

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

THE NATIONAL ASSEMBLY
PAPERS LAID

15 AUG 2013

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BY:

HON. ADEN DUVAL

LEADER OF MAJORITY

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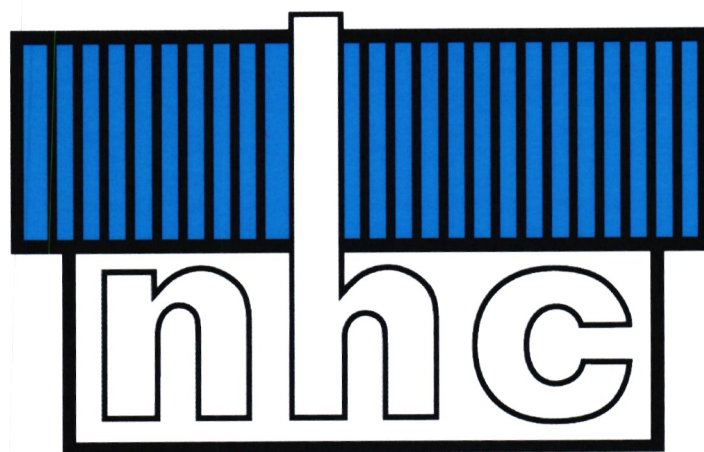
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
NATIONAL HOUSING CORPORATION**

**FOR THE YEAR ENDED
30 JUNE 2018**



NATIONAL HOUSING CORPORATION



ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2018

Prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS)



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BACKGROUND INFORMATION

National Housing Corporation (NHC) is a statutory body established by an Act of Parliament, Cap. 117 of the Laws of Kenya. The primary mandate of NHC is to play a principal role in the implementation of the Government's Housing policy. At Cabinet level, the entity is represented by the Cabinet Secretary, Ministry of Transport, Infrastructure, Housing and Urban Development who is responsible for the general policy and strategic direction of the Corporation.

OUR VISION

Sustainable and decent housing for Kenyans

OUR MISSION

To efficiently provide and facilitate access to innovative housing solutions

OUR CORPORATE VALUES

- Professionalism and excellence
- Integrity, transparency and accountability
- Customer focus
- Commitment/loyalty
- Teamwork/unity
- Innovation and creativity
- Equity
- Environmental sustainability

PRINCIPAL ACTIVITIES

National Housing Corporation (NHC) is established under the Housing Act, Cap. 117 of the Laws of Kenya

The principal roles of NHC are:

- Development of decent and affordable housing.
- Facilitation of Rural Housing development.
- Mobilization of Local and International capital for Housing development.
- Forging partnerships with the County governments, Cooperative Societies, Private Sector and other stakeholders in housing development.

DIRECTORS

The directors who served the Corporation during the period 2017/2018 were as follows

- | | | |
|--------------------------|---|---|
| 1. Francis Gitau Mungai | - | Appointed on 17 th April 2015(Chairman-Effective 13 th November 2015) |
| 2. Henry Rotich | - | Cabinet Secretary, National Treasury |
| 3. Charles Hinga Mwaura | - | Principal Secretary, Ministry of Transport, Infrastructure, Housing and Urban Development |
| 4. Mohamud Noor Ali | - | Re-appointed on 12 th October 2015 |
| 5. Wainaina Kenyanjui | - | Re-appointed on 6 th June 2018 |
| 6. Gladys Mboya | - | Re-appointed on 6 th June 2018 |
| 7. Phillip Wachira | - | Alternate Director State Department of Infrastructure |
| 8. Jane Mwangi | - | Alternate Director State Department of Housing & Urban Development |
| 9. Pamela A. Dede | - | Representing State Department for Investment and Industrialization |
| 10. Naomi Matheri | - | Alternate to the Cabinet Secretary, National Treasury |
| 11. Andrew Saisi | - | Managing Director |
| 12. William K. B Keitany | - | Ag. Corporation Secretary |

Ag. Corporation Secretary

William K. B. Keitany
NHC House, Aga Khan Walk
P.O Box 30257 – 00100
Nairobi, Kenya



CORPORATE INFORMATION

Corporation Headquarters:

NHC House
Aga Khan Walk
P.O. Box 30257 - 00100
Nairobi, Kenya

Corporation Contacts:

Telephone: +254 3312149/7
E-mail: info@nhckkenya.co.ke
Website: www.nhckkenya.co.ke

Corporation Bankers:

Kenya Commercial Bank Ltd.
Moi Avenue Branch
P.O. Box 30081 - 00100
Nairobi, Kenya

National Bank of Kenya
Harambee Avenue Branch
P.O. Box 41862 - 00100
Nairobi, Kenya

Co-operative Bank of Kenya
Co-op House Branch
P.O. Box 67881 - 00100
Nairobi, Kenya

Independent Auditors:

The Auditor General
Kenya National Audit Office
P.O. Box 30084 - 00100
Nairobi, Kenya

Principal Legal Advisers:

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

THE BOARD OF DIRECTORS

Architect Francis Gitau Mungai



Architect (Arch.) Francis Gitau Mungai born in 1957 is the Chairman of National Housing Corporation. He joined the Corporation in April 2015 as a Director, and was appointed the Chairman of the Corporation in November the same year. He is an Architect by profession and is a founder partner of Aaki Consultants, a leading firm of Architects and Urban Designers in Nairobi. He has a vast experience spanning over 30 years in Architectural Design and Contract Management. He has excellent leadership skills having been Chairman of various bodies, among them is Architectural Association of Kenya (AAK), Kenya Private Sector Alliance (KEPSA) Building and Infrastructure Board, Commonwealth Association of Architects (CAA) where he was the Vice President Africa region among others. As the Chairman KEPSA Infrastructure board, he was a member of a team that was advising the then Minister for Nairobi Metropolitan which was nearly formed Ministry. He is currently a member of Board of Family Bank Limited, one of the leading indigenous banks where he sits in both Human Resource and Credit committees. He is also the Chairman of Faculty Advisory and Building Committees of the Diocese of Mt. Kenya South.

In his Architectural practice, Arch. Mungai has been involved in the design and supervision of a number of major commercial, institutional and housing schemes one example being over 800 houses for Mwalimu Sacco in Kitengela. He has also done Master planning for a number of institutions including universities. He was a lecturer at the University of Nairobi in Architecture and Building Sciences Department where he focused on Architectural and Urban Design Studios, as well as Professional Practice and Management. Arch. Mungai holds a master's degree from the University of California (UCLA) Graduate School of Architecture. He also has a Bachelor degree in Architecture from University of Nairobi where he graduated with First Class Honors. Arch. Mungai is a fellow of the Architectural Association of Kenya (FAAK) and is registered by the Board of Registration of Architects & Quantity Surveyors (BORAQS) in Kenya.

Mr. Henry Rotich



Mr. Henry Rotich, the Cabinet Secretary, the National Treasury, born in 1969, holds a Master's Degree in Economics and a Bachelor's Degree in Economics (First Class Honours), both from the University of Nairobi. He also holds a Master's degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University.

Prior to his appointment as Cabinet Secretary, he was the Head of Macroeconomics at the Treasury from March 2006. Under this capacity, he was involved in the formulation of macroeconomic policies that ensured an efficient and sustainable public spending aimed at achieving the Government's development priorities. In addition, he was involved in the preparation of key documents including budget statements, as well as providing a strategic coordination of structural reforms in fiscal and financial sectors.

Prior to joining the Ministry of Finance, Mr. Rotich worked in the Research Department of the Central Bank of Kenya from 1994. Between 2001 and 2004, he was attached to the International Monetary Fund (IMF) local office in Nairobi as an economist. He was also a director in several boards of State Corporations, including: Insurance Regulatory Board; Industrial Development Bank; Communication Commission of Kenya and the Kenya National Bureau of Statistics.

Charles Hinga Mwaura



Charles is a Chartered Accountant (CA) and holds a Bachelor of Commerce (Accounting) degree from Kenyatta University and a Bachelor of Accounting Science (Honors) from University of South Africa.

His core competencies include project and structured finance, deal structuring and business development. Charles has successfully led a number of landmark advisory mandates including the R1.5 billion City Of Johannesburg Broadband Network Project, PRASA restructuring and recapitalization plan, Phase 1B of Rea Vaya Rapid Bus Transportation System and Integrated Rapid Transport Network Project , just to mention a few.

Until the time of his appointment as the Principal Secretary of Housing, Urban Development and Public Works, he was the Group Chairman of an advisory boutique with presence in South Africa and Kenya.

Engineer Mohamud Noor Ali



Engineer (Eng.) Mohamud Noor Ali was born in 1953. He is an Engineering professional with over 20 years extensive experience and significant executive leadership accomplishments in state owned institutions and business. Eng. Mohamud Noor Ali possesses strong diplomatic and excellent management skills as well. He holds a Master of Science Degree (Msc.) (Civil Engineering), from Moscow Institute of Hydro technical Engineering.

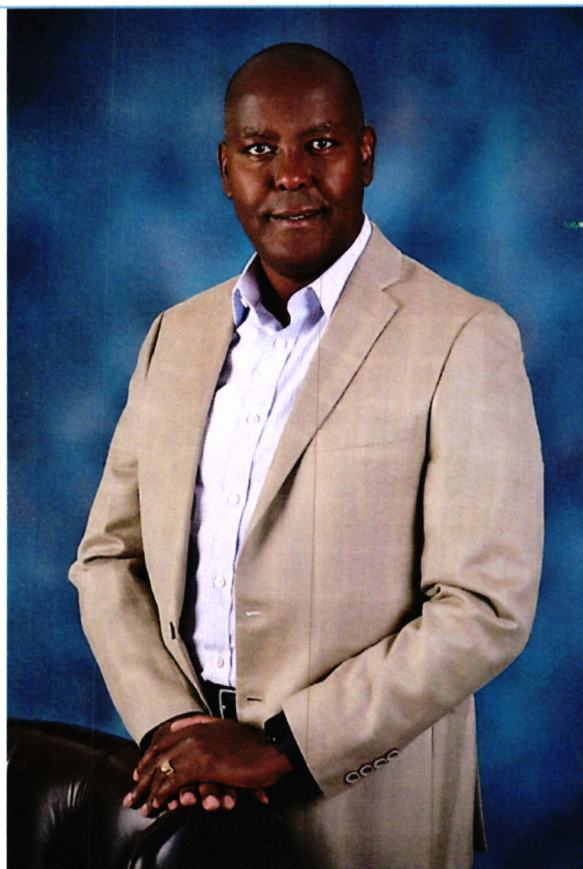
He previously served as a Board director, KENGEN Company Limited from 1997 to 2002; Technical Manager, Agricultural Development Corporation (ADC) from 1998 to 2006 and as an irrigation Engineer, Bura irrigation project (a World Bank Project) from 1986 to 1989.

Gladys Mboya



Ms. Gladys Mboya was born in 1967 and is an Advocate of the High Court of Kenya. She is the managing partner of Mboya Wangong'u and Waiyaki Advocates where she heads the real estate, banking and finance practice in the firm. She advises on the structuring of commercial real estate property developments including structuring of joint ventures, capital raising for property developers, limited liability partnership and the set up of Real Estate Investment Trusts (REITS). She also advises on mergers and acquisitions; bonds; banking and finance. Gladys is a Certified Public Secretary and a member of the Chartered Institute of Arbitrators. She holds a Masters degree in Business Administration (MBA) from the University of Warwick (UK), a Bachelor of Laws with honors degree (LLB) from the University of Wales, Aberystwyth (UK) and a diploma in law from the Kenya School of Law.

Wainaina Kenyanjui



Mr. Wainaina Kenyanjui is a senior executive with over twenty (20) years' experience in leadership, management, and entrepreneurial practice. Mr. Kenyanjui is the founder and Chairman of Africa REIT. He has directed strategic and successfully led high level fundraising efforts and completed residential and commercial property developments.

Mr Kenyanjui also sits on the Board of the largest insurance company in South Sudan and Sunbird Group (UK), the leading Africa wide services and virtual offices company.

Previously, Mr. Kenyanjui also served on the Board of the Privatization Commission (Kenya) during the divestiture of Government ownership in public assets and was part of the team that presided over the sale of the Government's 25% stake in Safaricom Kenya Ltd.

Ms Naomi Matheri



Ms. Naomi Matheri is an alternate Director, representing the Cabinet Secretary National Treasury. She holds a Master's Degree in Economics from the University of Nairobi and Bachelor of Science (Statistics) Degree from Moi University.

She has a wide experience in macro-economic and fiscal management, having worked with the National Treasury for the last 10 years. She has undertaken professional trainings from international training institutes including International Monetary Fund (IMF), Macro Economic and Financial Management Institute (MEFMI) and university of Pretoria.

Ms Jane Mwangi



Ms. Jane Mwangi was born in 1963. She is an alternate Director representing the Principal Secretary, State Department of Housing and Urban Development; Ministry of Infrastructure, Transport, Housing and Urban Development. She holds Masters Degree in Housing Administration and a Bachelor's Degree in Land Economics from the University of Nairobi.

She has a wealth of experience in the housing sector including development of housing policies and related legislations. She has also undertaken professional training on Housing Policy Development in South Korea, various leadership courses at the Kenya School of Government among others. She has worked in the Department of Housing in the National Government since 1987 and has risen through the ranks to the current position of the Director of Housing. She is also a Member of the Institution of Surveyors of Kenya (Building Surveyors Chapter).

Mr. Philip Wachira



He is 48 years old and a Kenyan. Mr Wachira is the alternate Director, Representing the Principal Secretary State Department of Infrastructure; as from 11th November 2015. He holds a Bachelor's degree in Administration and a Master's degree in Business Administration (MBA) from the University of Nairobi.

He brings a wealth of experience from the Civil Service, covering a span of 19 years and currently serving in the State Department of Infrastructure; Ministry of Transport, Infrastructure, Housing and Urban Development.

Ms. Pamela Dede



Ms. Pamela Dede is an alternate Director representing the Principal Secretary for State Department of Investment and Industry; Ministry of Industry, Trade and Co-operatives. She holds a Master of Arts Degree in Development Economics from Williams College, Massachusetts and a Bachelor of Arts Degree in Economics and Government from the University of Nairobi.

Ms. Dede has worked in the civil service for over 35 years rising to the present grade of Deputy Director of Industries at the Ministry of Industry, Trade and Cooperatives. Previously she has acted as Managing Director at Kenya Accreditation Service (KENAS) and during this time represented the Government of the Republic of Kenya at United Nations meetings (UNCTAD, UNIDO, WTO etc.), EAC meetings and conferences and as a member of the delegation to AGOA, TICAD and other Industrial, Trade and Investment Summits. She is currently a member of the Board of Africa Cancer Foundation.

Prior to joining NHC Board, Ms. Dede served as a Board member in following Kenya Wine Agencies, Kenya Industrial Research and Development Institute, Centum and Tana and Athi Rivers Development Authority.

Mr. Andrew Saisi - Managing Director



Mr. Andrew Saisi was born in 1966. He holds a Masters degree in Business Administration from the Oxford Brookes University. He is a qualified Civil Engineer and an Accountant registered with the Institute of Association of Chartered Certified Accountants (ACCA). He has a wide experience spanning over twenty years in Management, Engineering and manufacturing. He was employed on 09th September 2011 as the General Manager Manufacturing Division and appointed as the Managing Director of the Corporation on 1st September 2015.

Mr. William Kimutai B. Keitany – Ag. Corporation Secretary



William Keitany was born in 1969. He holds a Bachelor of Laws degree from the University of Nairobi and a Postgraduate Diploma in law from the Kenya School of Law. He is an advocate of the High Court, a Certified Public Secretary, a member of the Law Society of Kenya and a member of the Institute of Certified Public Secretaries of Kenya. He has a wide experience spanning over 20 years in matters of Administration and Law.

MANAGEMENT TEAM

Mr. Andrew Saisi - Managing Director



Mr. Andrew Saisi was born in 1966. He holds a Masters degree in Business Administration from the Oxford Brookes University. He is a qualified Civil Engineer and an Accountant registered with the Institute of Association of Chartered Certified Accountants (ACCA). He has a wide experience spanning over twenty years in Management, Engineering and manufacturing. He was employed on 09th September 2011 as the General Manager Manufacturing Division and appointed as the Managing Director of the Corporation on 1st September 2015.

Mr. Robert Mwanga Ambuku – Ag. General Manager Technical Services



Mr. Robert Ambuku was born in 1969. He holds a Masters in Business Administration Finance and Bachelor of Arts in Building Economics both from the University of Nairobi. He is a Registered Quantity Surveyor and a member of the Chartered Institute of Arbitrators (United Kingdom and Kenya), Institute of Quantity Surveyors of Kenya and Architectural Association of Kenya. Robert has 24 years extensive experience in the fields of quantity survey, project management and arbitration.

CPA Albert N. Nyaga - Ag. General Manager Finance



Mr. Albert N. Nyaga born in 1958 is a Certified Public Accountant CPA (K), having trained at Strathmore School of Accountancy. He holds a Master's Degree in Business Administration (MBA / Finance) from Moi University, and is a member of Institute of Certified Public Accountants of Kenya (ICPAK). He is also a member of the Global Institute of Internal Auditors (IIA).

Albert has over thirty (30) years' experience, both as an Accountant and an Auditor in the Public Service.

Mr. John Washington Agutu – Ag. General Manager Estates



At 49 years old, John is an accomplished real estate professional, who holds a Master of Arts in Housing Administration and Bachelor of Arts (Land Economics) (Hons), both from the University of Nairobi. He is a full member of the Institution of Surveyors of Kenya. He is a registered valuer and estate agent by the Valuers Registration Board and Estates Agents Registration Board respectively. He has 24 years experience in estate management, housing development, financing and valuation, accumulated while working for the central government, private sector and National Housing Corporation.

Mr. William Kimutai B. Keitany – Ag. Corporation Secretary



William Keitany was born in 1969. He holds a Bachelor of Laws degree from the University of Nairobi and a Postgraduate Diploma in law from the Kenya School of Law. He is an advocate of the High Court, a Certified Public Secretary, a member of the Law Society of Kenya and a member of the Institute of Certified Public Secretaries of Kenya. He has a wide experience spanning over 20 years in matters of Administration and Law.

Mr. Jackson M. Mwaura - Ag. General Manager Business Development



Jackson Mwaura born in 1959 holds a Master of Business Administration (Entrepreneurship) degree of Kenyatta University, a Bachelor of Arts (Economics) degree from the University of Nairobi and a Post Graduate Diploma in Housing from Erasmus University (IHS, Rotterdam). He is a registered Environmental Impact Assessment/ Environmental Audit Lead Expert and a member of Environmental Institute of Kenya. He is also a registered (KEBs) ISO Quality Management System Auditor.

Mr. Mwaura has worked for National Housing Corporation in various capacities for about 30 years. During this period, he has been instrumental in Corporate Strategic Planning and Performance Contracting processes among other management duties. He has also actively participated in housing sector activities including drafting of the Sessional Paper on the National Housing Policy for Kenya and drafting the Social Pillar (Housing and Urbanization) chapter of Kenya Vision 2030. He has participated in various local and international forums on housing issues.

Mr. Kepher Manani - Ag. General Manager Manufacturing



Mr. Kepher Manani was born in 1968. He is a registered architect and holds a Bachelor of Architecture (Honors) degree from the University of Nairobi. He has over 20 years experience in the construction industry with special interest in low cost housing development. He is well versed with the industry, including specialist training and knowledge in roofing solutions, light gauge steel and EPS construction systems

Before joining NHC he worked as a construction manager in a large property development firm, with special interest in housing, hospitality and goods manufacturing entities and ancillary facilities in Kenya and abroad. He has also worked in training and marketing management for a leading producer of roofing materials in the country.

CHAIRMAN'S STATEMENT



Introduction

On behalf of the Board of Directors of National Housing Corporation I have the pleasure of presenting to you the Annual Report and financial statements for the year ended 30th June 2018.

Housing Sector Overview

Delivery of affordable housing is one of the four critical pillars of the National Government's Big Four Development Agenda. In this regard, the National Government has been working on a comprehensive national housing delivery framework aimed at directly developing and facilitating private sector participation in the development of approximately one million social and affordable housing units within the next five years (i.e. 2018 to 2022). This translates to the development of 200,000 housing units each year compared to the current supply of approximately 50,000 units annually.

It is important to note that the other three pillars under the Big Four that is, manufacturing, universal health and food security are inextricably correlated with the housing pillar. The

workforce supporting implementation of programmes in these other three sectors will invariably require descent and affordable housing in order to effectively perform their roles

The Government is making every effort to ensure that the housing and urban development initiatives being conceived and implemented are in tandem with Kenya Vision 2030 and other housing related initiatives such as the New Urban Agenda (NUA) 2016 popularly referred to as Habitat III and Sustainable Development Goals (SDGs) 2015.

Successful implementation of the housing agenda will among other things, require restructuring the national housing delivery framework, addressing housing finance from both the supply and demand sides, availing land and offsite infrastructure and incorporating rapid building technologies. It is for this reason that the National Government has rolled out a number of policy and legislative initiatives geared towards supporting the affordable housing agenda.

National Housing Corporation's Strategic Focus

National Housing Corporation (NHC) as the principal implementer of the National Government's housing policies and programmes is poised to play a key role in delivery of affordable housing pillar. To effectively undertake this role, the Corporation has a business strategy which is anchored on four core strategic themes.

First is to enhance customer satisfaction through continually improving the housing delivery value chain by automating internal business processes. Second is to partner with the private sector through Public Private Partnerships (PPPs) and Joint Ventures (JVs) aimed at unlocking competitively priced long-term finance to deliver affordable Tenant Purchase and rental housing units. Third, involves collaborating with County Governments through provision of consultancy services and entering into JVs in development of affordable housing. Finally, is to leverage on EPS building technology and continually adopt other modern industrial building systems to deliver houses faster, better and cheaper.

Overview of Key Operational Indicators in NHC

During the 2017/18 FY the Corporation undertook to commence the construction of 22 No. projects, targeting the middle and low income segment of the population, with a total of 2,225 housing units. Construction is nearing completion in 7 No. projects comprising 614 units. The other 15 No. projects, totaling 1,611 units, have gone through the internal due diligence stages (i.e. feasibility studies, environmental impact assessment, design, costing, business case evaluation, risk assessment and tender documentation) and were ready for implementation in Q4 of the 2017/18 FY. Construction of these projects will commence in Q1 of 2018/19 FY.

The Corporation supports Kenyans living in rural areas improve their houses through a loans programme. During the period under review NHC advanced Ksh 131 million under the Rural/Peri-urban housing loans facility. This was an improvement of 42% over the performance in the loans programme in 2016/17.

In development of modern building technologies, the Corporation pioneered in setting up a factory which manufactures expanded polystyrene (EPS) building panels. Production of the factory is aimed at meeting the requirements of NHC projects and those of other developers. In 2017/18 financial year, 94520 sqm of EPS panels were produced by the NHC factory located at Mlolongo, Machakos County.

NHC obtained ISO 9001:2008 re-certifications in June 2016 and is currently in the process of transitioning to the ISO 9001:2015 standards in an effort to enhance efficiencies in internal business process and improve customer satisfaction. The level of customer satisfaction was 91% as at Q4 of the 2017/18 FY.

The Corporation has a robust risk & compliance framework and has institutionalized risk management in all facets of its operations. Risks are continuously identified, measured and managed within the Corporation's housing delivery value chain.

Finally, the Corporation has implemented an effective Corporate Governance & Strategic Leadership Framework which steers policy direction and strategy implementation. This is demonstrated by the diverse skills and competencies represented in the Board of Directors. Further, NHC has robust Board Committees with dynamic Charters crafted in strict adherence to the Mwongozo Guidelines. The Board provides oversight by closely monitoring implementation of the Corporate Strategic Plan and the Annual Performance Contract signed with our Parent Ministry.

Overview of Financial Results

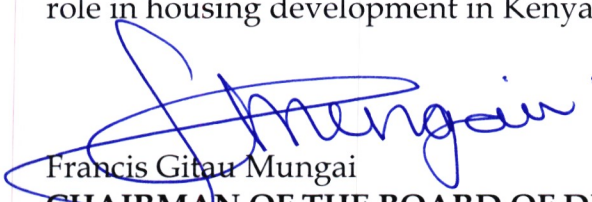
The National Housing Corporation recorded a pretax profit of Kshs. 173 million. The Corporation's total turnover for the year was Kshs. 1.1 billion, compared to the last financial year turnover of Kshs 1.2 billion.

Dividends

The board proposes a dividend of Kshs. 2,019,955.00 based on 5% of profits after tax.

Conclusion

The Board remains fully focused to maximizing the shareholder's value and playing a leading role in housing development in Kenya.



Francis Gitau Mungai

CHAIRMAN OF THE BOARD OF DIRECTORS

REPORT OF THE CHIEF EXECUTIVE OFFICER



Dear Stakeholders,

It is indeed a privilege to present to you the FY 2017/2018 Annual report and Financial statements for the year ended 30th June, 2018. The Corporation is proud to spearhead the Affordable Housing Pillar of the “Big 4 Agenda” and is working closely with other institutions in the achievement of the construction of at least 500,000 affordable houses by the year 2022.

Despite the challenging political and macro-economic environment, the Corporation registered the following milestones:

- Langata Mixed Use Development (90 No. houses plus commercial facilities)
- Kibera Mixed Use Development (100 No. houses plus commercial facilities)
- Stoney Athi Phase One (120 No. houses)
- Stoney Athi Economic Block (60 No. houses)
- Changamwe Infill (84 No. houses)
- Voil infil (80 No. Houses)

- Nyeri Mixed Use Development (80 No. houses plus commercial facilities).

The following housing projects were successfully completed in the year:

- Stoney Athi Phase One
- Stoney Athi Economy Block.

Financial Performance

National Housing Corporation reported good results in FY 2017/2018. However, revenues were below our expectations following the relatively challenging trading environment that the business was operating in. Though, I must note that the Corporation demonstrated resilience despite the difficult times, mainly characterized by inflationary pressures and the slowdown in private sector credit growth.

Revenues in the year were Kshs. 1.1 billion compared to Kshs. 1.2 billion in FY 2016/2017. The Corporation's operating profit declined to Kshs. 173 million from Kshs.355 million reported in the previous year. The decline in profit is mainly attributable to increased depreciation charge as a result of revaluation of buildings in June 2017.

The Corporation registered growth of Kshs. 169 million in its assets. The increase is mainly attributable to the ongoing projects that the Corporation is constructing in various parts of the Country.

Way Forward

The program will be rolled out nationally with an initial focus in areas where NHC has suitable land with a target of at least 80% of the beneficiaries being those in the low and lower middle cadre.

Structures and processes to roll out the affordable housing pillar have been established and the Corporation will identify and engage investors through a joint venture in implementing the program.



Andrew saisi

MANAGING DIRECTOR

MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Performance

The National Housing Corporation (N.H.C.) recorded a profit in the year ended 30th June, 2018.

Financial Performance

The Corporation reported a profit before tax of Kshs. 173 million in the year ended 30th June 2018. However, the performance was below target mainly due to;

1. Increase in cost of depreciation as a result of revaluation of the Corporation properties
2. Delayed commencement of some of the projects

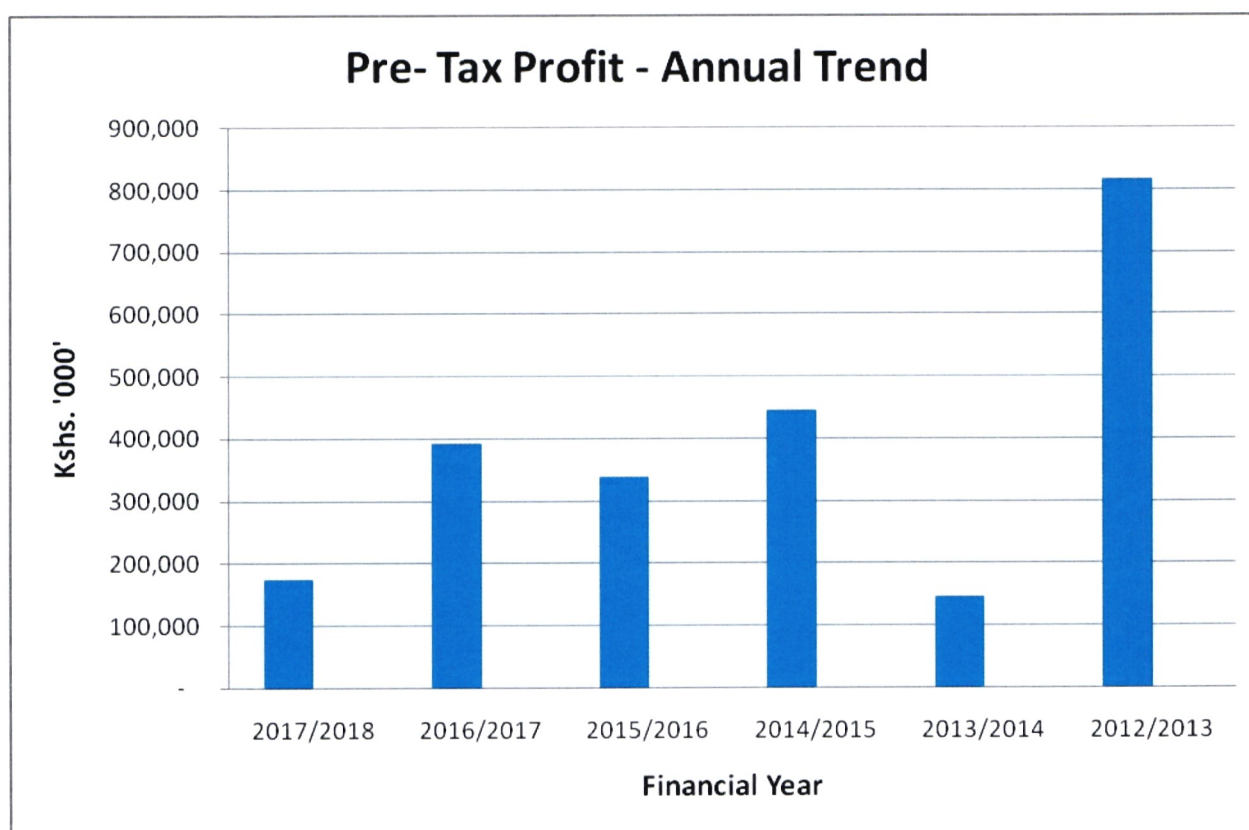


Figure 1 Analysis of Pre-Tax Profit

The Corporation continued to enjoy an extremely strong financial position with total assets of Kshs. 20.8 billion at the end of the quarter compared to Kshs. 20.7 billion reported in the same period last year.

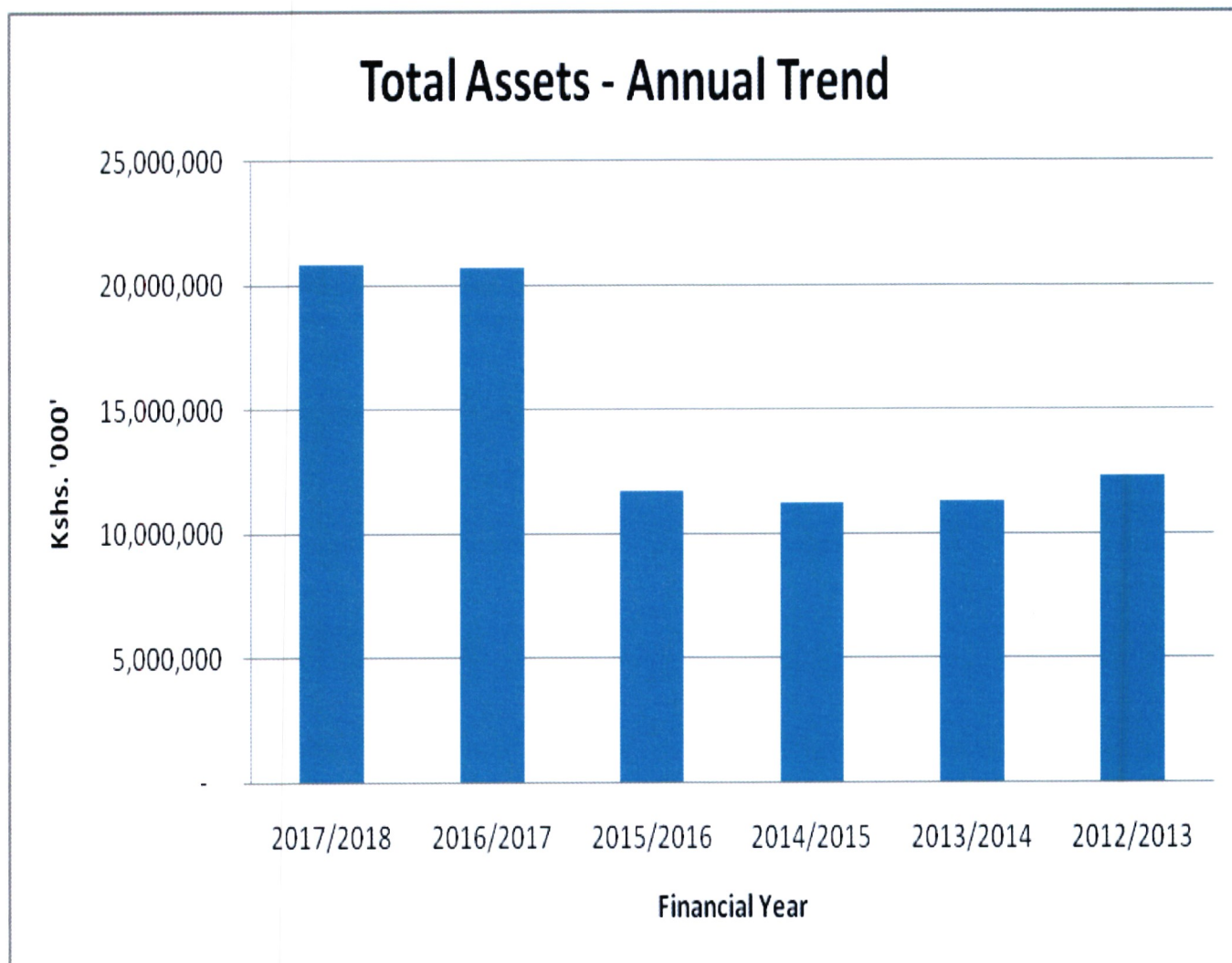


Figure 2 Analysis of Total Assets

Interest Income is the highest source of revenue as it accounts for 52% of total turnover. Rent Income accounts for 20% of total revenue, EPS Sales at 15% and Gain on Sale of Houses, Professional Fees and Other Income at 6%, 4% and 3% respectively.

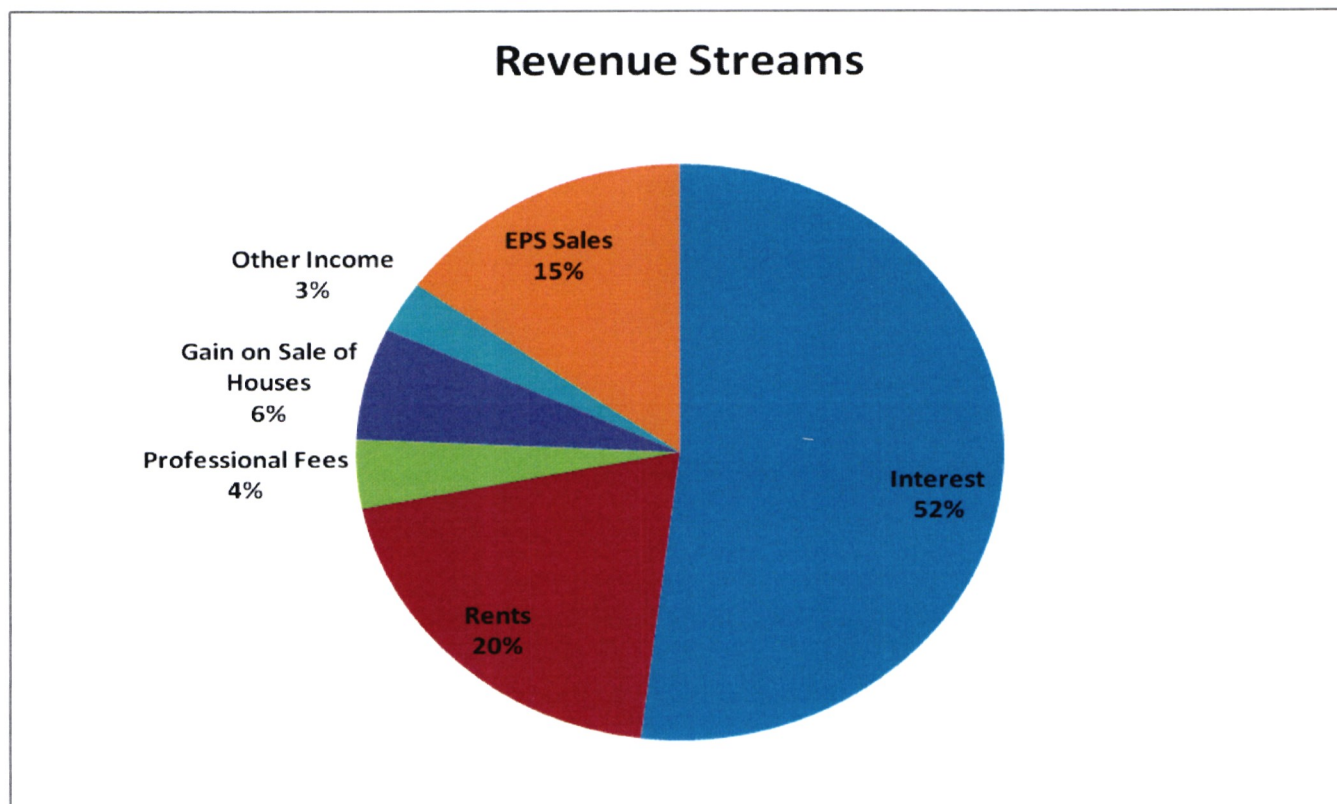


Figure 3 Analysis of Different Sources of Revenue

Opportunities

National Housing Corporation continued to enjoy some opportunities throughout the year as follows:

- **Building Technology:** The Corporation's Expanded Polystyrene Styrofoam (EPS) technology continued to gain acceptance from the general public, the number of housing units built using the EPS technology across the country increased significantly.

- **Devolution:** This continued to be a great opportunity with various Counties approaching the Corporation for assistance with construction of dwellings. The Corporation continues to collaborate with these Counties to ensure the realization of these projects.

Challenges

The Corporation as other businesses did experience some challenges, key among them:

- **Inflation:** Inflation has affected the cost of construction which in turn affects the cost of the end product.
- **Harsh economic times:** which have eroded the purchasing power of potential home buyers. This has adversely affected our project revenues.

N.H.C. remains committed to fulfilling its mandate of Housing the Nation and growing its business.

Compliance with Statutory Requirements

National Housing Corporation adheres to the tenets of the Constitution of Kenya and the provisions of relevant statutes, including but not limited to the Housing Act 2015, Public Procurement & Asset Disposal Act 2015, Public Finance Management Act 2015, Employment Act 2007 and Occupational Safety & Health Act 2007.

In 2015/2016, NHC was recertified in ISO 9001:2008-Quality Management System. This is recognition and an indication of continual quality improvement in the organization's operations.

Operational Developments

In the year ended June 2018, the Corporation continued to execute its mandate, of Housing the Nation.



The following are a list of ongoing projects;

Picture 1 Stoni Athi Phase I

Project	Number of Units
Langata Mixed Use Development	90 houses plus commercial facilities
Kibera Mixed Use Development	100 houses plus commercial facilities
Changamwe Phase II Housing	84
Voi Infill	80
Nyeri Mixed Use Development	80

The Corporation intends to commence more projects within the FY 2018/2019. This will be made possible through internally generated funds as well as partnerships. The planned partnerships with County Governments will alleviate the prevalent housing shortage in the country. Collaboration with like-minded persons and institutions through joint ventures will enhance our capacity to deliver houses. N.H.C. will continue to grow sales and consumption of the EPS panels and Rural Housing Loans.

The flagship project will be on the Stoni Athi land where the Corporation plans to enhance the community by building at least one thousand houses for various segments of the public.

Risk Analysis

We have identified the following risks that may affect the Corporation's operating environment, business growth strategies and operations.

Project Implementation

NHC's projects bear considerable construction risks arising from delayed completion and commissioning. To mitigate against this the Corporation will continue to manage its projects in order to minimize factors that may result in project overruns and delays.

Inflation

There is the risk that overall rise in prices of goods and services will undermine the value of money, and probably adversely affect the uptake of houses. The increase in prices could also affect the cost of units which could make them expensive.

Access to Capital Funds

National Housing Corporation requires substantial capital in order to finance its projects. The Corporation therefore continues to explore ways of securing additional sources of funding through Public Private Partnerships (PPP) arrangements to supplement its internally generated funds.

Credit Risk

National Housing Corporation has continued to grow its lending base to Kenyans through its tenant purchase and rural housing products. There is therefore the risk that the current debtors may fail to meet their obligations in accordance with the agreed terms. The Corporation continues to mitigate this risk by carrying out comprehensive credit appraisal on all applicants.

Liquidity Risk

The Corporation continues to actively monitor and control its liquidity levels to ensure that it reduces any risk exposures or funding requirements.

Material Arrears in Statutory/Financial Obligations

National Housing Corporation has continued to ensure that all statutory payments are made on time and hence does not have any pending statutory obligations. In addition the Corporation has not defaulted on any loan repayment.

Corporation's Financial Probity and Serious Governance Issues

National Housing Corporation has committed itself to good corporate governance. NHC's Board of Directors continues to ensure accountability, fairness and transparency in the Corporation's



relationship with its stakeholders. There was no serious governance issues or financial probity reported in the period.

A blue ink signature of Mr. Andrew Saisi, written in a cursive style.

Mr. Andrew Saisi
Managing Director

CORPORATE GOVERNANCE STATEMENT

Separation of Duties

The independence of the Board from the Corporation's corporate management is ensured by the separation of the functions of the Chairman and Managing Director and a clear definition of their responsibilities. This helps the Corporation achieve an appropriate balance of power, increased accountability and improved decision making.

Responsibilities of Directors

Ultimately, the Board determines the Corporation's strategic objectives, values, key policies and procedures in accordance with best practice. It is responsible for establishing and maintaining the overall internal controls of financial, operations and compliance functions as well as monitoring performance of the executive management.

The Board has delegated the authority for day to day management of the Corporation to the Managing Director. However, it retains overall responsibility for the Corporation's financial performance, compliance with laws and regulations, and monitoring of its operations as well as ensuring competent management of the Corporation's business.

The Board sets the strategic intent of the Corporation, its objectives and values. It ensures that procedures and policies are in place to protect the Company's assets and reputation. The Board reviews the strategic direction and adopts business plans proposed by Management

Board Composition

The Board of directors comprise the non-executive chairman who is an independent director, three other independent directors, and six other directors from the public sector, representing in order of priority; Ministry of Finance & Treasury, State Department for Housing & Urban Development (Ministry of Transport Infrastructure & Urban Development), State Department of Infrastructure (Ministry of Transport Infrastructure & Urban development), State Department of Investment & Industry (Ministry of Industrialization & Enterprise development)

The directors have a wide range of skills and experience and each contributes independent judgment and knowledge to Board discussions.

Board Meetings – Information for Directors

The directors are given appropriate and timely information on key activities of the business regularly and on request in order to carry out their roles. Specifically the Directors are provided with all available information in respect of items to be discussed at a meeting of the Board or committee prior to the meeting. The Board members have open access to management through

the Chairman and Managing Director. Regular presentations are made by management to the Board. Board Committees and directors may seek briefing from management on specific matters as well as seek independent professional advice.

Oversight Role of the Board

The Board provides strategic direction with a focus on consistent business performance in an atmosphere of transparency and accountability whilst also reviewing and monitoring proper corporate governance.

The Board retains full and effective control over the Corporation and monitors Management's implementation of the plans and strategies it sets. It ensures ethical behavior and compliance with relevant laws and regulations, audit and accounting principles, corporate policies and procedures and the Code of Ethics. It strives to act above and beyond the minimum requirements and benchmark performance against best practices.

In accordance with the principles of good corporate governance, each Director undertakes to always act in the best interest of the Corporation and exercise his/her power in the execution of duties in good faith and acts with care and prudence.

Each director is fully aware that the Board is responsible for determining the Corporation's vision, mission and values, deciding its strategic objectives, ensuring establishment of the organizational structure and procedures to achieve the objectives, ensuring effective control over the Corporation and accounting to its shareholder.

Conflict of Interest

The directors of the Corporation are under a fiduciary duty to act honestly and in the best interests of the Corporation. Any business transacted with National Housing Corporation must be at an arm's length and fully disclosed to the Board which must consider and approve it. A director must refrain from discussing or voting on matters with a potential for conflict of interest.

Committees of the Board

The board has four committees: Audit and Risk Committee, Finance and Business Development Committee, Technical Committee & Human Resources and Administration Committee, which have specific and detailed terms of reference as summarized below:

1. Audit, Risk and Compliance Committee

The Audit Committee meets at least four times a year, with authority to convene additional meetings, as circumstances require. Its primary responsibilities are to assist the Board in ensuring integrity of the Corporation's Financial Statements, review the Corporation's internal control

systems, monitor and review the effectiveness of the internal audit function, and ensuring the Corporation's compliance with legal and regulatory requirements. The Audit Committee has authority to conduct or authorize investigations into any matter within its scope of responsibility.

The Audit committee develops and implements a risk management framework, policies, procedures and standards. It also monitors the Corporation's compliance with the relevant laws and regulations and reviews management's implementation and maintenance of appropriate systems, procedures and Codes of Conduct in accordance with the Corporation's policy guidelines regarding identification, analysis, mitigation and control of risks.

The Audit Committee regularly reports to the Board about committee activities and issues that arise with respect to the quality or integrity of the Corporation's financial statements, compliance with legal requirements, performance and independence of the Corporation's independent auditors, and the performance of the internal audit function. The Corporation's Internal Audit Manager acts as the secretary of the committee and senior management regularly attend the committee meetings.

The members of the Audit, Risk and Compliance Committee are:

- i) Mr. Mohamud Noor Ali - Chairman
- ii) Mr. Phillip Wachira
- iii) Ms. Pamela A. Dede
- iv) Ms. Naomi Matheri
- v) Internal Audit Manager

The following is an analysis of the attendance in the financial year 2017/2018

NAME	DATE OF MEETING		
	13 th Sep 2017	20 th Nov 2017	6 th March 2018
Mohamud Noor Ali	√	√	√
Philip Wachira	×	√	√
Naomi Matheri	√	√	√

2. Finance and Strategy Business Development Committee

The Finance Committee meets at least four times a year or at such other times as the Chairman of the Committee shall require. Its primary purpose is to determine the Corporation's investment strategy and policy and to consider the proposed strategic investments and make recommendation to the Board. It also maintains an interactive strategic planning, implementation and monitoring process with management.

The members of the Finance, strategy and Business Development Committee are:

- i) Mr. Wainaina Kenyanjui – Chairman
- ii) Ms. Gladys Mboya
- iii) Mrs. Jane Mwangi
- iv) Ms. Naomi Matheri
- v) Mr. Andrew Saisi -- (Managing Director)

The following is an analysis of the attendance in the financial year 2017/2018

NAME	DATE OF MEETING				
	12 th Sep 2017	6 th Nov 2017	18 th Jan 2018	22 nd Jan 2018	15 th Feb 2018
Wainaina Kenyanjui	√	√	√	√	√
Jane Mwangi	√	×	√	√	×
Naomi Matheri	√	√	√	√	√
Gladys Mboya	×	√	×	×	√
Andrew Saisi	√	√	√	√	√

3. Human Resource and Administration Committee

The Committee meets at least four times a year or at such other times as the Chairman of the Committee shall require. Its primary role is to support the Company's strategic plan of ensuring that there is an empowered, motivated and productive workforce. Further, it will recommend the remuneration for non-executive directors, appraise the performance of senior management and determine their remuneration as well as establish the overall staff remuneration budget. The committee will also ensure implementation and compliance with the Human Resource Policies and Procedures and recommend to the Board relevant reviews.

The committee further addresses all the ICT, public relations, house allocations and legal matters at the corporate level.

The members of the Human Resource and Administration Committee are:

- i) Ms. Gladys Mboya - Chairperson
- ii) Mr. Phillip Wachira
- iii) Ms. Jane Mwangi
- iv) Mr. Andrew Saisi - (Managing Director)

The following is an analysis of the attendance in the financial year 2017/2018

NAME	DATE OF MEETING			
	11 th Sep 2017	18 th Sep 2017	7 th Nov 2017	22 nd Mar 2018
Gladys Mboya	√	√	√	√
Jane Mwangi	×	×	√	×
Philip Wachira	√	√	√	√
Andrew Saisi	√	√	√	√

4. Technical Committee

The Committee meets at least four times a year or at such other times as the Chairman of the Committee shall require. The Committee is responsible for reviewing proposed projects and its implementation procedures to ensure adequacy and efficiency. It further reviews cost appraisals during construction and project quarterly reports. The committee ensures that an environment to promote research and development in building technologies is created it further assesses the impact of technology on projects.

The members of the Technical Committee are:

- i) Mr. Mohamud Noor Ali - Chairman
- ii) Mr. Wainaina Kenyanjui
- iii) Ms. Pamela A. Dede
- iv) Mrs. Jane Mwangi
- v) Mr. Andrew Saisi - (Managing Director)

The following is an analysis of the attendance in the financial year 2017/2018

NAME	DATE OF MEETING		
	14 th Sep 2017	9 th Nov 2017	14 th Mar 2018
Mohamud Noor Ali	√	√	√
Wainaina Kenyanjui	√	×	√
Pamela A. Dede	√	×	×
Jane Mwangi	×	√	√
Andrew Saisi	√	√	√

Attendance of Board Meetings

The following is an analysis of attendance of the full board meetings in the year

NAME	BOARD MEETINGS			SPECIAL BOARD MEETINGS			
	200 TH	201 ST	202 ND	24 th Jan 2018	25 th Jan 2018	10 th Apr 2018	10 th Jul 2018
Francis Mungai	√	√	√	√	√	√	√
Philip Wachira	×	×	√	√	×	√	√
Jane Mwangi	√	√	√	√	√	√	√
Pamela Dede	√	×	×	×	×	×	×
Naomi Matheri	√	√	√	√	√	√	√
Gladys Mboya	√	√	√		√	√	√
Wainaina Kenyanjui	√	×	√	√	√	√	√
Mohamud Noor Ali	√	√	√	√	√	√	√
Andrew Saisi	√	√	√	√	√	√	√

The Corporation held substantive board meetings in the year.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Introduction

National Housing Corporation (NHC) recognizes the importance of managing social, economic and environmental issues. Corporate Social Responsibility (CSR) is the principal way by which NHC seeks to participate and give back to the society and communities within which it operates. In its approach to CSR, the Corporation engages with key clients, employees, community, environmental stakeholders, regulators, business partners, suppliers and the Government.

During the financial year 2017/2018, NHC participated in the following CSR activities:

- The Mater Heart Run which is held annually to support the Mater Hospital in their quest for helping children who have a heart problem to undergo an operation. NHC donated Kshs. 100,000 towards this noble initiative.
- The Corporation also participated in the Standard Chartered Marathon under the “seeing is believing” initiative by sponsoring Kshs. 100,000 towards this event.
- NHC participated in the Cerebral Palsy Walk. The walks are organized by the Cerebral Palsy Society of Kenya and its aim is to improve the welfare of children/persons afflicted by Cerebral Palsy (C.P) in the Country. The Corporation sponsored Kshs.100,000 towards the event.



Picture 2: NHC Staff during the Mater Heart Run

REPORT OF THE DIRECTORS

Principal Activities

National Housing Corporation (NHC) is established under the Housing Act, Cap. 117 of the Laws of Kenya and the principal activities are detailed in page 3.

Results of Dividend

The dividend results for the year are set out on note 10 of the financial statements

The directors propose payment of a dividend of Kshs 2,019,955 being 5% of the profit after tax for the financial year 2017/2018. In the year 2016/2017, the board approved a dividend of Kshs 11,538,424.

Directors

The directors who held office during the year and to the date of this report are as shown on page 3.

Auditor

The Auditor General is expected to carry out the audit of the entity for the year ended 30th June 2018.

By Order of the Board

A blue ink signature is written over a horizontal line. The signature is stylized and appears to be 'William Kimutai Keitany'.

William Kimutai Keitany
Corporation Secretary
Date:

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012, the State Corporation Act, Cap 446 section 14 and Cap 117 of the Laws of Kenya require the Directors to prepare financial statements each year, which give a true and fair view of the state of affairs of the corporation at the end of the financial year and the operating results of the corporation for that year. The Directors are also required to ensure that the corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the corporation. The Directors are also responsible for safeguarding the assets of the corporation.

The Directors are responsible for the preparation and presentation of the corporation's financial statements, which give a true and fair view of the state of affairs of the corporation for and as at the end of the financial year ended on 30th June, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the State Corporations Act, Cap 446. The Directors are of the opinion that the corporation's financial statements give a true and fair view of the state of corporation's transactions during the financial year ended 30th June, 2018, and of the corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the corporation, which have been relied upon in the preparation of the corporation's financial statements as well as the adequacy of the systems of internal financial control.

Approval of the financial statements

The corporation's financial statements were approved by the Board on 27th September, 2018 and signed on its behalf by:

Francis Gitau Mungai	-	Chairman	
Andrew Saisi	-	Managing Director	



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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NATIONAL HOUSING CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Housing Corporation set out on pages 47 to 113, which comprise the statement of financial position as at 30 June, 2018, and the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of National Housing Corporation as at 30 June, 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Housing Act Cap 117 of the laws of Kenya.

Basis for Qualified Opinion

1.0 Property Plant and Equipment

1.1 Land

As disclosed in note 12 in the Financial Statements and as previously reported, the Corporation owned land valued at Kshs.2,452,126,202 as at 30 June 2018. Excluded from this balance are 50 parcels of land which had not been valued and had no ownership documents as at 30 June 2018. Consequently, the ownership and value of these properties could not be confirmed as at 30 June 2018.

1.2 Unquoted Investments in Research Development Co. Ltd - Kshs.99,457,797

As previously reported, the investment of the Corporation in Research Development Co. Ltd, a wholly owned subsidiary, under note 16 totaled Kshs. 99,457,797 as at 30 June 2018. Share certificates to support this investment were not availed for audit thus it was not possible to confirm the propriety of this investment. The explanation given by the management is that RDU is a wholly owned subsidiary of NHC and

Report of the Auditor-General on the Financial Statements of National Housing Corporation for the year ended 30 June 2018

therefore no share certificate has been issued to the Corporation. Despite the decision by the Board of Directors to wind-up the company, there was been no progress made as at 30 June 2018. Although management has explained that the former Directors of the Corporation holding the shares in trust for the Corporation have not transferred the same to the current Directors and that Management has engaged its lawyers to move to Court as at 30 June 2018, no evidence of such action taken was seen. It was therefore, not possible to confirm the propriety of the investment of Kshs.99,457,797.

2.0 Tenant Purchase Schemes

2.1 Staff Debtors – Tenant Purchase Schemes Kshs.20,422,982

Included in the loan amount receivable balance of Kshs.2,414,360,790 as at 30 June 2018 are ex staff debtors amounting to Kshs.20,422,982. As per the ageing analysis provided, a substantial amount is not being serviced as some of the staff have exited the organization. As such, recoverability of the debts is doubtful.

2.2 Tenant Purchase Scheme Debts – Kshs.332,681,670

The financial Statements reflect a balance of Kshs.332,681,670 in respect of tenant purchase scheme debts as at 30 June 2018 while the supporting schedule provided for audit reflects an amount of Kshs.344,539,048 resulting to a variance of Kshs.11,857,378 which has not been explained/reconciled.

3.0 Trade and Other Receivables Kshs.417,247,188

Included in the trade and other receivables balance of Kshs.417,247,188 as at 30 June 2018 is rent arrears of Kshs.241,309,717. Although the Corporation has provided schedules in support of rent arrears, no explanation has been provided as to why rent has remained unpaid for a long period without recoveries being made. It was noted that although the Corporation has guidelines and a formal framework on the management and recovery of rent arrears, these have not been effected to recover the debts. On analysis of the rent schedule provided for the audit, it was observed that the amount reflected in the financial statements is a net off credit balances of Kshs.53,316,553. In addition, debtors balance include provision of loss of investment of Kshs.82,316,553 which management has not explained/supported.

In the circumstance, it has not been possible to ascertain the correctness and completeness of trade and other receivables balance of Kshs.417,247,188 as at 30 June 2018.

4.0 Sundry Debtors

Included in the in trade and other receivables balance of Kshs.417,247,188 as at 30 June, 2018 are sundry debtors amounting to Kshs.115,579,523 owed by Housing Finance of Kenya and Ministry of public works of Kshs 87,201,499 and Kshs 28,378,026 respectively. There was no movement in these debtors during the year. Management has not provided any measures being taken to recover the said debts.

In addition, a figure of Kshs.765,741 also included in sundry debtors which has been explained as a deposit to the Ministry of Public Works for the supply of fuel to NHC vehicles has not been recovered. The petrol station contracted by the Ministry to supply the fuel burned down and nothing was salvaged. No explanation was provided by the management on how the amount will be realized.

In the circumstance, the accuracy and completeness of trade and other receivables balance of Kshs.417,247,188 as at 30 June 2018 could not be confirmed.

5.0 Opening Balances for Taxation

The opening balances for the following items which are reflected in the 2017/2018 Financial Statements differ with the balances reflected in the audited financial statements for 2016/2017 as follows:

Item Variance	Amount as per 2017/2018 Financial Statements	Amount as per 2016/2017 Audited Financial Statements	
Profit before taxation	355,975,260	329,561,497	26,413,763
Tax applicable rate of 30%	106,792,578	98,868,449	7,924,129
Tax effect of losses from previous period	(74,889,458)	(79,889,458)	(5,000,000)
Variance			29,237,892

The tax is therefore overstated by Kshs.29,237,892.

6.0 Cash and Bank Balances

Bank Reconciliation Statement for the Month of June 2018

6.1 Receipts in Bank Statement not in Cashbook

The bank reconciliation statements for Kenya Commercial Bank Account No. 1107394899 and Co-operative Bank of Kenya Account No.01136006210301 reflect receipts in bank statement not posted to the cashbook totaling to Kshs.26,348,720 and Kshs.23,995,931 respectively as at 30.06.2018. Further the above figure of Kshs.26,348,720 and Kshs.23,995,931 comprises of an amount Kshs.12,277,475 and Kshs.9,130,767 respectively relating to receipts in bank statement not recorded in cash book for 2017 and earlier years. As such the accuracy and correctness of cash and bank balances of Kshs.373,080,753 as at 30 June 2018 could not be confirmed.

7.0 Construction of Lang'ata Court Mall

7.1 The contract was awarded to M/S Concordia Building and Civil Engineering on 29 December, 2014 at a contract sum of Kshs.527,407,286 and contract duration of 52 weeks starting on 25 February, 2015 and expected completion date of 24 February,

2016. On 9 February, 2015 the contractor issued a performance bond of Kshs.52,740,729 from M/S Takeful Insurance Company contrary to the contract terms which required a performance bond from a reputable banking institution.

Though the Contractor took possession of the site on 11 February, 2015, the work progress was too slow. After five (5) months of commencing work, the Corporation realized that the Contractor submitted a performance bond from an Insurance company and not a bank as per the contract terms. On 6 July 2015, the Contractor was requested to submit the required performance bond. The Contractor wrote back asking for release of the first bond for ease of replacement to which the Corporation accepted.

The Contractor abandoned the site after performance bond was surrendered. The amount of work done by then was 10% against 42.5% of time lapsed.

The Corporation terminated the contract citing;

- i. Submitting wrong performance bond
- ii. Slow work progress and non-performance

7.2 Retendering

The same work was re-tendered and awarded to M/S China Gansu International Corporation at a contract sum of Kshs.468,255,940 for contract duration of 52 weeks starting 6 March,2017 and ending 6 March,2018.

After expiry of the contract period, the Contract period was expended to 17 January 2019.

A site inspection on 18 January 2019 revealed that the Contractor was still on site with only 45% of works completed and 9 certificates of payments submitted amounting to Kshs.352,844,305 of which Kshs.280,180,277 had been paid being 40% of the contract sum.

The contract is far behind schedule despite the fact that the approved extension has elapsed which may lead to escalation of Project costs.

8.0 Boundary wall and Civil Works at Stoni Athi-Nhc/Tech/Bwsa/002/2016-2017

8.1 Lack of Performance Bond

As reported in the previous year, and as per the contract agreement signed between the Contractor and the employer, a performance security was to be provided within 14 days of contract award and before taking site possession or commencement of the works. Failure to provide and maintain the security as stated was to lead to contract termination and Corporation was to proceed to award the contract to another tenderer.

However, it was observed that the Contractor did not furnish National Housing Corporation with a performance bond of Kshs.5,850,222 from a reputable commercial Bank being 10% of the contract sum but the Contractor was given certificate of possession of site on 18 November 2016 before complying with terms of the signed contract.

It was further observed that the Corporation deducted Kshs.5,850,222 from the first Interim certificate No. 1 dated 24 February 2017 raised by the Contractor as a cash bond in lieu of the Performance bond contrary to the terms of the contract and no satisfactory explanation was provided.

8.2 As per the contract agreement signed between the Contractor and the employer, the project completion date should have been 19 May 2017 with a revised completion date of 2 August 2017 and the Project had not been completed as at April 2018. A review of the Project during the year revealed that some sections of the wall were washed away by floods and as at 31 March 2019, the same had not been repaired.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Housing Corporation in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my Qualified Opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no Key Audit Matters to communicate in my report.

Other Matter

Prior Matters from Previous Year

1. Long Term Loans Advanced

The statement of financial position as at 30 June 2017 reflected Long Term Loans Advance of Kshs.3,139,348,913. Included in this balance is Rural Housing Loans amount of Kshs.386,501,471. The Corporation provided supporting schedules in support of this item totaling Kshs.386,802,998 resulting in a difference of Kshs.301,527 and which the management has not reconciled or explained.

Further, the Corporation did not explain how an un-reconciled balances of Kshs.2,966,194 reported in the year (2015/2016) and 2016/2017 respectively were cleared.

2. Procurement of Enterprise Resource Planning System (ERP)

As reported in the previous year, the Corporation on 10 December 2012 advertised for supply, implementation and commissioning of an integrated Enterprise Resource Planning (ERP) system tender number NHC/ERP/345/2012. Out of the 8 firms that returned their bids, only two firms M/S Twenty Third Century and M/S Attain Enterprise Solutions qualified at the technical level and the finance bids were Kshs.90,937,930 and Kshs.127,728,433 respectively. The evaluation committee recommended the award to M/S Twenty Third Century but the tender committee subsequently cancelled and ordered for a re-tender.

The tender was re-advertised on 16 May 2013 and evaluated between 28 June 2013 and 30 June 2013. Out of the nine (9) firms that responded, only two: M/S Seven Seas Technologies Group and M/S Deloitte Consulting qualified at the technical evaluation stage, and their financial bids were Kshs.129,748,418 (USD 1,509,922) and Kshs.220,675,971 (USD 2,568,073) respectively. The tender committee awarded the tender to M/S Seven Seas Technologies at their bid price of Kshs.129,748,418 (USD 1,509,922). Consequently, the corporation and M/S Seven Seas Technologies group entered into a formal contract which was signed on 13 August 2013, and contract period was for 12 months. However, the following issues were observed in the procurement of the Enterprise Resource Planning (ERP) system.

2.1 User Requirements

There was no gap analysis which was done on the existing ICT Systems to justify the procurement of the ERP System. In addition, user requirements were not gathered for the intended ERP. A follow-up of this issue in the current year audit (2015-2016), revealed that the Board vide full board minute No.14/17.11.2016 directed the corporation management to seek expert services from the ICT Authority through a full automation audit to determine gaps in the existing ICT systems and advice accordingly. Though the ICT Authority submitted its report, it is not clear how the report would assist the corporation at this stage, to conclude the procurement of ERP system within the contract provisions originally entered into with M/S Seven Seas Technologies Group. By the conclusion of the audit, the propriety of the expenditure of Kshs.129,748,417 on the ERP could not be confirmed.

2.2 Procurement Process

In contravention of Regulation 16(4) of the Public Procurement and Disposal Act, 2005, the Chairman of the Evaluation Committee was a member of the Tender Committee. In addition, there is no evidence that he disqualified himself from the deliberations to award the tender to M/S Seven Seas Technologies Group. During the evaluation, it was noted that there were two consultants who were actively involved in the tender evaluation and also signed the evaluation report dated 2 July 2013. There was no evidence to indicate how the consultants were procured and how they were appointed to the evaluation committee. Further, the Consultants were paid Kshs. 596,298 which was an avoidable expenditure given that the Corporation has qualified ICT personnel.

The budgeted amount of an ERP for the year 2012/2013 was Kshs.100 Million. The tender committee however awarded the tender of Kshs.129 Million in contravention of Section 26 (3) (a) of the Public Procurement and Disposal Act, 2005 which states that all procurement shall be within the approved budget of the procuring entity.

2.3 Awarding the Contract

From the signed contract, the following was noted:

- i. The Contract period was for 12 months, which was the warranty period after the systems go live. At the time of our audit in March 2017, the system had not gone live and no commissioning certificate was availed for audit review.
- ii. The vendor had not provided a valid performance bond and prior implementation checklist which were tender requirements.
- iii. The vendor did not provide a valid manufacturer's authorization form and end-user license agreement. Instead, the documents availed were for another contractor. The contract document had however not provided for sub-contracting. It was further noted that the General Manager and Operations Manager for Twenty third Century Solutions, the firm that had won in the first tender at a price of Kshs.90,937,930, were the same officials who had signed for M/S Seven Seas Technologies Group which had won the re-advertised tender at a price of Kshs.129,748,418.
- iv. The tender had not provided for the procurement of the hardware but the contract mentioned that the vendor will provide a loan server for a period of 3 months at no cost. Available information indicates that the Corporation had not budgeted for the hardware in the financial year 2013/2014. It was not explained why the management had sought to purchase software without the necessary hardware which is critical in the implementation of any system.

2.4 Payment

As previously reported, during 2013/2014 financial year, the Corporation paid two instalments of USD 926,020 (Kshs.80,678,519) which was contrary to the payment terms as per the contract. The contract provided for 30% upon execution of the contract and 15% upon completion of the project preparation phase which is USD452,977 (Kshs.38,924,525) and USD226,488.28 (Kshs.19,462,263) respectively. The corporation therefore overpaid by USD246,555 (Kshs.21,186,579) at Kshs.85.93 exchange rates as per the contract value. According to the contract, all payments to the vendor were to be made in US Dollars to Bank of Africa (K) Limited, Westland's Branch Account Number 03007430015 and Swift Code AFRIKENX. Examination of the payment vouchers however revealed that the two payments made to the vendor were paid to Kenya Commercial Bank Kshs. 52,498,000 and Co-operative Bank of Kenya Kshs.28,180,509. The anomaly had not been explained to date.

2.5 Disclosure

The total amount paid for the ERP Software amounting to Kshs.81,274,818 is shown under Current Assets as a scheme in progress contrary to IAS 39 which requires that for each class of intangible asset, a disclosure on useful life, amortization rate and gross carrying amount be made.

As a follow up to this issue in this current year, it has been observed that the Corporation still shows this figure under current assets as a scheme in progress contrary to IAS 39.

Further, documents obtained in the current year revealed that the Board directed management to authorize the ICT team to visit the provider and obtain the software and all related documents and information on behalf of the Corporation. By the conclusion of the audit, it had not been confirmed whether the Corporation managed to obtain the software. Consequently, the propriety of the expenditure of Kshs. 129,748,417 on the ERP could not be confirmed as at the time of this audit the issue remained unresolved as at 30 June 2018.

3.0 Electronic Database Management System (EDMS)

As previously reported, the Corporation acquired a data conversion System through M/S Digital Scope Ltd and paid Kshs.13,250,000 in the financial year 2011/2012. This system was to help improve the Corporation's records by digitizing its records and make retrieval of records faster. However, during the audit for the year it was noted that records were still manually processed. The software and resultant infrastructure (hardware) could not be physically verified and by the conclusion of the audit, it was not possible to confirm existence of the system. In the circumstances, it has not been possible to confirm whether the Corporation got value for money from the expenditure of Kshs. 13,250,000 for digitizing of records and the issue remained unresolved as at 30 June 2018.

4.0 Trade and Other Payables

Trade and other payables included in the statement of financial position as at 30 June 2017 amounted to Kshs.993,293,798. Included in this amount was Kshs.373,131,890 received from prospective house buyers as deposits from three (3) schemes namely; Tenant Purchase deposits, House Rental deposits and House Mortgage Deposits but no supporting schedules were availed for verification. Further, the Corporation did not explain how an unreconciled balance of Kshs.78,152,844 reported in prior year (2014/2015) was cleared. In addition, the Corporation has also indicated that Kshs.1,383,027 (2015/2016 – Kshs.13,511,819) was prepaid rent as at 30 June 2017. Although the Corporation provided names and amounts of rental payments, it was not possible to establish the actual dates when such payments were made. Consequently, it has not been possible to confirm the accuracy and validity of the balance for trade and other payables of Kshs.993,293,798.00 in the statement of financial position as at 30 June 2017.

5.0 Trade and Other Receivables

5.1 Rent Arrears

Included in the trade and other receivables balance of Kshs.357,957,079 as at June 2017 was rent arrears of Kshs.147,166,374 (Kshs.144,553,153 in 2014/2016). Although the Corporation provided a record of its tenants, monthly rent receivable and total rental arrears in the specific areas, it did not explain why the arrears has accumulated for long periods without any recoveries being made. In addition, it was also noted that the Corporation lacks guidelines or a formal framework on the management of rental arrears. Without such guidelines, or policy in place it is difficult to establish whether any efforts to recover the rent would be effective or whether the arrears would be fully recovered. Further, the Corporation did not explain, or provide a breakdown of the credit balance of Kshs.12,412,536 described as rent arrears in the supporting schedule of trade and other receivables in 2015/16. Consequently, it was not possible to establish whether trade and other receivables of Kshs.357,957,079 as at 30 June 2017 is fairly stated.

6.0 Loan Amounts Receivable

Note 18 to the financial statements reflected loan amount receivable of Kshs.2,349,013,010(2015/16 – Kshs.1,954,446,830) as at 30 June 2017. Included in this balance are Rural Housing Loans of Kshs.592,197,948 (2015/2016 – Kshs.543,467,635) and outright sales debtors of Kshs.254,740,062. However, the management provided support schedules of Kshs.505,544,084 and Kshs.84,281,414 for rural housing loans and outright sales debtors respectively resulting in unreconciled difference of Kshs.37,923,551 and Kshs.179,601 respectively. Further, the Corporation lacks a policy on debt management especially as regards determination and management of bad debts. In addition, it was noted that the outstanding loans portfolio was quite significant and in the absence of debt management policy, recoverability of loan amounts receivable of Kshs.2,349,013,010 as at 30 June 2017 is doubtful.

7.0 Schemes in Progress

7.1 Makande Estate – Mombasa (Estate Purchased Through a Debt Swap)

As previously reported, the Corporation took over the Makande estate (in Mombasa) from the defunct Mombasa Municipal Council through a debt swap to off-set the loan debt of Kshs.260 million owed to the Corporation by the council. The estate was then valued at Kshs.310 million. The Corporation paid the excess value of Kshs.50 million to the council and took over the estate. When the Corporation started some developments on the acquired estate, some individuals claimed ownership of the parcels of land within the estate and filed cases in Mombasa High Court. The Corporation could not continue with its planned development due to the pending court cases. When the audit team visited the site for inspection, it was noted that within the estate, some individuals have fenced some plots and into the agreement for the debt swap without establishing the true ownership of the land and whether the land had any

encumbrances. In addition, it has not explained how it is dealing with the issue of encroachment into the estate. In the circumstance, the Corporation may not have attained value for money in the purchase of the disputed property and the matter remained unresolved as at 30 June, 2018.

7.2 Kanyakwar II – Kisumu

As reported in the previous year, Note 17 to the financial statements reflects schemes in progress of Kshs.1,848,868,430. Included in the figure is Kanyakwar II project in Kisumu amounting to Kshs.207,330,708 which has stalled due to some disputes with the contractor. Although this project had stalled since the beginning of the financial period, it has continued to attract costs amounting to Kshs.13,854,373. It was noted that out of these charges; Kshs.12,579,377 relates to “interest on construction cost” and Kshs.436,350 relates to “supervisory costs”. It is not clear how the project which is already stalled attracted supervisory costs of Kshs. 436,350. In addition, it was not explained to the audit team, how a turnkey project fully funded by the contractor could attract interest on construction of Kshs.12,579,377. It was therefore difficult to establish if the indicated payments were justified. Effectively, the Corporation may not have obtained value for money in this contract totaling Kshs.207,330,708 and the issue remained unresolved as at 30 June 2018.

7.3 Dormant Schemes

Included in the figure for schemes in progress of Kshs.1,848,868,430 as at 30 June 2017 are dormant schemes amounting to Kshs.196,709,492 (2015/16 – Kshs.251,099,767) and which have remained dormant for over one year. Although the dormant schemes continue to tie up the corporation funds, management has not explained what it is planning to do with the schemes to release the tied-up capital. As per the contract agreement signed between the Contractor and the employer, the project completion date should have been 19 May 2017 with a revised completion date of 2 August 2017. However as at April 2018 the project was still in progress and this may lead to escalation of Project costs.

8.0 Proposed Stoni Athi Housing Scheme Phase I at Athi River – NHC/TECH/424/2013

8.1 Project Period and Extension of Time

The Housing Scheme Phase I was awarded to M/S N.K. Brothers Ltd on 29 December 2014 at their tender sum of Kshs. 633,909,101 for a contract period of 101 weeks. The contractor was given possession of site on 26 January 2015. The works commenced on 04 February 2015 with an expected completion date of 16 January, 2017. However, the contractor did not complete the works on schedule and on 31 January 2017 an extension of 18 weeks was awarded revising completion date to 24 May 2017.

However, as at April 2018 there was no evidence of completion of the project and no evidence of extension of contract period was provided.

8.2 Irregular Payment of Advance

Clause xiv of Instructions and Conditions of Tendering states categorically that no advance or mobilization payments shall be made either for construction plant, tools and materials or any other purpose. In addition, according to Appendix B – Amendments/Deletions to Conditions of Contract, Clause 23.7 of Conditions of Contract on payment of advance was deleted entirely implying that no advance payment was to be granted. Further, Regulation 98 of Public Financial Management (National Government) regulations, 2015 states that advance payment shall not be paid to suppliers unless provided for in the contractual terms and conditions contained in a valid contract signed between the procuring entity and the supplier.

However, examination of payment records revealed that despite the above instructions to bidders and conditions of contract, the Contractor was paid irregularly advance payment amounting to Kshs. 63,390,910 being 10% of the Contract Sum.

8.3 Written Contract Agreement

According to Section 68 of the Public Procurement and Disposal Act, 2005 the person submitting the successful tender and the procuring entity shall enter into a written contract based on the tender documents, the successful tender, any clarifications and any corrections and that no contract is formed between the person submitting the successful tender and the procuring entity until the written contract is entered into. Despite the above provisions the Corporation paid for the advance, issued instructions and gave possession of site before the written contract agreement was entered into between the corporation and the Contractor which was later signed on 17 February 2015.

8.4 Payments for Illegal Squatters

The contractor was instructed to liaise with M/S Naikuni Ngaah & Company Advocates, relocate any and all squatters who may be occupying or laying Claim on LR No.10426/81 including making appropriate arrangements for their settlement elsewhere. Further, the contractor was requested to document any and all costs including taxes and overheads that may arise from the above instruction.

Further, although it has been explained that M/S Naikuni Ngaah & Company Advocates represented the interests of the illegal squatters who were laying claim on the land, it has not been explained who was representing the interests of the Corporation in the negotiations and why National Land commission was not involved in the process. It is also not clear how the amount of Kshs.91,600 compensations to each of the 300 members of the Osiligi Association totaling to Kshs.27,500,000 was arrived at. Also included in the compensation is Kshs.1,500,000 plaintiff advocate fees inclusion and payment of which is contrary to High Court of Kenya order dated 04 March 2015 which required each party to bear its own costs.

9.0 Procurement of Intangible Assets

Included in the schedule for Intangible Assets is an expenditure of Kshs.2.197,620 being additions to intangible assets during the financial year 2016/2017. However, the tender committee minute's No.91/2015/2016 were never signed by the chairperson but the management went ahead and procured the systems. This contravenes Section 135 of the Public Procurement Act, 2015 which states that existence of a contract shall be confirmed through the signature of a contract document incorporating all agreements between the parties and such contract shall be signed by the accounting officer or an officer authorized in writing by the accounting officer of the procuring entity and the successful tenderer.

Although management has explained that the Chairman declined to append his signature, no explanation was provided as to why the assets were acquired before the minutes were signed and confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

Conclusion

As required by Article 229(6) of the Constitution, except for the matters discussed in the Basis for Qualified Opinion section of my report, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirement and plan and perform the review so as to obtain assurance as to whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 1315. The standard requires that I plan and perform the audit so as to obtain assurance as to whether effective processes and systems of internal control, risk management and government was maintained in all material respect.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control.

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

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

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

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high

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

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the National Housing Corporation to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

08 May 2019





STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

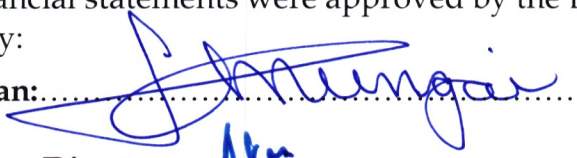
	Notes	2017/2018 Kshs	2016/2017 Kshs
INCOME			
Turnover	3	953,890,313	953,717,405
Other Income	4	33,744,647	38,770,511
EPS Sales	5	174,543,201	259,425,295
		1,162,178,161	1,251,913,211
EXPENSES			
EPS Expenses	5	179,053,004	279,371,158
Staff Costs	6	342,360,340	336,897,846
Administration Costs	7(a)	283,426,432	264,874,133
Board Expenses	7(b)	8,215,366	19,065,346
Depreciation of Property Plant & Equipments	11(b)	224,105,598	77,122,915
Amortization of Intangible Assets	13	5,427,340	3,145,394
		1,042,588,080	980,476,792
OPERATING PROFIT		119,590,081	271,436,419
Finance Income	8	54,161,546	84,538,841
Profit Before Taxation		173,751,627	355,975,260
Tax	9(a)	133,352,525	125,206,787
Profit After Taxation		40,399,102	230,768,472
Proposed Dividends	10	2,019,955	11,538,424
Retained Profits		38,379,147	219,230,047



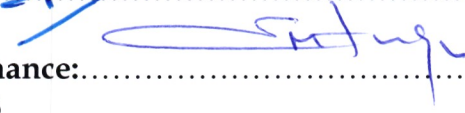
STATEMENT OF FINANCIAL POSITION

	NOTES	2017/2018 Kshs	2016/2017 Kshs
ASSETS			Restated
NON CURRENT ASSETS			
Property, Plant & Equipment	11 (a)	1,317,598,369	1,377,114,324
Land	12	2,452,126,202	2,433,711,460
Intangible Asset	13	10,689,047	2,350,388
Investment Property	14	7,387,619,241	7,575,609,631
Long Term loan Advanced	15	3,162,546,732	3,139,348,913
Unquoted Investment	16	104,657,797	104,657,797
TOTAL NON-CURRENT ASSETS		14,435,237,388	14,632,792,513
CURRENT ASSETS			
Schemes in Progress	17	2,754,217,770	1,823,490,405
Loan Amount Receivable	18	2,414,360,790	2,349,013,010
Inventories	19	465,582,730	729,110,446
Trade and other Receivables	20	417,247,188	478,614,713
Tax Recoverable	9(b)	11,564,575	89,252,918
Cash and Bank balances	21	373,080,753	707,530,412
TOTAL CURRENT ASSETS		6,436,053,806	6,177,011,904
TOTAL ASSETS		20,871,291,194	20,809,804,417
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Equity	22	6,936,000,000	6,936,000,000
Unrealised Gain on Sale of Houses	23	587,574,898	560,080,075
Retained Earnings	24	3,212,868,824	3,174,565,752
House Equalization	25	383,118,995	383,118,995
Revaluation Reserve	26	8,652,167,205	8,652,167,205
TOTAL EQUITY		19,771,729,922	19,705,932,027
CURRENT LIABILITIES			
Trade and other Payables	27	1,022,590,638	1,006,566,505
Dividend payable	10	13,558,379	35,261,707
Deferred Tax Liability	9(c)	63,412,255	62,044,178
TOTAL CURRENT LIABILITIES		1,099,561,272	1,103,872,390
TOTAL EQUITY AND LIABILITIES		20,871,291,194	20,809,804,417

The financial statements were approved by the Board on 27th September 2018 and signed on its behalf by:

Chairman:  Date: 12/04/2019

Managing Director:  Date: 12/04/2019

General Manager Finance:  Date: 12/04/2019

ICPAK Number 3956

STATEMENT OF CHANGES IN EQUITY

	EQUITY	UNREALISED GAIN ON SALE OF HOUSES	RETAINED PROFIT	HOUSE EQUALIZATION RESERVE	REVALUATION RESERVE	TOTAL
	Kshs	Kshs	Kshs	Kshs		Kshs
1ST JULY 2016	6,936,000,000	557,419,796	2,615,896,348	383,118,995		10,492,435,139
Prior Year Adjustments			339,439,354			339,439,354
House Equalization Reserve						-
Realised Gain		(39,582,116)				(39,582,116)
Unrealised Gain		42,242,395				42,242,395
Proposed dividends for year			(11,538,429)			(11,538,429)
Profit for the year			230,768,473			230,768,473
Revaluation Reserve					8,652,167,205	8,652,167,205
30TH JUNE 2017	6,936,000,000	560,080,075	3,174,565,752	383,118,995	8,652,167,205	19,705,932,027
1ST JULY 2017	6,936,000,000	560,080,075	3,174,565,752	383,118,995	8,652,167,205	19,705,932,027
Prior Year Adjustments			(76,074)			(76,074)
House Equalization Reserve						-
Realised Gain		(39,767,394)				(39,767,394)
Unrealised Gain		67,262,217				67,262,217
Proposed dividends for year			(2,019,955)			(2,019,955)
Profit for the year			40,399,102			40,399,102
Revaluation Reserve					-	-
30TH JUNE 2018	6,936,000,000	587,574,898	3,212,868,824	383,118,995	8,652,167,205	19,771,729,923

STATEMENT OF CASH FLOWS

	Notes	2017/2018 Kshs	2016/2017 Kshs
OPERATING ACTIVITIES			
Cash generated from operations	29	(185,712,543)	(547,769,006)
Dividends paid	10	(23,723,283)	(41,378,211)
Taxation paid	9(b)	(54,848,519)	(95,561,541)
Net cash generated from/(used in) operating activities		(264,284,345)	(684,708,758)
INVESTING ACTIVITIES			
Purchase of fixed assets			
- Land	12	(18,414,742)	(1,611,402)
- Property, Plant & Equipment	11	(21,167,259)	(70,002,129)
- Intangible Assets	13	(13,766,000)	(2,261,420)
- Investment Property	14	(294,730)	(20,431,795)
Loans advanced	29	(194,804,724)	(152,010,672)
Tenant purchase loans advanced	30	(237,353,075)	(148,382,400)
Cash proceeds from disposal of assets	30	6,355,250	3,576,000
Redemption of loans	30	160,770,924	174,320,563
Redemption of TP Loans	30	248,189,057	256,134,967
Net cash generated from/(used in) investing activities		(70,485,299)	39,331,713
FINANCING ACTIVITIES			
Prior year adjustments	24	319,985	103,774,989
Net cash generated from/(used in) financing activities		319,985	103,774,989
Increase / (Decrease) in cash and cash equivalents		(334,449,659)	(541,602,056)
Cash & Cash Equivalents at the beginning of the period		707,530,412	1,249,132,468
Cash & Cash Equivalents at the end of the period	21	373,080,753	707,530,412

STATEMENT OF BUDGET AND ACTUAL COMPARISON

	Budget	Actual	Variance	% Variance	Explanation of material variances
	Kshs. '000'				
REVENUE					
Interest Earned	587,550	628,284	40,734	7%	
Rental Income	247,565	231,765	(15,800)	-6%	
Professional fees	201,160	44,947	(156,213)	-78%	31(a)
Gain/(Loss) on sale of houses	190,644	73,371	(117,273)	-62%	31(b)
Eps Sales	509,811	174,543	(335,268)	-66%	31(c)
Other Incomes	26,558	9,267	(17,291)	-65%	31(d)
Finance Income	63,051	54,162	(8,889)	-14%	31(e)
Total Revenue	1,826,339	1,216,339	(610,000)	-33%	
OPERATING EXPENSES					
Salaries & Benefits	404,964	342,360	62,604	15%	31(f)
Staff Uniforms	1,182	719	463	39%	31(g)
Staff Training	34,950	22,780	12,170	35%	31(h)
Staff Sport Clubs	3,370	1,352	2,018	60%	31(i)
Travelling General	8,343	9,261	(918)	-11%	
Advertising	7,000	6,178	822	12%	31(j)
Audit fees	1,225	1,225	0	0%	
Rents - Offices	21,607	21,186	421	2%	
Telephones & Postage	5,000	3,815	1,185	24%	31(k)
Printing & Stationery	11,000	8,011	2,989	27%	31(l)
Exhibitions	2,000	669	1,331	67%	31(m)
Library Expenses	2,907	1,740	1,167	40%	31(n)
Official Entertainment	11,368	9,796	1,572	14%	31(o)
Debt collect expenses	2,000	2,317	(317)	-16%	31(p)
Motor vehicle - Running Expenses	9,307	7,103	2,204	24%	30(q)

STATEMENT OF BUDGET AND ACTUAL COMPARISON

	Budget	Actual	Variance	% Variance	Explanation of material variances
	Kshs. '000'				
Repairs of Equipment	16,776	18,053	(1,277)	-8%	
Insurance	15,000	5,640	9,360	62%	31(r)
Bad Debts	14,481	12,819	1,662	11%	31(s)
Depreciation	263,596	229,533	34,063	13%	31(t)
Legal charges	29,077	28,513	564	2%	
Corporate Social Responsibility	700	363	337	48%	31(u)
Consultancy General	59,096	19,034	40,062	68%	31(v)
EPS Factory Expenses	365,660	179,053	186,607	51%	31(w)
Bank Charges	5,198	3,963	1,235	24%	31(x)
Property & Estates	60,907	48,673	12,234	20%	31(y)
Board Expenses	22,120	8,215	13,905	63%	31(z)
Post Contract Payments	4,818	3,216	1,602	33%	31(aa)
Medical Inpatient	47,000	47,000	-	0%	
Total Expenses	1,455,159	1,042,587	412,572	28%	
Profit Before Tax	371,180	173,752	(197,428)	-53%	

The corporation prepares its annual budget based on zero based budgeting.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

A. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies. There are currently no areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statement.

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

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

B. Application of new and revised International Financial Reporting Standards

(i) New standards and amendments to published standards effective 1st January 2018.

IFRS 9 Financial Instruments

1 January 2018

International Financial Reporting (IFRS 9) Financial Instruments were issued in 2014 as the International Accounting Standards Board's replacement of IASB' 39 Financial Instruments that embraces both recognition and measurement and expected to take effect in January 2018.

The new regulation is anchored on three major categories which have been reduced from four that were previously under IAS 39. The categories are classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The new regulation under IFRS 9 will require that financial institutions measure their financial assets at amortized cost (amortized cost is the accumulated portion of the recorded cost of a fixed asset that has been charged to expense through either depreciation or amortization). Depreciation is used to reduce the cost of tangible assets while amortization is used to reduce the cost of intangible assets) or at fair value. This will have to be determined in either profit or loss or simply by being taken to other comprehensive income. Under this regulation, if the customer is in default of one product, then we will have to provide impairment across all other loan products issued to them.

IFRS 15 Revenue from contracts with customers effective 1st January 2018

The core principle of IFRS 15 is that an entity will recognize revenue to depict transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It involves five steps;

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Presentation in financial statements

Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. [IFRS 15:105]

Disclosures

The disclosure objective stated in IFRS 15 is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Therefore, an entity should disclose qualitative and quantitative information about all of the following: [IFRS 15:110]

- Its contracts with customers;
- The significant judgments, and changes in the judgments, made in applying the guidance to those contracts; and
- Any assets recognized from the costs to obtain or fulfill a contract with a customer.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) New and amended standards and interpretations in issue but not yet effective 1st January 2018.

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 16 Leases	1 January 2019

Amendments to IAS 12 were issued regarding deferred tax assets for unrealized losses. The standard was effective for annual periods beginning on or after 1st January 2017.

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition.

Key requirements of IFRS 9:

All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods.

All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

(iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2016

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

Management does not anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported.

(iv) Early adoption of standards

The company did not early-adopt any new or amended standards in 2018.

C. Revenue recognition

Revenue is recognized to the extent that it is probable that future economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is recognized at the fair value of consideration received or expected to be received in the ordinary course of the Corporation's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Corporation's activities as described below.

- a) Interest income is recognized as it accrues unless its collectability is in doubt.
- b) Rental income is recognized in the income statement as it accrues using the effective lease agreements.
- c) Professional fees refer to fees earned on projects by the Corporation's. The fees are recognized at 70% in the year of commencement of construction works and the remaining 30% over the period of the project.
- d) Finance income comprises interest receivable from bank deposits and investment in securities, and is recognized in profit or loss on a time proportion basis using the effective interest rate method.
- e) Gain/loss on sale of houses is recognized in the income statement depending on the mode of sale. Gain on sale of houses on outright sale schemes is recognized in the year of sale and for tenant purchase schemes the gain is amortized over the period of the loan.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- f) Revenue from the sale of Panels is recognized in the year in which the Corporation delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- g) Other income is recognized as it accrues.

D. Property, Plant and Equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognized in profit or loss in the income statement.

E. Depreciation and Impairment of Property, Plant and Equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognized in the income statement on reducing balance basis to write down the cost of each asset to its residual value over its estimated useful life. The annual rates in use are:

Buildings	2.5%
Plant and machinery	20%
Motor vehicles, including motor cycles	25%
Computers equipment & software	30%
Furniture and fittings	20%

A depreciation charge is recognized both in the year of asset purchase and in the year of asset disposal.

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Financial Instruments

Financial assets are recognized in the statement of financial position when and only when the entity becomes party to the contractual provisions of the instruments.

At initial recognition the Corporation measures financial assets at transaction costs that are directly attributable to the acquisition or issue of the financial asset. Financial assets are thereafter measured at amortized cost, for purposes of applying this policy; interest is consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time.

The financial assets are tested for impairment at the end of each reporting period. In case there is any evidence that impairment exists then the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced directly and the amount of the loss recognized in profit or loss.

G. Intangible Assets

Intangible assets comprise purchased computer software licenses, which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. Amortization of intangible assets is recognized in the income statement on reducing balance basis to write down the cost of each asset to its residual value over its estimated useful life.

H. Amortization and Impairment of Intangible Assets

Amortization is calculated on the reducing balance basis at a rate of 30% per annum. All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Investment Property

Buildings, or part of a building and land held for long term rental yields and/or capital appreciation, and which are not occupied by the Corporation, are classified as investment property under non-current assets. The Corporation has carried some of its investment property at fair value, with the changes being recognized in other comprehensive income and changes in fair value of investment properties being recognized in the statement of profit or loss. Revaluations are performed by professional valuers every five years to ensure that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date. In June 2017 the Corporation revalued its Land, Building and Investment properties. The valuation was done by an independent valuer Cyprian Wanjir of Dansal and Associates limited.

J. Unquoted investments

Unquoted investments stated at cost under non-current assets, comprise of equity shares held in other Government owned or controlled entities.

K. Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the basis of first in first out (FIFO) method.

L. Trade and Other Receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectable amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

M. Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Cash and Cash Equivalents

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

O. Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortized cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the Corporation or not, less any payments made to the suppliers.

P. Retirement Benefit Obligations

The entity operates a defined contribution scheme for all full-time employees. The scheme is administered by an in-house team and is funded by contributions from both the Corporation and its employees.

The Corporation also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The Corporation's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs. 200 per employee per month and has been reviewed to Kshs.1,080 per month.

Q. Provision for staff leave pay

Employees' entitlements to annual leave are recognized as they accrue at the employees. A provision is made for the estimated liability for annual leave at the reporting date.

R. Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Corporation operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the translation at year- end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

S. Comparative Figures

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

T. Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30th June 2018.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Critical Accounting Estimates and Assumptions

(i) Income taxes

The Corporation is subject to income taxes in Kenya. Significant judgment is required in determining the Corporation's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Corporation recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(ii) Deferred Tax

The Corporation accounts for deferred in accordance with IAS 12, *Income Taxes*. Deferred tax liability is recognized for all taxable temporary differences except to the extent that the deferred tax liability arises from goodwill and initial recognition (except for business combinations and for transactions affecting neither profit nor loss). Deferred tax assets are recognized on amounts recoverable in future periods in respect of temporary differences, unused tax losses and unused tax credits carried forward. The carrying amount of deferred tax assets is reviewed at the reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is measured at the tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

(b) Critical judgments in applying the entity's accounting policies

In the process of applying the Corporation's accounting policies, management has made judgments in determining:

- Whether land and building meet criteria to be classified as investment property
- Depreciation rates for property and equipment
- Provision for bad debts

Estimates and judgments are continually evaluated and based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstance.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. TURNOVER

The sources of income are as stipulated below:

	2017/2018	2016/2017
	Kshs.	Kshs.
Interest	603,807,013	555,076,282
Rents	231,765,470	218,613,301
Professional Fees	44,947,291	38,828,030
Gain on Sale of Houses	73,370,539	141,199,792
Total	953,890,313	953,717,405

4. OTHER INCOME

	2017/2018	2016/2017
	Kshs.	Kshs.
Interest on Staff Loans	24,477,463	30,899,750
Income from Partnerships	200,000	200,000
Gain on Disposal of Fixed Assets	4,120,812	1,864,813
Miscellaneous (Tender Documents, Application Forms)	4,946,373	5,805,948
Total	33,744,647	38,770,511

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. EPS FACTORY

National Housing Corporation established the EPS factory as a division in 2009 to engage in the production and dissemination of an alternative building technology system named EPS. The factory manufactures expanded polystyrene panels (EPS) and meshes for use in the construction of affordable housing. The installed annual capacity of the factory is about 2,000 three bedroom housing units. There are currently 33 number officers employed in the division with 25 number of them being machine operators (both permanent and casual) and the rest being in management and marketing operations.

Trading, Profit and Loss Account

Manufacturing Account

	2018/2017	2016/2017
	Kshs	Kshs
Raw Materials	106,834,802	141,696,133
Direct Labour	22,839,268	19,172,470
Other Direct Overheads	22,646,967	5,512,750
Prime Costs	152,321,037	166,381,353
Production and Other Factory Overheads	6,207,803	10,172,030
Depreciation	39,359,993	29,616,495
Opening Cost of Work in Progress	13,507,486	33,093,074
Add: Purchases	18,549,920	25,921,200
Less: Closing Cost of Work in Progress	(74,366,859)	(13,507,486)
Production Costs of Goods Completed	155,579,380	251,676,666

Trading, Profit and Loss Account

	2017/2018	2016/2017
	Kshs	Kshs
Sales	174,543,201	259,425,295
Cost of Goods Sold		
Opening Stock of Finished Goods	11,598,202	26,431,174
Production Costs of Goods completed	155,579,380	251,676,666
Closing Stock of Finished panels(Cost)	(1,833,614)	(11,598,202)
Cost of Goods Sold	165,343,968	266,509,638
Gross Profit/(Loss)	9,199,233	(7,084,343)
	9,199,233	(7,084,343)
Selling and Marketing Costs	568,172	2,974,773
Depreciation	3,424,659	1,580,000
Administration expenses	9,716,205	8,306,747
	13,709,036	12,861,520
Trading Loss	(4,509,803)	(19,945,863)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. EPS FACTORY

EPS trading loss is arrived at after charging

	2017/2018	2016/2017
	Kshs.	Kshs.
Cost of Goods Sold	165,343,968.00	266,509,638
Selling and Marketing Costs	568,172.00	2,974,773
Depreciation	3,424,659.00	1,580,000
Administration expenses	9,716,205.00	8,306,747
Total	179,053,004.00	279,371,158

6. STAFF COSTS

Staff costs comprise the following:

	2017/2018	2016/2017
	Kshs.	Kshs.
Retirement Benefit Costs	43,317,223	42,250,370
Salaries & Emoluments	299,043,117	294,647,477
Total	342,360,340	336,897,846

The number of persons employed by the Corporation as at 30th June 2018 was 222 compared to 225 as at 30th June 2017.

National Housing Corporation established the NHC provident fund scheme in 1998. In compliance with the Treasury Circular number 18/2010, the scheme was closed from 1st July 2011 and the staff retirement benefits scheme (Defined Contribution) was established then.

The provident fund scheme is established under trust and was closed to new entrants and any further contributions to the scheme were stopped by the Corporation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The staff retirement benefits scheme was established for all new and eligible employees who had more than five years to attain the mandatory retirement age of sixty years and whose terms of service were not to remain contractual.

The Corporation therefore only makes contributions to the staff retirement benefits scheme. As at 30th June 2018 there were no amounts owed to the Staff Retirement Benefits Scheme.

7.

a) ADMINISTRATION COSTS

	2017/2018	2016/2017
	Kshs	Kshs
Auditors Remuneration	1,224,960	1,224,960
Property & Estates	48,673,363	52,096,540
Motor Vehicle Expenses	7,102,712	8,150,749
Repairs of Equipment	17,879,872	7,411,341
Travelling General	9,261,358	9,586,406
Printing & Stationery	8,011,479	8,506,151
Office rents	21,185,856	16,109,834
Postage & Telephones	3,814,917	3,218,696
Advertising	6,178,481	3,401,508
Insurance	5,639,619	12,801,188
Bank Charges	3,962,681	3,883,854
Library Expenses	1,739,713	822,520
Staff Uniforms	718,736	401,048
Exhibition	669,444	4,348,725
Training	22,780,377	14,900,336
Bad Debts Provision	12,818,853	15,404,544
Post contract payments	3,215,817	5,255,022
Debt Collection Expenses	2,317,231	1,546,024
Legal Charges	28,513,351	11,831,208
Staff Sports Club	378,300	1,202,269
Consultancy General	19,034,128	25,850,866
Medical in Patient	47,000,000	45,104,095
Corporate Social Responsibility	362,550	334,000
Maintenance General	172,920	-
Entertainment	9,796,053	10,966,672
Staff welfare	973,662	515,578
Total Administration Costs	283,426,432	264,874,133

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7.

b) DIRECTORS EXPENSES

	2017/2018	2016/2017
	Kshs	Kshs
Honoraria	960,000	960,000
Sitting Allowances	3,173,200	3,480,000
Travel and Accommodation	3,800,091	4,275,091
Other Expenses	282,076	10,350,255
Total	8,215,366	19,065,346

8. FINANCE INCOME

The interest income is made up of:

	2017/2018	2016/2017
	Kshs.	Kshs.
Interest from current accounts with banks	54,161,546	84,538,841
Total	54,161,546	84,538,841

9. TAXATION

a) Reconciliation of expected tax based on profit before taxation

	2017/2018	2016/2017
	Kshs	Kshs
Profit before taxation	174,090,096	355,975,260
Tax applicable rate of 30 %	52,227,029	106,792,578
Tax effect of expenses not subject to tax	93,179,516	45,376,894
Wear & tear allowance	(13,320,556)	(14,107,405)
Tax effect of losses from previous periods	-	(74,899,458)
Tax charged for the year	131,984,448	63,162,609
Deferred tax	1,368,077	62,044,178
Total taxation charge	133,352,525	125,206,787

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. TAXATION (Continued)

b) Tax recoverable

	2017/2018	2016/2017
Tax Movement Schedule	Kshs	Kshs
Balance Brought Forward	(89,252,918)	179,268,832
Adjustments for Over Provision in Previous Years	-	(236,122,818)
Provision for tax for the year 2017/2018	131,984,448	63,162,609
Tax payable	-	-
Paid During the year	(54,848,519)	(95,590,625)
Withholding Tax Liability	552,414	29,084
At end of the year	(11,564,575)	(89,252,918)

c) The net deferred tax liability is attributable to the following items

	2017/2018	2016/2017
	Kshs	Kshs
Deferred Tax Liability b/f	62,044,178	
Accelerated capital allowances	3,898,725	117,372,090
Deferred Tax Assets	-	-
Various provisions	(2,530,648)	(55,327,912)
Deferred tax	1,368,077	62,044,178
At end of the year	63,412,255	62,044,178

10. PROPOSED DIVIDENDS

Proposed dividends are provided for at 5% of the profit after tax.

	2017/2018	2016/2017
	Kshs.	Kshs.
At the beginning of the year	35,261,707	65,101,494
Provision for the year	2,019,955	11,538,424
Paid during the year	(23,723,283)	(41,378,211)
At the end of the year	13,558,379	35,261,707

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. (a) PROPERTY, PLANT AND EQUIPMENT SCHEDULE

FIXED ASSETS	BUILDING	EPS PRODUCTIO PLANT & MACHI	PLANT & EQUIPMENT	MOTOR VEHICLES	FURNITURE & FITTINGS	COMPUTER SYSTEM	TOTAL
COST	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
AT 1ST JULY 2016	281,830,553	532,484,676	74,102,113	69,754,675	120,819,042	77,862,804	1,156,853,864
Additions		28,910,844	2,868,724	32,630,000	2,650,258	2,942,303	70,002,129
Revaluation	542,249,536						542,249,536
Disposals				(10,805,891)			(10,805,891)
Adjustments	(24,080,089)						(24,080,089)
AT 30th JUNE 2017	800,000,000	561,395,520	76,970,837	91,578,784	123,469,300	80,805,107	1,734,219,548
AT 1ST JULY 2017	800,000,000	561,395,520	76,970,837	91,578,784	123,469,300	80,805,107	1,734,219,548
Additions			6,407,700		963,600	13,795,959	21,167,259
Revaluation							-
Disposals				(17,737,770)			(17,737,770)
Adjustments							-
AT 30th JUNE 2018	800,000,000	561,395,520	83,378,537	73,841,014	124,432,900	94,601,066	1,737,649,037
DEPRECIATION							
AT 1ST JULY 2016	19,076,904	76,920,564	49,230,779	41,763,827	73,190,618	65,895,605	326,078,297
Charge for the Year							-
-Depreciation	6,960,805	22,690,721	4,673,903	7,606,218	19,309,127.46	3,251,901	64,492,675
On Disposal/ Adjustment	(24,371,044)			(9,094,704)			(33,465,748)
AT 30th JUNE 2017	1,666,665	99,611,285	53,904,681	40,275,341	92,499,745	69,147,505	357,105,224
AT 1ST JULY 2017	1,666,665	99,611,285	53,904,681	40,275,341	92,499,745	69,147,505	357,105,224
Adjustment prior year							-
Charge for the Year							-
-Amortization							-
-Depreciation	19,772,002	21,782,940	4,455,598	11,346,775	16,143,868	5,103,947	78,605,132
On Disposal/ Adjustment				(15,659,685)			(15,659,685)
AT 30th JUNE 2018	21,438,668	121,394,226	58,360,279	35,962,432	108,643,614	74,251,453	420,050,671
NET BOOK VALUE							
AT 30th JUNE 2017	798,333,335	461,784,235	23,066,155	51,303,443	30,969,554	11,657,602	1,377,114,324
AT 30th JUNE 2018	778,561,332	440,001,296	25,018,258	37,878,582	15,789,286	20,349,614	1,317,598,369

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. (b) PROPERTY, PLANT AND EQUIPMENT SCHEDULE (Continued)

The depreciation amount charged to the statement of comprehensive income under the item property, plant and equipment is as shown below

Asset Class	2017/2018			2016/2017		
	NHC Kshs.	EPS Kshs.	Total Kshs.	NHC Kshs.	EPS Kshs.	Total Kshs.
Land & Building	-	19,772,002.00	19,772,002	43,826,736	6,960,805	50,787,541
Investment Property	188,285,119	-	188,285,119	-	-	-
Motor Vehicle	10,357,739	989,036	11,346,775	6,303,000	1,303,217	7,606,217
Plant & Equipment	4,384,710	70,888	4,455,598	4,588,310	85,593	4,673,903
EPS Production Plant	-	21,782,940	21,782,940	-	22,690,721	22,690,721
Furniture & Equipment	15,974,083	169,785	16,143,868	19,152,969	156,159	19,309,127
TOTAL	224,105,598	42,784,651	261,786,302	77,122,915	31,196,496	108,319,411

12. LAND

	2017/2018	2016/2017
	Kshs.	Kshs.
At start of year	2,433,711,460	901,398,588
Additions	18,414,742	1,611,402
Disposals/ Adjustments	-	1,530,701,470
At end of year	2,452,126,202	2,433,711,460

The Corporation has 50 number parcels of land that do not have the required ownership documentation; efforts are underway to process the land ownership documentation for these parcels of land.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. INTANGIBLE ASSETS

Intangible Assets have been recognized using the cost model as shown below

	2017/2018	2016/2017
Cost	Kshs	Kshs
At start of year	21,411,246	19,149,826
Additions	13,766,000	2,261,420
At end of year	35,177,246	21,411,246
Amortization		
At start of year	19,060,858	15,915,464
Charge for the Year	5,427,340	3,145,394
At end of year	24,488,198	19,060,858
Net Book Value	10,689,047	2,350,388

14. INVESTMENT PROPERTY

Investment property has been recognized using the cost model as shown below

	2017/2018	2016/2017
Cost	Kshs.	Kshs.
At start of year	7,594,417,811	1,273,585,669
Additions	294,730	20,431,795
Revaluation	-	6,579,216,199
Disposals/ Adjustments	-	(278,815,852)
At end of year	7,594,712,541	7,594,417,811
Depreciation		
At start of year	18,808,179	253,047,889
Adjustment prior year		
Charge for the Year	188,285,119	43,826,736
On Disposal/ Ajustment	-	(278,066,446)
At end of year	207,093,298	18,808,179
Net Book Value	7,387,619,241	7,575,609,631

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. LONG TERM LOANS ADVANCED

These are made of loans to Local Authorities, Rural Housing Loans, Staff Loans and Tenant Purchase Loans.

	2017/2018	2016/2017
	Kshs.	Kshs.
Local Authorities	40,548,482	44,392,079
Rural Housing Loans	379,605,659	386,501,471
Staff Loans	562,408,569	517,647,483
Tenant Purchase	2,179,984,022	2,190,807,880
Total	3,162,546,732	3,139,348,913

16. UNQUOTED INVESTMENTS

These are investments held with;

	2017/2018	2016/2017
	Kshs	Kshs
Consolidated Bank		
4% Non-Cum Preference Shares of Sh.20.00 each	4,100,000	4,100,000
Ordinary Shares of Sh.20 each	1,100,000	1,100,000
Research & Development Ltd	99,457,797	99,457,797
Total	104,657,797	104,657,797

The Consolidated Bank shares are valued at cost. They arose following take-over of Jimba Credit, Union Bank and Business Finance Ltd by the government.

The other investment is in Research Development Co. Ltd, which is a fully owned subsidiary of NHC. The board of directors resolved that the company should be liquidated in accordance with the IFRS 10. The Corporation has not consolidated the accounts of Research Development Co. Ltd.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. SCHEMES IN PROGRESS

These are valued at cost, and comprise:

	2017/2018	2016/2017
	Kshs.	Kshs.
Tenant Purchase	283,992,839	1,362,182,607
Outright sale	2,186,750,486	187,991,741
Other Projects	283,474,446	273,316,057
Total	2,754,217,770	1,823,490,405

Included in other projects are Kshs. 81,274,817.10, Kshs. 191,573,554 and Kshs. 10,626,073.55 being amounts incurred in the new ERP system, GOK Police Housing Project and NHC's minor works respectively. The new ERP system is still at the design stage.

18. LOAN AMOUNTS RECEIVABLE

	2017/2018	2016/2017
	Kshs.	Kshs.
Rural Housing Loans		
Amounts Due	660,459,772	592,197,948
Provision for Bad Debts	(115,314,085)	(102,056,295)
	545,145,687	490,141,653
Local Authorities	1,374,388,916	1,288,598,441
Staff Loans	19,970,960	13,738,573
Tenant Purchase	332,681,670	301,794,281
Outright sale Debtors	142,173,556	254,740,062
Total	2,414,360,790	2,349,013,010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Credit Risk Management

Credit risk is the potential that a borrower will fail to meet his obligation in accordance with the agreed terms. The Corporation mitigates against such risks through insurance and by carrying out credit risk control appraisal before issuing loans.

A provision for bad debts has also been provided for Rural Housing Loans at the rate of 20%. No provision has been provided for local authority, staff, tenant purchase loans and outright sale debtors, as the debts are secured on the properties.

19. INVENTORIES

Inventories have been valued at the lower of cost and net realizable value (NRV) and are made up of:

	2017/2018	2016/2017
	Kshs.	Kshs.
Consumable Inventories-NHC	1,471,541	1,674,091
Stock of unsold houses-NHC	362,255,792	667,165,313
Consumable Inventories-EPS	9,991,228	7,941,846
EPS Work In Progress	74,366,859	13,507,486
EPS stock of Finished panels	1,833,614	11,598,202
EPS stock of Raw materials	15,663,695	27,223,507
Total	465,582,730	729,110,446

20. TRADE AND OTHER RECEIVABLES

	2017/2018	2016/2017
	Kshs.	Kshs.
Rent Arrears	241,309,717	243,174,994
Sundry Debtors	254,677,660	286,240,819
Provision for bad debts	(78,740,189)	(50,801,100)
Total	417,247,188	478,614,713

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Credit Risk Management

In arriving at the provision for bad debts, management has taken into consideration past loan loss experiences, current economic conditions, the composition of the debt portfolio and reviews and evaluations of specific loans. The provision at a rate of 5% has been reflected in both the statement of financial position and the statement of comprehensive income.

21. CASH AND BANK BALANCES

For purposes of the cash flow statement, cash and cash equivalent represent cash and bank balances.

	2017/2018	2016/2017
	Kshs.	Kshs
Mobile Money	8,815,890	171
Co-operative Bank	372,006,243	687,209,822
National Bank of Kenya	4,800,158	6,471,265
Kenya Commercial Bank	(12,541,538)	13,849,154
Total	373,080,753	707,530,412

The Corporation introduced mobile money services with effect from 1st June 2017.

22. EQUITY

The Corporation was established under the Housing Act, Cap 117 and is fully owned by the Government of Kenya. The equity arose when inter-ministerial Committee on National Housing Corporation's capital restructuring presented its report to the Cabinet in 2003. The Cabinet, during its deliberations, approved capital restructuring of NHC which included the following:

- Conversion of total debts (arrears and principal) owed to GoK by NHC amounting to Kshs.5.32 billion into equity
- Injection of additional funds in the form of equity to the tune of Kshs.4.8 billion

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. EQUITY (Continued)

The Corporation has so far received Kshs.1.616 billion additional equity as part of the implementation of the capital restructuring program. A detailed analysis of the Corporation's equity is as shown in the table below;

Equity Injection to NHC as at 2017/2018		Kshs.
2007/2008		216,000,000
2008/2009		250,000,000
2009/2010		250,000,000
2010/2011		900,000,000
Total		1,616,000,000
Conversion of Total Debts owed to GOK by NHC	2002/2003	5,320,000,000
TOTAL EQUITY		6,936,000,000

There was no capital injection in the year under review.

23. UNREALIZED GAIN ON SALE OF HOUSES

This is the gain on sale of Tenant Purchase schemes, which will be realized over the life of the Tenant purchase loans.

	2017/2018	2016/2017
	Kshs.	Kshs
Opening balance	560,080,075	557,419,796
Add: Unrealized gain recognized in the year	67,262,217	42,242,395
Less: Realized gain recognized in the year	(39,767,394)	(39,582,116)
Total Movement in the year	27,494,824	2,660,279
Closing Balance	587,574,898	560,080,075

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. RETAINED EARNINGS

This is made up as follows:

	2017/2018	2016/2017
	Kshs	Kshs
Opening balance	3,174,565,752	2,615,896,348
Prior year adjustments	(76,074)	339,439,354
Proposed Dividends	(2,019,955)	(11,538,429)
Profit after tax for the Year	40,399,102	230,768,473
Closing balance	3,212,868,824	3,174,565,752

Included in the retained earnings are prior year adjustments amounting to Kshs. 76,074 and Kshs. 339,439,354 in the prior year. These amounts arise from

- (i) Supplier Invoices that relate prior years and are sent to the Corporation after year end closure
- (ii) Amounts that had been mis-posted/omitted in prior years

25. HOUSE EQUALIZATION

	2017/2018	2016/2017
	Kshs	Kshs
Opening Balance	383,118,995	383,118,995
Charge in the Year	-	-
Closing balance	383,118,995	383,118,995

This is a reserve account in which all income is recognized in respect to local authorities that the Corporation had entered into an agreement with a view to ensuring that their debts were cleared. This treatment ensures that the Corporation's profits are not overstated; Income from the respective defunct local authorities' debtors will only be recognized when the debts owed are paid off.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. REVALUATION RESERVE

	Land	Buildings	Investment Property	Total
	Kshs	Kshs	Kshs	Kshs
2016/2017				
Opening Balance	-	-	-	-
Charge in the Year	1,530,701,470	542,249,536	6,579,216,199	8,652,167,205
Closing Balance	1,530,701,470	542,249,536	6,579,216,199	8,652,167,205
2017/2018				
Opening Balance	1,530,701,470	542,249,536	6,579,216,199	8,652,167,205
Charge in the Year	-	-	-	-
Closing Balance	1,530,701,470	542,249,536	6,579,216,199	8,652,167,205

In June 2017 the Corporation revalued its Land, Building and Investment properties. The valuation was done by an independent valuer Cyprian Wanjir of Dansal and Associates limited. There was no charge recognized in the year under review.

27. TRADE AND OTHER PAYABLES

These comprise:

	2017/2018	2016/2017
	Kshs.	Kshs.
House Deposits	435,293,158	373,131,890
Ruai Police Housing Development Deposit	149,368,295	149,368,295
Service Charge	125,721,052	116,147,162
Due to Contractors	200,462,391	218,866,318
Sundry Creditors	111,745,742	147,669,814
Prepaid Rent	-	1,383,027
Total	1,022,590,638	1,006,566,505

NOTES TO THE FINANCIAL STATEMENTS (Continued)

House deposits are amounts received from prospective house purchasers in respect of the various housing schemes. The amounts are treated as creditors until the houses are completed and handed over to purchasers.

Service charge are amounts payable by house tenant purchasers and other rental properties to cater for maintenance of common areas and insurance of properties against fire and peril.

The amounts due to contractors relate to amounts accrued in respect of the ongoing and completed housing projects that are outstanding as at the reporting date.

28. RELATED PARTY TRANSACTIONS

(a) Principal Loan Balances for Staff

The amounts outstanding (balances not due) on loans to employees of the Corporation are:

	2017/2018 Kshs.	2016/2017 Kshs.
Tenant Purchase Loans	265,554,922	293,423,669
Staff Loans		
Car Loans	30,807,668	35,709,842
Computer Loans	2,044,306	1,301,707
House Loans	479,982,280	480,635,933
Rural Housing Loan	49,574,314	-
Sub Total (Staff Loans)	562,408,568	517,647,483
Total Loan Amount Advanced to Staff	827,963,491	811,071,152

The loans classified as staff loans are amounts advanced to staff at an interest rate of 3% per annum.

The Tenant purchase loans are loans advanced to the Corporation's staff under the same terms as the general public at an interest rate of 13% per annum. These amounts are included in the tenant purchase loans as detailed in note 15.

All the loans have been advanced as per the terms prescribed in the terms of employment and the Corporation's regulations.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. RELATED PARTY TRANSACTIONS (Continued)

(b) Directors Expenses

The directors' expenses were Kshs. 8,215,366 (2015/2016: Kshs. 19,065,346) as detailed in note 7(b).

(c) Remuneration of Key Management

Included in the Staff Cost in Note 6 are the salaries and benefits of top management as follows:

	2017/2018	2016/2017
	Kshs.	Kshs.
Salaries & Benefits	42,921,987	39,164,415
Total	42,921,987	39,164,415

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29. CASH GENERATED FROM OPERATING ACTIVITIES

	2017/2018 Kshs	2016/2017 Kshs
CASHFLOW GENERATED FROM OPERATIONS		
Operating profit	173,751,627	355,975,260
Adjustments for items not involving movement of cash		
Depreciation		
-Property, Plant & Equipment (Note12)	78,605,081	64,492,675
- Intangible Assets (Note 13)	5,427,390	3,145,394
- Investment Property (Note 14)	188,285,119	43,826,736
Realised gain on Sale of TP Houses	(39,767,394)	(39,582,116)
Unrealised gain on Sale of Tenant Purchase Houses (Note 23)	67,262,217	42,242,395
Bad Debts Provisions (Note 18 & 20)	12,818,853	15,404,544
Gain on disposal (Note 4)	(4,120,812)	(1,864,813)
Operating profit before working capital	482,262,082	483,640,075
Working capital adjustments:		
Decrease/ (Increase) in debtors & prepayments	48,548,672	(132,046,833)
Decrease (Increase) in inventories	263,527,715	(483,478,240)
(Decrease) Increase in creditors	16,024,133	1,943,908
Housing schemes in progress	(930,727,365)	(23,261,736)
Increase in Loan amount receivable	(65,347,780)	(394,566,180)
Working capital changes	(667,974,625)	(1,031,409,081)
CASH GENERATED	(185,712,543)	(547,769,006)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30. REDEMPTION OF LONG TERM LOANS

Long term loans include loans to Local Authorities, Rural Housing Loans and staff loans. See Note 15.

	2017/2018	2016/2017
	Kshs	Kshs
TENANT PURCHASE		
At start	2,190,820,004	2,298,572,571
Advanced	237,353,074	148,382,400
Repayment	(248,189,056)	(256,134,967)
At 30th June	2,179,984,022	2,190,820,004
Other Loans		
At start	948,528,910	970,838,800
Advanced	194,804,724	152,010,672
Repayment	(160,770,924)	(174,320,563)
At 30th June	982,562,710	948,528,910
Total	3,162,546,732	3,139,348,913

31. EXPLANATION OF MATERIAL VARIANCES ON STATEMENT OF BUDGET AND ACTUAL

The material variances in the budget compared to actual performance are as follows;

- a) The negative variance of Kshs. 156 million reported in the period is a result of
 - a. Professional fees of Kshs. 100 million that was to be earned from the collaboration between NHC and NSSF. The joint venture has not been finalized.
 - b. Delayed commencement of Stoni Athi II and IV. Market dynamics required the Corporation to change its approach in executing this project. The Corporation had to therefore modify its initial plan on the project. NHC is currently re-designing and carrying out documentation for the new project.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31.EXPLANATION OF MATERIAL VARIANCES ON STATEMENT OF BUDGET AND ACTUAL (Continued)

- c. Challenges experienced in starting the New Land project as planned. The delay in the project was occasioned by non-availability of new land in good time. This was as a result of land offers that did not meet the set procurement criteria. Currently plans are underway to identify and purchase land for this project. The favorable interest income is due to increase in loans advanced.
- b) The Corporation realized a gain of Kshs. 73 million from sale of houses. This is against a projection of Kshs. 190 million. The unfavorable variance is due to delay in commencement of the following projects
 - a. NHC's collaboration with NSSF - The delay is due to pending approvals from NSSF Board of Directors'.
 - b. Nyeri Commercial Centre - The delay was caused by challenges experienced at the initial stage of the scheme. There were some setbacks that arose from settlement of the agreement with the initial contractor. In addition there were challenges in obtaining approvals from the County Government. The project has since commenced and will be completed in April 2019.
 - c. Bububu, Kericho Tenant Purchase and Stoni Athi III - Market dynamics dictated that the Corporation delays commencements of these projects to enable it earn better returns in future.
- c) The unfavorable variance was as a result of delayed commencement of NHC projects that were to utilize EPS.
- d) Unfavorable variance in other incomes is due to forecasted gain that was not realized from disposal of motor vehicles. The Corporation decided to stagger the disposal to align with purchase of motor vehicles.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31. EXPLANATION OF MATERIAL VARIANCES ON STATEMENT OF BUDGET AND ACTUAL (Continued)

- e) The Corporation has been utilizing its internal sources to finance the ongoing projects. This led to decrease in bank deposits and hence a reduction in interest income from deposits.
- f) The favorable variance in salaries and benefits is due to planned recruitments that are currently ongoing but are yet to be finalized.
- g) The favorable variance realized from the expenses is due to cost cutting measures adopted in line with government expenditure control guidelines
- h) - o) The favorable variance realized from the expenses is due to cost cutting measures adopted in line with government expenditure control guidelines
- p) The negative variance on debt collection expenses is due amounts paid to debt collectors as a result of increased debt collection. The fees payable to debt collectors is usually calculated as a percentage of actual amounts collected.
- q) - s) The favorable variance realized from the expenses is due to cost cutting measures adopted in line with government expenditure control guidelines
- t) To prudently manage its cash flows, the Corporation decided to delay purchases of some of its assets hence the positive variance on depreciation.
- u) - aa) The favorable variance realized from the expenses is due to cost cutting measures adopted in line with government expenditure control guidelines

32. CONTINGENT LIABILITIES

Management is of the opinion that there exists no matter with a material effect on the financial position of the profits of the company to warrant any contingent liability.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. FINANCIAL RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks. These include credit and liquidity risks and effects of changes in foreign currency. The Corporation's general risk management plan focuses on volatility in the business environment and seeks to minimize the potential unfavorable effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place strategies to ensure that credit is only extended to customers with a well-known credit history.

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

(i) Credit risk

NHC is exposed to credit risk, which is the risk that a customer will be unable to pay amounts in full when due. Credit risk is the potential that a borrower will fail to meet his obligation in accordance with the agreed terms. The Corporation mitigates against such risks through insurance and by carrying out credit risk control appraisal before issuing loans.

The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017/2018	2016/2017
	Kshs.	Kshs.
Rural Housing Loans		
Amounts Due	660,459,772	592,197,948
Provision for Bad Debts	(115,314,085)	(102,056,295)
	545,145,687	490,141,653
Local Authorities	1,374,388,916	1,288,598,441
Staff Loans	19,970,960	13,738,573
Tenant Purchase	333,587,973	301,794,281
Outright sale Debtors	142,173,556	254,740,062
Total	2,415,267,093	2,349,013,010

A provision for bad debts has also been provided for Rural Housing Loans at the rate of 20%. No provision has been provided for local authority, staff, tenant purchase loans and outright sale debtors, as the debts are secured on the properties.

ii) Liquidity risk management

The Corporation manages its short, medium and long-term funding and liquidity requirements through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	2017/2018	2016/2017
	Kshs.	Kshs.
Rent Arrears	240,358,713	147,166,374
Sundry Debtors	237,329,691	289,969,831
Provision for bad debts on Rents	(78,740,189)	(79,179,126)
Total	398,948,216	357,957,079

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk

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

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

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

a) Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

Currently the Corporation does not have any foreign currency denominated monetary assets and monetary liabilities.

b) Interest rate risk

Interest rate risk is the possibility that the value of an investment will decline as the result of an unexpected change in interest rates. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

PROGRESS AND FOLLOW UP OF ISSUES RAISED BY THE EXTERNAL AUDITOR

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.0 Property, Plant and Equipment	As disclosed in note 12 to the financial statements and as previously reported, the Corporation owned land with a total cost of Ksh. 2,433,711,460 as at 30 June 2017. Excluded from this balance are fifty (50) parcels of land which had not been valued and has no ownership documents.	The Corporation is pursuing the issue of title documentation with the Ministry of Lands. Delays in acquiring title documentation for its properties have proved to be challenging because of the lengthy processes at the Lands office.	Julius Kobado Chief Land Surveyor	Not Resolved	June 2020
2.0 Long Term Loans Advanced	The Corporation provided supporting schedules in support of this item totalling Kshs. 386,501,471 resulting in a difference of Kshs. 301,527 and which the management has not reconciled or explained.	We agree with Auditor's observation that the rural housing loans amount has an unreconciled balance of Kshs. 301,527. We are in the process of reconciling this balance and are positive that this account will be reconciled very soon. In regard to how the Corporation cleared the unreconciled balance of Kshs. 2,966,194 reported in 2015/2016, supporting documents are available for the	Alfred Kipngurat Ag. CA	Not Resolved	

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
3.0 Procurement of Enterprise Resource	As reported in the previous year, the Corporation on 10 December 2012 advertised for supply, implementation and commissioning of an Integrated Enterprise Resource Planning (ERP) system tender number NHC/ERP/345/2012. Out of the 8 firms that returned their bids, only two firms M/s Twenty Third Century and M/s Attain Enterprise solutions qualified at the technical level and the finance bids were Ksh. 90,937,929.81 and Ksh. 127,728,432.98 respectively. The evaluation committee recommended the award to M/s Twenty Third Century but the tender committee subsequently cancelled and ordered for a re-tender. The tender was re-advertised on 16 May 2013 and evaluated between	auditor's review showing how the balance was reconciled. NHC's Board of Directors approved implementation of the Enterprise Resource Planning System	Ken Mochire Information Technology Manager	Not Resolved	Awaiting directions from Ministry of Information, Communication and Technology (ICT) as directed in Treasury Circular number OP/CAB. 39/1A of 1 st March 2018

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	28 June 2013 and 30 June 2013. Out of the nine (9) firms that responded, only two: M/s Seven Seas Technologies Group and M/s Deloitte Consulting qualified at the technical evaluation stage, and their financial bids were Ksh. 129,748,417.50 (USD 1,509,921.84) and Ksh. 220,675,971.34 (USD 2,568,073.47) respectively. The tender committee awarded the tender to M/s Seven Seas Technologies at their bid price of Ksh. 129,748,417.50 (USD 1,509,921.84). Consequently, the Corporation and M/s Seven Seas Technologies group entered into a formal contract which was signed on 13 August 2013 and the contract period was for 12 months.				
4.0 Electronic Data Management System (EDMS)	As previously reported the Corporation acquired a data conversion System through Ms Digital Scope Ltd and paid Ksh. 13,250,000 in the financial year	In August 2011, the Corporation awarded tender for document conversion in preparation for deploying an electronic document	Ken Mochire Information Technology Manager "	Not Resolved	Awaiting directions from Ministry of



Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	2011/2012. This system was to help improve the Corporation's records by digitizing its records and make retrieval of records faster. However, during the audit for the year it was noted that records were still manually processed. The software and resultant infrastructure (hardware) could not be physically verified and by the conclusion of the audit, it was not possible to confirm existence of the system. In the circumstances, it has not been possible to confirm whether the Corporation got value for money from the expenditure of Ksh. 13,250,000 for digitizing of records.	management System. The purpose of this project was to digitize three million records from the Corporation files in all registries. The Project scope entailed the following: 1) File preparation a. De-stapling document b. Removing dog ears c. Repairing torn papers before scanning d. Straightening of pages 2) Scanning of both A4 and A3 (Maps in Rural registry files are on A3 paper size) 3) Indexing scanned images 4) Data entry / verification 5) Quality control. Images			Information, Communication and Technology (ICT) as directed in Treasury Circular number OP/CAB. 39/1A of 1st March 2018

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		were checked for quality on the following parameter a. Blank pages b. Black borders c. Distorted images d. Illegible images e. Inverted images 6) Burning of DVDs and also making backups on external hard disks. This project was completed in January 2012 and the Corporation registries staff were trained. Scanners were bought and the registries continued scanning incoming paper records. Phase (II) of the EDMS project was to follow after procurement of the EDMS software application that could manage			

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		the scanned and indexed images. The Corporation intends to plug this remaining phase into the ERP when it is fully implemented.			
5.0 Trade and Other Payables	Trade and other payables included in the statement of financial position as at 30 June 2017 amounted to Ksh. 993,293,798. Included in this amount is Ksh. 373,131,890 received from prospective house buyers as deposits from three (3) schemes namely Tenant Purchase deposits, House Rental deposits and House Mortgage deposits but no supporting schedules were availed for verification. Further the Corporation has not explained how an un-reconciled balance of Ksh. 78,152,844.35 reported in the prior year (2014/2015) was cleared. In	The schedule supporting the figure of Kshs. 373,131,890 on house deposits was availed and is still available for the auditor's review. In addition, the schedules supporting how the house deposits amounts have been reconciled were availed and are also available for the Auditor's review.	Mercy Atemi Ag. Senior Accountant	Resolved	

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	addition, the corporation has also indicated that Ksh.13,511,819 was prepaid rent as at 30 June 2016. Although the corporation has provided names and amounts of rental payments, it was not possible to establish the actual dates when such payments were made. Consequently, it has not been possible to confirm the accuracy and validity of the balance for trade and other payables of Ksh.993,293,798 in the statement of financial position as at 30 June 2017.				
6.0 Trade and Other Receivables	Included in the trade and other receivables balance of Ksh.357,957,079 as at June 2017 is rent arrears of Ksh.147,166,374 (Ksh. 144,553,153 in 2014/2015). Although the Corporation has provided a record of its tenants, monthly rent receivable and total rental arrears in the specific areas, it did not explain why the arrears has	Amounts owed on rent arrears comprise arrears from both current and past tenants. The past tenants are residents who vacated the houses but were in arrears at the time of leaving. NHC has pursued debts from the past tenants by using debt recovery agents. In addition, the Corporation has also tried to	John Agutu Ag. General Manager Estates	Resolved (Debt and Credit Policy in place) Not Resolved (Collection of outstanding)	Jan 2020 to resolve



Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	accumulated for long periods without any recoveries being made. In addition, it is also noted that the Corporation lacks guidelines or a formal framework on the management of rental arrears. Without such guidelines, or policy in place it is difficult to establish whether any efforts to recover the rent would be effective or whether the arrears would be fully recovered. Further, the corporation did not explain, or provide a breakdown of the credit balance of Ksh. 12,412,536.06 described as rent arrears in the supporting schedule of trade and other receivables. Consequently, it was not possible to establish whether trade and other receivables of Ksh. 357,957,079 as at 30 June 2017 is fairly stated.	recover its debts from the past tenants through the courts. In regard to sitting tenants the Corporation has successfully managed to collect rent from them as and when they fall due. However, there are cases of tenants in Changamwe (these tenants comprise the bulk of amounts owed) who took the Corporation to Court, disputing rent increment which was applied by NHC. We recognise the new rates in our books. On the other hand, the discordant tenants continue to pay NHC the old rents. The difference in amounts owed and received leads to an increase in our rental arrears. The Court cases curtailed our efforts to enforce collection of the arrears. Fortunately, the cases were recently ruled in our favour and		arrears)	the court cases

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
7.0 Loans Amounts Receivable	Note 18 to the financial statements reflect loan amount receivable of Ksh. 2,349,013,010 as at 30 June 2017. Included in this balance are Rural Housing Loans of Ksh. 592,197,948 and outright sales debtors of Ksh. 254,740,062. However, the management provided support schedules of Ksh.505,544,084.28 and Ksh.84,281,414.44 for rural housing loans and outright sales debtors	we are currently pursuing the defaulters for full recovery of the arrears. In regard to the query on lack of a formal framework on management of rental arrears we wish to clarify that the Corporation has an approved Debt Management Policy which was given to the auditors. A copy of the Policy is still available for your review. • Reconciliation exercise is currently ongoing. • The Corporation has an approved debt management policy	Alfred Kipngurat Senior Accountant Loans	Resolved (Debt and Credit Policy in place) Not Resolved (Reconciliations)	Dec 2019

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	respectively resulting in unreconciled difference of Ksh.37,923,550.72 and Ksh.179,601.44 respectively. Further, the Corporation lacks a policy on debt management especially as regards determination and management of bad debts. In addition, it was noted that the outstanding loans portfolio is quite significant and in the absence of debt management policy, recoverability of these debts may be doubtful. In the circumstance, the accuracy, validity and recoverability of loan amounts receivable of Ksh.2,349,013,010 as at 30 June 2017 is doubtful.				
8.0 Unquoted Investment in Research Development (RDU) Co. Ltd	As previously reported, the investment of the Corporation in Research Development Company Ltd. (RDC), a wholly owned subsidiary, under note 16 totalled Ksh.99,457,797 as at 30 June 2017.	The Corporation is pursuing the Directors who are holding shares in trust for NHC to transfer the same to the current NHC Directors. Once this is done the company will be wound up.	William Keitany Ag. Corporation Secretary	Not Resolved	June 2020

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	However, no share certificate in support of this investment was availed for audit review and as a result it was not possible to confirm the propriety of this investment. Further, although it is indicated that the Board of Directors had recommended for RDC to be wound-up, the Corporation has not made any progress in this process. In the absence of consolidated accounts and evidence of liquidation, then the management failed to comply with International Financial Reporting Standards number 10 which requires the entity to consolidate the financial statement of the entities it controls.	Since the Company is not a going concern by virtue of having ceased operations, consolidation of the financial statements would have been misleading to the readers of the financial statements			
9.0 Schemes in Progress	Makande Estate - Mombasa (Estate purchased through a debt Swap) As previously reported, the Corporation took over the Makande estate (in Mombasa) from the defunct Mombasa Municipal Council	The Corporation took over the ownership of Jomo Kenyatta Makande estate from the then Mombasa Municipal Council in a debt swap agreement. True ownership of the land was	William Keitany Ag. Corporation Secretary		June 2020 to resolve court case

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	through a debt swap to off-set the loan debt of Ksh. 260 million owed to the Corporation by the council. The estate was then valued at Ksh.310 million. The corporation aid the excess value of Ksh.50 million to the council and took over the estate. When the Corporation started some developments on the acquired estate, some individuals claimed ownership of the parcels of land within the estate and filed cases in Mombasa High Court. The Corporation could not continue with its planned development due to the pending court cases. When the audit team visited the site for inspection, it was noted that within the estate, come individuals have fenced some plots and put up small business which are operational. The wall with was being erected for security purposes had stalled and was incomplete, and generally the estate was in poor state. The	established and due diligence conducted. However, upon transfer of the said estate to NHC, the Corporation discovered that the Municipal Council of Mombasa had leased some 17 pieces of land from within the said property. The Corporation also resolved to rescind the transfer/sale agreement with the then Council and issued a rescission notice to the Council accordingly citing facts. Thereafter the then Council filed suit against the Corporation insisting that the transfer was valid. The suit is still pending in court			
		Security and Encroachment in Jomo Kenyatta Makande-Mombasa As part of its measures to			

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	Corporation however, did not explain measures being undertaken to improve the security of the estate. Further, no explanation was provided on why the Corporation decided to enter into the agreement for the debt swap without establishing the true ownership of the land whether the land had any encumbrances. In addition, it has not explained how it is dealing with the issue of encroachment into the estate. In the circumstances, the Corporation may not have attained value for money in the purchase of the disputed property.	improve security of the estate and deter any encroachment, the Corporation decided to construct a perimeter wall around the estate. However, some residents/tenants of the estate and the alleged owners of the 17 existing plots went to court and obtained orders stopping the Corporation from erecting the perimeter wall (case numbers HCC 8 of 2011, CMCC 31 of 2011 and HCC 72 of 2011). The cases filed by the tenants and the alleged owners of the 17 excised plots have been stayed pending the outcome of the main suit (case number HCC 241/2011).			
		Value for Money In the recent valuations conducted in June 2017, Jomo Kenyatta Makande was valued at			



Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (<i>Name and designation</i>)	Status: (<i>Resolved / Not Resolved</i>)	Timeframe: (<i>Put a date when you expect the issue to be resolved</i>)
		Kshs. 1.8 billion. The property was acquired at Kshs. 310 million. The property capital appreciation of Kshs. 1.5 billion is a clear indication that the Corporation received value for money. Current Status The Corporation intends to hold bilateral discussions with the County Government of Mombasa on Jomo Kenyatta Makande with a view to finding a solution even as the court matter progresses. Further the Corporation commenced requisite communication with the National Land Commission on the same. It is worth noting that NLC has instructed the Land Registrar to place restrictions on the affected titles.			

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Kanyakwar II – Kisumu Note 17 to the financial statements reflects schemes in progress of Ksh.1,848,868,430 included in the figure is Kanyakwar II project in Kisumu amounting to Ksh.207,330,708 which had stalled due some disputes with the contractor. Although this project had stalled since the beginning of the financial period, it has continued to attract costs amounting to Ksh.13,854,373. It was noted that out of these charges; Ksh.12,579,377 relates to “interest on construction cost” and Ksh.436,350 relates to “supervisory costs of Ksh.436,350. In addition, it was not explained to the audit team, how a turnkey project fully funded by the contractor could attract interest on construction of Ksh.12,579,377. It was therefore difficult to establish if the indicated payments were justified.	Interest on Construction Finance Charged to the Project Interest on construction finance is the opportunity cost of the funds tied up in projects during construction period. The interest charged is based on the current Treasury bill rate and is computed on project disbursements made by the Corporation. In the case of Kisumu Kanyakwar II ,the contract provided for an advance payment of 5% of Kshs.2,165,000,000(contract sum) at commencement of the project. Since the project has not been closed and the Corporation's funds in the amount of Kshs. 108,250,000 have been tied up in the project, then the advance payment continues to attract interest on construction finance until the	Robert Ambuku Ag. General Manager Technical Services	Not Resolved	June 2020

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Effectively, the Corporation may not have obtained value for money in this contract totalling Ksh.207,330,708 for the year ended 30 June 2017.	project is closed. Supervisory Costs Charged to the Project Supervisory costs relate to technical team visits to the site in the form of subsistence allowance and travelling expenses incurred after the project stalled but during the investigation by oversight bodies.			
	Dormant Schemes Included in the figure for schemes in progress of Ksh.1,848,868,430 as at 30 June 2017 are dormant schemes amounting to Ksh.196,709,492 and which have remained dormant for over one year. Although the dormant schemes continue to tie up the corporation funds, management has not explained what it is planning to do with the schemes to	Kibera III - These are amounts paid to consultants on preliminary designs of the project. The project stalled because the project land had some squatters who were to be evicted by the Government but which proved difficult. This was the site that was recently developed into a	Erastus Rintaugu Ag. General Manager Finance	Not Resolved	Dec 2018

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	release the tied-up capital.	slum-upgrading project by KENSUP. Although the Government had committed itself to funding the project, such funds were not released since the project land was not free of squatters. Board approval will be sought to write off Kshs. 133,174,368 incurred on the consultancy for the project. Changamwe Boundary - This is not a dormant scheme but a phased scheme for construction of a perimeter wall in NHC Changamwe rental estate. Voi Rental - This is not a dormant scheme. The project had stalled but is currently ongoing.			

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10.0 Boundary Wall and Civil Works at Stoni Athi-Nhc/Tech/Bw sa/002/2016-2017.	10.1 Lack of performance Bond As per the contract agreement signed between the Contractor and the employer, a performance security was to be provided within 14 days of contract award and before taking site possession or commencement of the works. Failure to provide and maintain the security as stated was to lead to contract termination and Corporation was to proceed to award the contract to another tenderer. However, it was observed that the Contractor did not furnish National Housing Corporation with a performance bond of Kshs.5,850,222 from a reputable commercial Bank being 10% of the contract sum but the Contractor was given certificate of possession of site on 18 November 2016 before complying with term of	Changamwe Infill -This is not a dormant scheme. The project had stalled but is currently ongoing The Corporation agrees with the auditor's observation that NHC secured its interest through a cash bond. We note your observation and we regret the error. This notwithstanding, we would like to note that the interests of the Corporation were well protected by the cash bond.	Robert Ambuku Ag. General Manager Technical Services	Resolved	

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	the signed contract. It was further observed that the Corporation deducted Kshs.5,850,222 from the first interim certificate No. 1 dated 24 February 2017 raised by the Contractor as a cash bond in lieu of the performance bond contrary to the term of the Contract and no satisfactory explanation was provided. 10.2 As per the contract agreement signed between the contractor and the employer, the project completion date should have been 19 May 2017 with a revised completion date of 2 August 2017. However as at April 2018 the project was still in progress and this may lead to escalation of Projec	The Corporation was expecting to complete the boundary wall and civil works projects at the Stoni Athi as per schedule. However this did not happen as earlier envisaged. The delay was due to a few challenges experienced in execution of the project, one of them being hostile weather. The prolonged heavy rains impeded any efforts to complete the pending works. In the meantime NHC is managing the risks of additional costs through close and constant	Robert Ambuku Ag. General Manager Technical Services		

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		project monitoring.			
11.0 Proposed Stoni Athi Housing Scheme Phase I at Athi River – NHC/TECH/424/2013	11.1 Project Period and Extension of Time Housing Scheme Phase 1 was awarded to M/s N.K. Brothers Ltd on 29 December 2014 at their tender sum of Kshs.633,909,101 for contract period of 101 weeks. The contractor was given possession of site on 26th January 2015. The works commenced on 04 February 2015 with an expected completion on 16th January 2017. However, the contractor did not complete the works on schedule and on 31 January 2017 an extension of 18 weeks was awarded revising completion date 24 May 2017. However, as at April 2018 there was no evidence of completion of project and no evidence of extension of contract period was provided.	We wish to clarify that a decision approving extension of the project was made by management and the same was communicated to the contractor vide letter number NHC/CONF/GEN/378.IX (34) AS of 22nd January 2018.	Robert Ambuku Ag. General Manager Technical Services	Resolved	

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	11.2 Irregular Payment of Advance Clause xiv of instructions and Conditions of Tendering states categorically that no advance or mobilization payments shall be made either for construction plant tools and materials or any other purpose. In addition, according to Appendix B Amendments/Deletions to conditions of Contract, Clause 23.7 of Conditions of Contract on payment of advance was deleted entirely implying that no advance was to be granted. Further, Regulation 98 of Public Financial Management (National Government) Regulations, 2015 states that advance payment shall not be paid to supplier unless provided for in the contractual terms and conditions contained in a valid contract signed between the procuring entity and supplier. However, examination of payment records revealed that despite the above instructions to bidders and conditions of contract, the Contractor was paid	The Corporation would like to clarify that the payment made to the contractor was not irregular. The contract allows for an advance payment to be made against a bank guarantee. Clause 23.7 (b) of the contract stipulates that; <i>"No advance payment may be made before the contractor has submitted proof of the establishment of deposit or a directly liable guarantee satisfactory to the employer in the amount of the advance payment. The guarantee shall be in the same currency as the advance."</i> It is therefore worth noting that the advance payment was made against a bank guarantee that was dated January 5th 2015 from Kenya Commercial	Robert Ambuku Ag. General Manager Technical Services		



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	irregularly advance payment amounting to Kshs.63,390,910 being 10% of the Contract Sum. Written Contract Agreement According to Section 68 of the Public Procurement and Disposal Act, 2005 the person submitting the successful tender and procuring entity shall enter into a written contract based on the tender documents, the successful tender, any clarifications and any corrections and that no contract is formed between the person submitting the successful tender and the procuring entity until the written contract is entered into. Despite the above provisions the Corporation paid for the advance, issued instructions and gave possession of site before the written contract agreement was entered into between the Corporation and the Contractor which was later signed on 17 February 2015.	Bank as set out in the conditions of this contract. In the Corporation's interpretation, there was existence of a contractual relationship between the contractor and NHC. This was as a result of the letter of acceptance dated 30th December 2014 following the letter of award dated 29th Dec 2014 which constituted a binding contract between the contractor and the Corporation. This notwithstanding we note the auditor's observation on the need to have a written and signed contract with our contractors before handing over the site to them. The Corporation is therefore committed to ensure that for all future projects the contract	Robert Ambuku Ag. General Manager Technical Services		

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	Payments for illegal Squatters The Contractor was instructed to liaise with M/s Naikuni Angaah & Company Advocates relocate any and squatters who may be occupying or laying Claim on LR No. 10426/81 including making appropriate arrangements for their settlement elsewhere. Further, the contractor was requested to document any and all costs including taxes and overheads that may arise from the above instruction. Further, although it has been explained that M/s Naikuni Ngaah & Company Advocates represented the interests of the illegal squatters who were laying claim on the land. It has not been explained who was representing the interests of the Corporation in the negotiations and why National Land Commission was not involved in the process. It is also	documents are fully signed and executed before the contractor takes possession of the site. The Osiligi Society had taken Court action against the Corporation by way of Court Case Number 317 of 2011 in the Machakos Land and Environment Court. The Court Case posed an encumbrance to the contractor against possession of the site and implementation of the awarded contract. Any delays in the start of the project would have resulted in additional loss of revenues to the Corporation. At the time, the Corporation found it prudent to authorize the contractor to act on its behalf in addressing all hindrances in the project. The amount paid to the	Robert Ambuku Ag. General Manager Technical Services		

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	not clear how the amount of Kshs.91,600 compensations to each of the 300 members of the Osiligi Association totaling to Kshs.27,500,000 was arrived at. Also included in the compensation of Kshs.1,500,000 plaintiff advocate fees inclusion and payment of which is contrary to High Court of Kenya order dated 04 March 2015 which required each party to bear its own	squatters was arrived at through compensation of at least four herds of cattle to each member of the association. The compensation was to also include the plaintiff's advocate's fees. This settlement which was inclusive of the plaintiff's legal fees was arrived at on 16th January 2015. This was before the court ruling of 4th February 2015. The court ruling was made after the parties had agreed and made an application to the courts withdrawing court case number 371 of 2011. We wish to reiterate that the decision made was in the best interest of the Corporation. The contractor had already been issued with an award letter which stipulated a contract between the Corporation and the contractor. Any further	Robert Ambuku Ag. General Manager Technical Services		

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		delays in start of the project would have resulted in loss of revenue to the Corporation.			
12.0 Procurement of Intangible Assets	Included in the schedule for intangible Assets is an expenditure of Kshs.2,197,620 being additions to intangible assets during the financial year 2016/2017. However, the tender committee minute's No.91/2015/2016 were never signed by the chairperson but the management went ahead and procured the systems. This contravenes Section 135 of the Public Procurement Act, 2015 which states that existence of a contract shall be confirmed through the signature of a contract document incorporation all agreements between the parties and such contract shall be signed by the accounting officer or an officer authorized in writing by the accounting officer of the procuring entity and the successful tenderer. Although management explained that	This refers to procurement of Biometric Access Control Time and Attendance System which was procured through open tender and awarded vide Tender Committee minute No. 91/2015/2016 of meeting held on Tuesday 1st March 2016. The minutes have not been signed because the Tender Committee Chairman declined to append his signature upon exiting the Corporation. The case between the Tender Committee Chairman, Mr. Willis Ouma, and the Corporation is in Court.	Richard Gichuki Senior Procurement Officer	Not Resolved	Awaiting Court's Ruling



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	the Chairman declined to append his signature no explanation was provided as to why the assets were acquired before the minutes were signed and confirmed				

Chairman of the Board.....

Date..... 12/04/2019

Managing Director.....

Date..... 12/04/2019



LIST OF ONGOING PROJECTS



Picture 1 Stoni Athi Phase I

The following is a list of ongoing projects;

Project	Number of Units
Langata Mixed Use Development	90 houses plus commercial facilities
Kibera Mixed Use Development	100 houses plus commercial facilities
Changamwe Phase II Housing	84
Voi Infill	80
Nyeri Mixed Use Development	80

