calculates the claim once data has been entered, it also has a work flow.</p> <p>It replaced the legacy system and eliminate data duplication, reduce errors, enhance data security, is reliable, robust and increase user confidence.</p> <p>This is why it has served the department well, but currently it needs Re-engineering for it to cover new grounds.</p> <p>The process of migration to the new servers has begun and will be completed in the next one month.</p>	<p>4.31 We acknowledge the success made so far in moving from the Government Computer Services to implementation of the PMIS which has brought great improvement.</p> <p>However, we recognize that there is still room for more improvement if the issues raised in our findings could be looked into objectively. That PMIS is being re-engineered confirms that it has some inadequacies that needs to be addressed for better service delivery.</p>
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<p>4.32 Enrolment entails capturing of pensioners/dependants details into the PMIS for processing. Notice for retirement is supposed to be issued to officers 1 year before their date of exit. Out of the 306,712 records that the team analyzed, 419 pensioners were enrolled into the system more than a year before they exited the service which is an irregularity. The total amount paid to the 349 of these pensioners was approximately Ksh556 Million while 70 have not been paid as indicated in Annexure 2. The system also revealed that 273 pensioners were enrolled into the system with enrollment dates indicating years beyond 2018 and the dates ranged between year 2022 and 2099. 117 of these pensioners have been paid approximately Ksh27 Million while 156 of them are yet to be paid as shown in Annexure 3. Though the PD indicated that these entries could have been in error, the total amount of Ksh583 Million paid out is significant to the pensioners awaiting payment.</p>	<p>4.32 Claimant enrolled more than one year prior to exit</p> <p>This is to clarify that there is nothing wrong with enrolling a prospective pensioner in then PMIS more than one year prior to retirement.</p> <p>The Treasury Circular states that claims should be brought at least nine months before retirement.</p> <p>Early enrollment does not mean that the person's starts receiving pensions immediately and thus receive both monthly pensions and salary at the same time.</p> <p>In the PMIS system we enter the date of retirement as mandatory requirement.</p> <p>There is Nakuru Teachers court case where the PD is required to revise cases of teachers who retired between 1997 and 2003 and are already in the PMIS since 2009. These are cases that were enrolled earlier and have paid pensions lumpsums and are in the payroll.</p> <p>There are officers who were retired through the Civil Service Reform Programme (staff Rationalization exercises) and appealed their Retrenchment to the Public Service Commission and were reinstated back to service though their pension's claims had already been submitted to the PD. Now when they eventually retire you will see that they were enrolled more than one year earlier.</p>	<p>4.32</p> <p>While we agree that the claim should be submitted at least 9 months before retirement, we also recognize that a retirement notice should be issued a year to retirement. What then does PD use to enrol any officer more than a year to retirement since no notice has been issued yet? If the system can enrol anyone anytime then it presents a window for abuse and errors as is the case of those whose enrolment dates are in the future.</p> <p>In addition, the NT did not provide an annexure listing the officers under the various categories indicated in the response i.e. the Nakuru teachers, those that had been retrenched, the members of Parliament and the Police. This makes it difficult for us to confirm if these are listed in our annexures or not. The finding therefore cannot be amended.</p>
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	<p>Members of Parliament (MPs) are paid pensions by dint of the Parliamentary Pensions Act, Cap 196. The Act allows MPs who have lost election and are re-elected back to parliament to refund their earlier benefits in order to qualify for a pension. Typically, such a person was enrolled in the PMIS when he lost the earlier elections.</p> <p>A court sanctioned reinstatement as was the case when courts ordered that officers who were retrenched be returned to service in 2007. There was also the case of 300 Police Officers reinstated back to the service. These officers had already been enrolled in the PMIS system when their claims were brought. Now when they eventually retire you find that they were enrolled more than one year to retirement date.</p> <p>Find attached Court orders as Annex 10</p>	
<p>4.33 Exit date is the last working date of an officer who is retiring from service. Claims that are forwarded to pensions department prior to an officer's retirement date should only be processed up to the level of Voucher Preparation if all documents are attached. At this point the processing have to wait for the IPPD deletion sheet which ensures the officer is no longer in the payroll, clearance for government liability as well as tax clearance certificate. These three documents can only be obtained after the date of exit. However, analysis of records in the PMIS revealed that 962 pensioners received their lump sum way before end of service date totaling to Ksh.1.6 Billion as detailed in Annexure 4 of the report. The range for the period the payments were done is as shown in Table 13:</p>	<p>4.33 This is not accurate</p> <p>Deletion sheet can be generated within the last month of retirement.</p> <p>We have checked the data and wish to confirm that the said 961 received their lump sums few days to their retirement. This is what should be the case. To say they received their benefits way 'before end of service' is not accurate.</p> <p>Lump sum amounts are only paid once and cannot be paid again. There is therefore no evidence that the department paid more than once.</p>	<p>4.33 The response that the said 961 received their lump sums few days to their retirement is not collect because time analysis between the exit date and the cheque date for the 962 cases ranges from one day to 3 years with a few cases going beyond 3years.</p> <p>The explanation provided is not adequate since the finding was based on the fact that the three documents i.e. the IPPD deletion sheet, clearance of Government liability and Tax clearance certificate can only be obtained after exit date. The explanation does not indicate how an officer who is deleted from payroll before the exit date, if at all that is allowable, would be paid the last dues. Even if IPPD deletion sheet would be obtained, the other two documents would still be required for any pension payment to be made and these documents must wait the exit date.</p>

<p>4.34 No valid explanation was provided as to why a pensioner could be paid while they were still in the payroll yet the IPPD deletion sheet is a vital requirement for final processing of pension dues. This would mean the officers were drawing a salary after receiving the pension which is irregular.</p>	<p>4.34 This is not accurate</p> <p>The deletion sheet submitted shows the last day in service and therefore no claim was paid pensions while at the same time drawing MDAs salaries.</p> <p>The Auditor did not show a single case that has been paid pensions while still drawing a salary.</p> <p>However, there are some officers who are reemployed after they have retired and their benefits processed. Such officers earn pensions while at the same time earning MDAs salaries and benefits.</p>	<p>All the officers in Annexure 4 who were paid lumpsum before exit date were also paid salary for the month(s) remaining to exit date.</p> <p>Explanation not adequate since any officer who is re-employed after retirement is usually contracted but cannot again be permanent and pensionable.</p>
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Claims with shared and irregular credentials and no tax pin	Not accurate	
<p>4.35 It is a requirement that every citizen above the age of 18 acquires a National Identification Card (ID) that uniquely identifies the person as a citizen. It is also mandatory that every citizen earning an income acquires a Personal Identification Number (PIN) for tax purposes. These two important credentials are standardized and are unique to each individual and each pensioner is therefore expected to have these two important documents. However, integrity tests on the 306,712 records revealed that 228,988 (75%) pensioners had either shared IDs, irregular tax PIN or lacked these credentials entirely and in total were paid an amount of approximately Ksh44.2 billion as shown in Table 14. The irregular IDs had either less than three or more than nine characters or contained characters like ‘&’ and ‘?’ as opposed to numerals. The irregular tax PIN did not start and end with alphabets and did not have the required 9 digits in between the alphabets. The details of these shared, missing and irregular credentials are contained Annexure 5a, 5b, 5c. No valid explanation was provided as to why the system would allow processing of payments without these important documents.</p>	<p>4.35 Not accurate</p> <p>The National Identification Numbers.</p> <p>Pension’s payment in Kenya begun in 1921 and therefore we have pensioners in our system who may not have the identification numbers the way we know it today.</p> <p>Prior to the PMIS installation in 2009 the personal number was the primary field in the ‘legacy system’. The use of different numbers, has not compromised the payment of pensions as most of these cases are migrated and that what is being paid is monthly pensions.</p> <p>Personal Tax Pin Numbers</p> <p>Prior to year 2004 pensions was exempt from taxation hence PIN numbers were not captured in the then pension system.</p> <p>Pensioners who retire after reaching 65 years of age are not taxed and include judges, politicians and lecturers.</p> <p>Records in PMIS are prior to independence when there were no IDs and the age of majority was 16 years (poll tax age).</p> <p>During the Colonial time and immediately after independence we had officers serving Kenya from other countries, like Tanganyika, Zanzibar, Uganda, Palestine, India (Commonwealth), Britain and Ireland. During the East African Community between 1966 and 1977 employees served in all the three countries irrespective of country of origin.</p> <ul style="list-style-type: none"> • Women in Kenya started getting IDs in 1979 yet they were/are in PD payroll and are paid as pensioners and dependants. • We also pay non-Kenyans without ID cards. 	<p>4.35 Currently in Kenya an ID is a must have document for everyone past the age of 18. For anyone to be in the PMIS they must have been a government employee and must have an ID. The National Treasury in the response annexures did not provide a list of those pensioners who are in the system and lived the days when ID was not a requirement. Additionally, if the system has a parameter called ID, and figures have been input under that parameter, then the system recognizes the ID.</p> <p>Personal Tax Pin Numbers: The explanation does not provide a concrete reason as to why the tax pin field was populated with wrong tax pin numbers and characters. A case by case explanation of the cases listed in the annexures has not been provided.</p>

d) Shared bank accounts		
<p>4.36 Further, tests on bank account numbers obtained from the system revealed that 870 account numbers are shared by 29,387 pensioners whose payment totaled Ksh21 billion as shown in Annexure 6. The explanation provided was that the sharing could have been beneficiaries or pensioners who are receiving several categories of pension. However, scrutiny of these date does not support the explanation as some of the account numbers do not follow the conventional banking rules e.g. an account number as '0' which is shared by 26,121 people. A system which allows such entries is prone to manipulation which may lead to funds being channeled to wrong individuals.</p>	<p>Shared bank account number</p> <p>The PD used to pay pensioners through the former Provincial Administration structure. These pensioners were paid cash through the District Officers, District Commissioners and Provincial Commissioners.</p> <p>The PD moved the payment of these pensioners to the Post Bank through an agreement in the year 2002. The department processes these payments and posts to the Post Bank for onward payment to the pensioners. There is therefore no loss occasioned by this mode of payment and payment is linked to the persons in the list.</p> <p>There are also pensions paid through the Public Trustee in the office of the Attorney General. These are Death Gratuity cases of the deceased Public officers. Each public trustee office has account code 000000 which is used to pay the deceased.</p> <p>There are cases of dependants where the children are paid through the widow or the guardian. We enroll all the children and therefore one may think that two or more persons are sharing one account.</p> <p>A pensioner may earn more than one type of pensions for example earn a 5 year Dependants' pensions as a wife, while at the same time earn under WCPS and may also earn Killed on duty dependants pension and also be a pensioner on her own right. In this case one account is being used to pay two or more claims.</p> <p>Please find the Memorandum of Understanding (MOU) between the NT and Post Bank attached as Annex 11</p>	<p>-The audit reports on account numbers shared by different pensioners and not code numbers</p> <p>How can the two or more children be identified as being paid under one principal in the PMIS? There should be an identifier that these children share in order to be recognized as one in the system. Additionally, no evidence has been provided to show that the claimants we listed are related dependants to one principal or that it is the same pensioner earning different pensions, in which case names and other identifiers should have been uniform.</p>

<p>e) Enrollment of officers whose terms are not on Pensionable basis</p>		
<p>4.37 For an officer to qualify to be paid pension, they should have been confirmed into permanent and pensionable terms of service. A confirmation letter is required to accompany a pension claim to PD as evidence that the officer is eligible for pension. However, analysis of IPPD data obtained from the 10 sampled ministries/ departments indicate that out of the 662 officers that were not on permanent and pensionable terms of service, 213 (32%) of these officers had been enrolled into the PMIS as pensioners and paid approximately Ksh492 million as detailed in Annexure 7 and as summarized in Table 15. Though the explanation provided is not probably these could have been support staff who were getting annual allowance, it's not clear how a casual could for example get an allowance of over a million as is the case of about a hundred of these payees.</p> <p>4.38 Though in most cases the staff of PD indicated that there could have been errors when the system was being migrated in 2009, the explanation does not appear valid since as at the time of audit in 2018 which is 9 years after migration, the errors ought to have been noted and corrected.</p>	<p>4.37 This is not accurate.</p> <p>Let me clarify that pension payment is done vide various acts of parliament with different provisions and requirements.</p> <p>In the case of the Pensions Act Cap 190 there are officers who are employed or are enlisted directly without the need for being placed on Permanent and pensionable terms. These include the disciplined forces, the judges and here there is no requirement for permanent and pensionable terms of service.</p> <p>Let me also clarify the issue of support staff. Support staff are not casual staff but staff on permanent but not pensionable terms, generally. Under Regulation 27 of the Pensions Act, support staff who have served for 32 years are paid Alimentary Allowance for life and are enrolled in the PMIS. Also note that support staff on Job Group 'e' and above are now 'pensionable' and earn pensions.</p> <p>Officers who are killed on duty or those officers who are retrenched or whose offices are abolished are treated as having served for ten or more years' and their dependants paid pensions, as the case may be, even if they were not admitted to permanent and pensionable terms.</p> <p>Pensions is also paid to officers who die but have not yet been confirmed on appointed.</p>	<p>4.37</p> <p>We used the IPPD data from the ministries which is deemed to be accurate in giving the status of employment for each officer in the payroll. The National Treasury has not explained how PD marks the employee as "PER" yet records from the parent ministry states otherwise. IPPD does not have a parameter called "PER".</p> <p>In annexure 7 we provided a list and NT should have analyzed case by case basis for us to agree with the response.</p>

<p>The anomalies are evidence that the Pension Management Information System lacks integrity and puts to risk an amount of Ksh 67.9 billion as summarized in Table 16</p> <p>4.39 The Ksh67.9 billion paid to 114,215 claimants which is at an average of Ksh 594,267 million per claimant. The system still contains 146,027 claimants who at the time of audit in June, 2018 had not been paid and if they are each to be paid the same average of Ksh594,267 million, a further amount of at least 86.8 billion could be at risk if they system errors are not corrected.</p>	<p>In the case of the Members of parliament they are paid as per the Parliamentary Pensions Act Cap 196. This act has no requirement for Permanent and pensionable terms of service.</p> <p>We have checked the said pension numbers and wish to confirm that those officers listed by the auditor were placed on permanent and pensionable terms and that in the system they have been captured and given a code “PER”.</p>	
<p>4.40 The audit attributes the system anomalies to lack of separation of duties for PMIS administration and lack of system triggers which could detect and flag such irregular entries. Personnel involved in the administration of systems include; Database administrator, system administrator, Programmer and Networking and Security administrator. Segregation of duties ensures prevention of conflict of interest, wrongful acts, abuse and errors. It also helps in detection of control failures that include security breaches, information theft and circumvention of security controls. Segregation of duties therefore ensures that individuals do not have conflicting responsibilities or are not responsible for reporting on themselves or their superior.</p>	<p>4.40 and 4.41 This is not entirely accurate and we wish to clarify that Segregation of duties is provided for in the PMIS. Which is Role Based and provides for different rights for different group of people.</p> <p>We have a systems Administrator who assigns the said roles to different categories of users.</p> <p>The PMIS has got a data base administrator who assigns the support roles to the ICT staff whose duty is to support the PMIS and other infrastructure, Like Networks in the PD.</p> <p>Kindly note that the PMIS servers are in a different secure data center which is managed separately by a different organization.</p>	<p>4.40 – 4.44 During the audit, the audit team only interacted with the head of ICT who came in when the team needed to talk to the system administrator and to the database administrator. The head of ICT also confirmed that he manages the system and that when there are technical issues during claims processing e.g. wrong data entry and wrongly assessed claims, these are also verified and approved by the head of ICT.</p>

<p>4.41 A Database administrator is responsible for the day to day running of the Database. He plans, designs, install and monitor performance of the database. He also performs data backup and recovery as well as troubleshoot the database on a day to day basis. A system administrator is responsible for the running of all the computer system running the database, while a programmer patches logic of incoming operational changes. Networking and security officer has the role of installation of both software and hardware security measures put in place to ensure that there are not internal and external threats.</p>		
<p>4.42 Best practice requires that these duties be handled by difference personnel to mitigate conflict of interest, wrongful acts, abuse and errors. These segregation of duties is lacking in the administration of Pensions Management Information System. As a database administrator, the PD IT officer stores and organizes data that relates to pensioners and dependents in the PMIS. This also entails backing up of the data and ensuring its security.</p>	<p>4.42 See above</p>	

<p>4.43 As the system administrator this IT officer ensures he allocates passwords to the various staff that access the system and also ensures that boundaries to access information from the system are well set. Additionally, he ensures that file alerts move promptly from one Division to another to ensure smooth work flow. As a programmer he effects changes into the system, for example to ensure that PD complies with a new Act, an amendment to an existing Act or a Regulation that affects pension. This poses the risks such as inappropriate or unauthorized transaction and administrative errors which may not be detected. The officer plays all these roles with all the privileges of manipulating the system, which can also bring about conflict of interest</p>	<p>4.43 See above</p>	
<p>4.44 The effect of the anomalies contained in the PMIS is irregular payments that have compromised the operations and has resulted to many beneficiaries waiting for too long to get paid yet the provision of funding for payment of pensions during the period under review has been at 97%. This has denied the authentic claimants their pay thus negatively affecting their livelihoods.</p>	<p>This is not accurate</p> <p>4.44 We wish to clarify that there are no anomalies in the PMIS as it has segregation of duty and roles. There is therefore no case pointed out of irregular payment to pensioners.</p> <p>The PD has got physical files as back up in case or any a normally in the PMIS was to be detected.</p> <p>We respectfully disagree with this finding.</p>	

<p>D. Lack of procedures to identify deceased pensioners and dependents.</p>		
<p>4.45 Section 20 of the Widows and Children Pensions Act requires PD to obtain proof that the claimant of pension is alive and in case beneficiaries fail to furnish the department with such proof, payment may be refused until this requirement is met. Upon death of pensioners and dependants, PD is supposed to remove their names from the payroll in order to stop further payments to their bank accounts.</p>	<p>4.45 The PD has put in place measures to identify the correct beneficiaries of the deceased pensioners. The Treasury has written circulars to all MDAs requiring them to request all officers to nominate their next of kin.</p> <p>Beneficiaries come to the Huduma centers and Bima house personally with these documents to be certified. These documents include the ID cards, birth certificates, death certificates.</p> <p>Please see the circular attached as Annex 12</p>	<p>4.45, 4.46 & 4.47</p> <p>The finding is about proof of life and not about nomination of next of kin. The response does not provide an explanation as to why PD continued to pay into the accounts of deceased pensioners and dependants for a period ranging from one month to seven years.</p> <p>The fact that PD is carrying out a headcount exercise for pensioners and dependants is evidence enough that PMIS has no adequate measures in place to identify such cases in good time.</p> <p>Continued reliance on feedback by the banks alone may not help eliminate/minimize payments to accounts of the deceased.</p>

<p>4.46 However, interviews with staff at the PD disclosed that pensioners and dependants do not present life certificates and neither do PD follow up to have them submitted. There are also no triggers in the system for payment to be stopped after a certain period of time to necessitate furnishing of proof of life. On the contrary the PD relies on expectation that the family of the pensioner will report the death to the Pensions Department with the original and a copy of the Death Certificate along with the pension number of the deceased for certification. PD also relies on banks to return non-collected pension dies to the Accounts Section and family members to make such declarations. These declarations are usually not made in time especially in cases where family members have access to the bank accounts of the deceased pensioners and dependants</p>	<p>The PD uses the offices and services of the Provincials Administration like chiefs to identify, verify and authenticate beneficiaries.</p> <p>We use the services of the Registrar of births and deaths and also the services of the Registrar of Persons.</p> <p>Upon the death of a pensioner the chief would take the ID card of that person and the person typically will not be able to withdraw money from the banks. If one withdrew money using the deceased banking particulars, then that is fraud and criminal with the attendant consequences.</p> <p>Upon death of a pensioner the PD also gets documents from the Judiciary in the form of Letters of Administration and Confirmation of Grant. The department gets also Court orders from court and must comply.</p>	
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<p>4.47 Review of a sample of 271 returns from Post Bank of Kenya and the Kenya Commercial Bank for the Review of a sample of 271 returns from Post Bank of Kenya and the Kenya Commercial Bank for the period between 2012/13 and 2015/16 revealed that PD continued to pay into the accounts of deceased pensioners and dependants for a period ranging from one month to seven years as shown in Table 17.</p>	<p>4.45, 4.46 and 4.47 Payroll cleansing and pensioner head-count for all pensioners</p> <p>The PD is currently doing a Payroll cleansing and pensioner head-count for all pensioners. This exercise begun in February 2019. We hope to be able to update the payroll and know those who are alive and those that are deceased.</p> <p>We are also talking to the Banks so that every pensioner should be able to avail himself or herself in person to the bank at least once every year.</p>	
<p>4.48 There is therefore a likelihood that; banks do not return all the non-collected pension payments and; dependants of deceased pensioners continue to receive payments indefinitely thus denying authentic beneficiaries.</p>	<p>We are in the process of Re-engineering the PMIS and have included a module to integrate with the Registrar of Births and Deaths and Registrar of Persons and also to have pensioners biometric data captured.</p> <p>When a principal pensioner dies the PD normally would process five year Dependents pensions to the beneficiaries and also benefits under the Widow and Children’s Act, Cap 195. Any overpayments are normally recovered from the dependants’ benefits.</p> <p>For the dependants pension the cutoff date in the system is five years, when it automatically stops. For the children’s pensions the cuts off date is age 24 years for the last born in the family and it automatically stops.</p>	

<p>E. Delay in operationalization of the contributory scheme.</p>		
<p>4.49 The Civil Service Pension Scheme is currently operated under a non-contributory defined benefit plan under the Pensions Act, Cap 189. The scheme is not funded and no assets have been set aside or invested. Pension benefits are paid out of the Consolidated Fund from general revenues. Over the years the civil service pension liability has been increasing with a possibility that this fiscal burden could over time rise to unsustainable levels and hence impact on other priority expenditure.</p>	<p>4.49 We concur with this statement of fact.</p>	
<p>4.50 In a move that was meant to reduce the increase of the number of new pensioners, the government raised retirement age from 55 to 60 years with effect from 01 April 2009. The period of the five years was meant to create room for the government to budget for resources to fund a contributory scheme, allow for its introduction and operationalize it. However, as at the time of audit in June 2018, 9 years had lapsed and the contributory scheme was not in place.</p>	<p>4.50 It is true that the Public Service Superannuation Scheme (PSSS) Act 2012 was signed into law in the year 2012 and that it has not been implemented to date.</p> <p>It is NT that played a leading role in coming with the Bill and even sensitized all MDAs and the staff on the provisions of the Bill and now Act.</p> <p>However, the implementation of PSSS Act has had challenges:</p> <p>The development partners first raised issues with some provisions in the Act. The first issue was the Recognition Bonds which was to be issued to officers to cover for the past service. This according to the Development partners would have made the implicit debt, explicit and therefore made our debt rating high.</p> <p>The NT therefore proposed amendments to the act and the Act was amended in the 2015/16 Financial year through the Finance Act.</p>	

<p>4.51 The Public Service Superannuation Scheme Act, 2012 gives provisions for the Establishment of the Board of the Board of Trustee and its composition. This Board will be accountable to the Government and the Members of the Scheme and will be responsible for setting up a National Pensions Fund. Currently, the Chairman of the Board has already been appointed. Members of the Board are also provided for in the Act, but are yet to be gazetted. The functions of the Board as stipulated in the Act include; collecting contributions from members, optimally investing the contributions collected, protecting members' contributions as well as providing pension and other benefits to the members of the Scheme and their dependants.</p>	<p>4.51 The National Treasury in the year 2017/18 prepared for the scheme and Treasury budgeted Ksh.17.9 Billion for the Government part of the contributions. The NT also started sensitization of all staff. The NT also appointed the Chairman of the Board of Trustees and requested various organizations to forward names of their representatives to the board. All organizations forwarded their representatives to be appointed by the Cabinet Secretary, except the Unions who refused and threatened to go to court. Eventually after lengthy discussion all the unions agreed to join the board except the Kenya National Union of Teacher (KNUT) who have remained adamant and refused to join the board, threatening to go to court.</p> <p>In the Financial year 2018/19 the budget for the Government contributions was slashed to Ksh10 billion by the National Assembly. This budget is not enough to finance the scheme with the current membership as per the Act. Efforts are being made to raise the budget.</p>	
<p>4.52 The Act also provides for appointment of the Chief Executive Officer (CEO) by the Board of Trustees and who will be the Secretary to the Board and responsible for the Management of the National Pensions Fund. The Board is also expected to appoint an Administrator of the Scheme whose functions among others include; opening retirement savings accounts for each member with a personal pension number, credit the members' retirement dues which includes making all calculations necessary. However, as at June 2018 the Administrator of the Scheme had not yet been appointed.</p>	<p>4.52 This is accurate.</p>	<p>The finding remain as reported</p>

<p>4.53 The public Service Superannuation Scheme Act was enacted in 2012 to establish the Contributory Public Service Superannuation Scheme for providing retirement benefits to persons in the public Service and for connected purposes. The Contributory Scheme aimed to improve social security of members by pooling employees ‘and employers’ contributions, ensure that members receive their retirement benefits as and when they become due, and ensure uniformity in the administration and payment of retirement benefits. Membership to the Scheme would be mandatory for serving employees below the age of 45 years, optional for those aged 45 years and above and all new employees appointed to the Service would be required to join the Scheme. All members of the scheme would be required to contribute 7.5% of their basic salary to the scheme while the Government would contribute 15%.</p>	<p>4.53 This is accurate</p>	
<p>4.54 Despite the pension burden being on the increase at an annual average rate of 25% during 2012/13 to 2016/17 financial years as show in Table 18, the government has not implemented the Scheme that was mean to ease the pension burden.</p>	<p>4.54 In the meantime, the burden may not lessen even if the new scheme was to commence because the Government will continue paying those who are promised benefits under the old scheme and also pay for contributions for those who join the new scheme.</p>	

<p>4.55 Interviews with the staff at the PD revealed that the major reason as to why the Scheme is not year operational is because the Act also indicates that should the Government fail to make a contribution in any month, a penalty at the rate of the return of the Fund for the previous financial year shall apply on the unpaid amount. Section 6(3) further indicates that these contributions shall be a direct charge on the Consolidated Fund. These poses a challenge because the Government must set funds aside so as to operationalize the Contributory Scheme without the risk of incurring penalties for defaulting. These funding has not been set aside yet.</p>	<p>4.55 See the reasons enumerated above.</p>	
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Performance Audit Recommendations

- 6.1 Holding PD accountable for the delay. From your findings it is clear that the delay also arise from the Ministries, Departments and Agency (MDA). The National Treasury is putting measures in place to improve human resources as well as other resources like the PMIS system. That at the moment the consultancy firm has completed and delivered a strategic plan on PMIS reengineering.
- Secondly the process of migrating data to the new IFMIS super serves has begun.
- Thirdly, the PMIS Reengineering is in the procurement stage.
- The National Treasury is going on with training of MDAs staff with a view to minimizing the mistakes in the claims processing and also sensitizing the staff in the public service.
- 6.2 This is being addressed.
- 6.3 This is being addressed.
- 6.4 This has always been in place.
- 6.5 Currently the PMIS is being re-engineered.
- 6.6 The use of Life certificates was discontinued in 1979 since it allowed the pensioner family to be paid even after the death and especially if the principal pensioner died immediately after signing the certificates; it also has integrity issues as some people were signing for deceased pensioners. The National Identification Cards was introduced to all Kenyans including women in 1979 and when one passed on it is taken by the Chiefs therefore cannot be used to withdraw their benefits. We note however that now there are new challenges brought in by the use of Internet Banking and Automate Teller Machines (ATMs). The department is currently doing pensioner headcount and payroll cleansing and is also exploring the use of biometrics to address this challenge of mobile banking and ATMs.

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