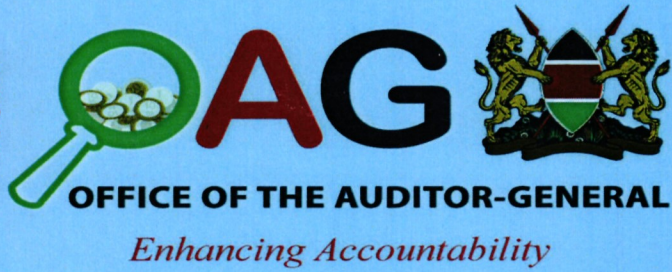


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**REPORT**  
**OF**  
**THE AUDITOR-GENERAL**  
**ON**  
**NATIONAL HOUSING CORPORATION**

**FOR THE YEAR**  
**ENDED 30 JUNE, 2021**

THE NATIONAL ASSEMBLY PAPER NO. 10	
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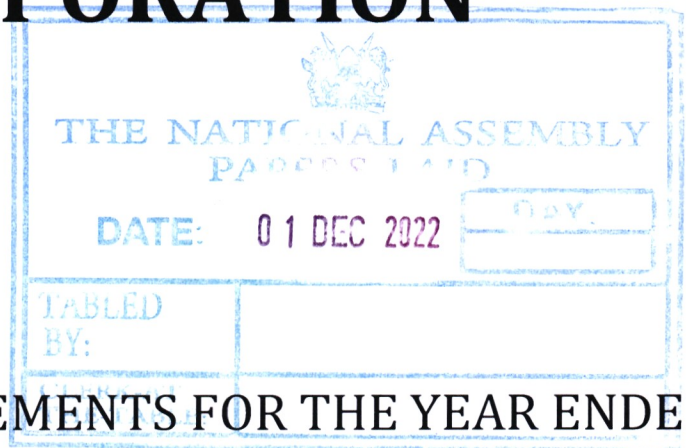
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# NATIONAL HOUSING CORPORATION



FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30<sup>TH</sup> JUNE 2021

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 players and other stakeholders in housing development.

## DIRECTORS

The Directors who served the Corporation during the period 2020/2021 were as follows:

1.	Eng. Stephen Ngare	Board Chairman
2.	Amb.Ukur Yatani Kanacho	Cabinet Secretary, The National Treasury
3.	Charles Hinga Mwaura	Principal Secretary, State Department of Housing and Urban Development
4.	Gladys Mboya	Director
5.	Jackson Kimuri	Director
6.	Jane Mwangi	Alternate Director State Department for Housing & Urban Development
7.	Jacqueline Mbithe Muindi	Alternate to the Cabinet Secretary, The National Treasury
8.	Prof. Arch. Jerry Magutu	Director
9.	Dr. Habil Olaka	Director
10.	Patricia Nyambura Gathuri	Director
11.	Caroline Armstrong-Ogwapit	Director
12.	Andrew Saisi	Managing Director (Exited on 31.08.2021)
13.	Dr. Patrick M. Bucha, MBS	Ag. Managing Director
14.	William K. B. Keitany	Corporation Secretary

### 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@nhckenya.go.ke](mailto:info@nhckenya.go.ke)  
Website: [www.nhckenya.go.ke](http://www.nhckenya.go.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  
Office of the Auditor General  
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

### Hon. Eng. Stephen Muriuki Ngare - Chairman

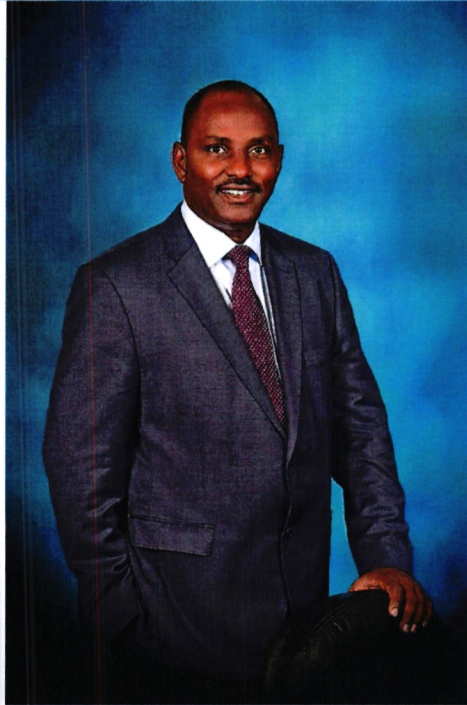


Hon. Eng. Stephen Muriuki Ngare is the Chairman of the National Housing Corporation Board. He graduated with a Bachelor of Science in Civil Engineering from the University of Nairobi and a Master's degree in Environmental Studies specializing in Transportation Planning from York University, Toronto, Canada. He is a Registered Consulting Engineer by the Engineers Board of Kenya and a member of the Kenya Institute of Engineers.

He has over 35 years of extensive experience in the management of road projects in the public sector and has held the position of Deputy Chief Engineer (Roads) in the Ministry of Roads after which he was appointed to the Ministry of Public Works as General Manager in charge of Planning and Special Projects in Kenya National Highways Authority (KeNHA).

From 2013-2017, he was the Member of Parliament for Ndia Constituency, Kirinyaga County. He served as a member of the Budget and Appropriation Committee, Public Investment Committee and Transport, Public Works and Housing Committee.

### Amb. Ukur Yatani Kanacho – Cabinet Secretary National Treasury



Amb. Yatani is the Cabinet Secretary National Treasury. He has over 27 year experience in public administration, politics, diplomacy and governance in public sector since 1992. Before his appointment as Cabinet Secretary for the National Treasury & Planning he served as the Cabinet Secretary for Labour and Social Protection since January 2018.

Between the years 2006-2007 while Member of Parliament for North Horr constituency, he also served as an Assistant minister for science and technology. At the height of his career (March 2013-August 2017), he served as a pioneer Governor of Marsabit County, the largest County in the Republic of Kenya.

Between June 2009 and October 2012, he served as Kenya's Ambassador to Austria with Accreditation to Hungary and Slovakia and Permanent Representative to the United Nations in Vienna. In this position, he aggressively pursued and advanced Kenya's foreign interests.

He held senior leadership positions at various diplomatic and international agencies such as International Atomic Energy Agency (IAEA), United Nations Organization on Drugs and Crimes (UNODC), United Nations Industrial Development Organization (UNIDO), Vice Chairperson of United Nations Convention Against Transnational Organized Crime (UNTOC), Vice President of Convention on Crime Prevention and Criminal Justice (CCPJ), and chair of African Group of ambassadors among others.

Between 1992–2015, he served in different positions in Kenya's Public Administration including a District Commissioner, where he sharpened his management and administrative skills. He has Master of Arts in Public Administration and Public Policy, University of York, United Kingdom, 2005; and Bachelor of Arts in Economics, Egerton University, Kenya, 1991.

**Mr. Charles Hinga Mwaura - Principal Secretary of the State Department of Housing and Urban Development**



Mr. Charles Hinga Mwaura 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. He 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 State Department for Housing and Urban Development, he was the Group Chairman of an advisory boutique with presence in South Africa and Kenya.

**Ms. Gladys Mboya**



Ms. Gladys Mboya 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. She 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 (honours) (LLB) from the University of Wales, Aberystwyth (UK) and a diploma in law from the Kenya School of Law.

### Mrs. Jane Mwangi



Mrs. Jane Mwangi is an alternate Director representing the Principal Secretary, State Department for Housing and Urban Development. She holds a 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. Jackson Kimuri



Mr. Jackson Kimuri is a senior management executive with over thirty five (35) years' experience in Strategic management, Leadership and Finance. He previously worked for Barclays Bank of Kenya Ltd as Deputy Director, Business Banking. Prior to being elevated to Deputy Director position, Mr. Kimuri held Senior Management positions in Barclays Bank of Kenya Ltd ranging from Head of Regional Corporate, Area Manager, Senior Risk Manager and Senior Corporate Manager. In the aforesaid positions, he led and managed large teams in audit engagements, corporate lending, project finance and branch network operations. He also has proven record in risk management, syndication implementation and in providing strategic leadership.

He has had the opportunity to train in Corporate and Business Banking, Finance restructuring including syndication at Barclays Bank, Thames Valley regional office, Reading, UK as part of Senior Management

extensive training. Mr. Kimuri has also served as a Director of the Coffee Board of Kenya and is currently the Chairman of Sawela Lodges Naivasha, Country Director of Sentry Security of East Africa and Chairman and Financial Consultant of Ace Security Options.

### Ms. Patricia Nyambura Gathuri



Ms. Patricia Nyambura Gathuri is an experienced professional Banker, with a successful career of thirty one (31) years in various management positions within the Banking Industry. She brings on board various skills and competencies gained over the years, including banking operations, business strategy, business development, customer relationship management, asset and liability management, credit skills and risk management.

She holds a Bachelor of Arts Degree in Economics and Sociology (Upper Second Class Honours) from the University of Nairobi.

Patricia is a certified professional coach from the Coach Development Institute of Africa (CDI-A), a consultant trainer and a member of the Chartered Institute of Securities and Investments (CISI) London. She also serves on the Board of Geminia Insurance Company Ltd. as an Independent Non-Executive Director and on the Board of Trustees for the Trust for Indigenous Culture and Health (TICAH).

### Ms. Jacqueline Mbithe Muindi



Ms. Muindi is a highly accomplished Lawyer with solid back ground in International Trade, Investment, Public Procurement and Commercial Law, with over 18 years' experience. She has technical expertise in executive management, Governance and policy formulation and implementation.

She enjoys working in challenging environments bringing to bear innovative legal solutions to societal challenges. In addition, Ms. Muindi has a solid ability to negotiate and conclude complex transactions and multifaceted issues.

She is currently, deployed by the Office of the Attorney General and Department of Justice to head the Legal Unit, The National Treasury and Planning. The services provided include, researching and advising the ministry on legal policy issues; drafting of complex bills and subsidiary legislation; overseeing and co-ordinating legal functions, including management of litigation by and against the ministry and negotiating, drafting and reviewing complex financing and procurement contracts

**Ms. Caroline Armstrong-Ogwapit**

Ms. Armstrong-Ogwapit has served in senior management positions in the banking and property industry in a career that spans 23 years.

In her previous role, she was responsible for the implementation of high impact strategic projects that were designed to enable the achievement of Housing Finance (HF) Group's business strategy.

She serves as an Independent Non-Executive Director of the Kenya Airways (KQ) Board where she was part of the recently concluded balance sheet restructuring as well as sitting as KQ's chosen representative on the Board of Jambojet, KQ's low cost carrier.

Previously Ms. Armstrong-Ogwapit served as Vice-Chairperson on Kenya's Mining Task Force responsible for reviewing all licences issued within the industry and determining their validity as well as providing recommendations for the country's national mining policy.

**Prof. Arch. Gerald Jerry Magutu**

Prof. Arch. Gerald Jerry Magutu is a registered Architect with the Board of Registration Architects and Quantity Surveyors (BORAQS) and is the Principal of Zed-Arch (K) Architects, a registered architectural firm in private practice.

He holds a PhD in Architecture and a Master of Architecture both from the University of California, Berkeley and a Bachelor of Architecture (First Class Honours) from the University of Nairobi.

He has undertaken numerous architectural practices as well as consultancy roles in and outside the country such as feasibility study for the proposed construction of PTA bank headquarters in Bujumbura and participated in the design completion of the proposed Shelter Afrique Headquarters in Nairobi among many other consultancies.

Prof. Arch. Magutu is a holder of a Rockefeller Careers Award by the Rockefeller Foundation and a Senior Research Fellowship Award by the CV Raman International Research Fellowship among many other awards. He is an accomplished professional both locally and internationally.

### Dr. Habil Olaka



Dr. Habil Olaka is an experienced Chief Executive Officer with a demonstrated history of working in the banking industry. He is skilled in negotiation, Enterprise Risk Management, Business Planning, Internal Audit, and Analytical Skills. He is a strong business development professional with a Doctor of Business Administration focused in Leadership and Strategic Management from United States International University - Africa.

He is the Chief Executive Officer of the Kenya Bankers Association and is responsible for the strategic direction of the Association under guidance from the KBA Governing Council. He was previously the Director of Operations of the East African Development Bank (EADB) based in Kampala after serving as the Resident Manager in Kenya. He also served the bank as the Head of Risk Management and as the Chief Internal Auditor prior to his appointment.

Dr. Olaka sits on a number of Boards representing the KBA such as the Kenya School of Monetary Studies, the Higher Education Loans Board, the Auctioneers Licensing Board, the Federation of Kenya Employers (FKE), to name a few. He is a member of the Institute of the Certified Public Accountants of Kenya (ICPAK) and the CFA Institute.

**Dr. (Qs) Patrick M. Bucha, MBS - Ag. Managing Director**

Dr.(Qs). Patrick Bucha is currently the Ag. Managing Director, he has been seconded from the State Department for Housing and Urban Development. He holds a Masters degree in Building Management and a Bachelors degree in Building Economics both from the University of Nairobi and currently pursuing a PhD in Leadership and Governance. He served as a part time lecturer in Architectural Department, University of Nairobi. He is a registered Quantity Surveyor and has worked with the Government for over 30 years in various positions including Deputy Director Housing, Programme Coordinator, Kenya Slum Upgrading Programme (KENSUP), Project Manager, Civil Servants Housing Programme and Director of Estates Management in charge of all government houses. He previously served as Managing Director, National Housing Corporation and chaired a team on housing bond issue and capital restructuring of the Corporation. Currently, he serves as the Secretary Housing in the State Department for Housing and Urban Development in charge of implementing the Housing Agenda under the Big 4, formulation of housing policies as well as coordinating implementation of National Police and Kenya Prisons Services Housing Slum Upgrading and Civil Servants Housing. His Excellency the President honored him with Moran of the Burning Spear (MBS) on 12th December, 2011 for his contribution in the housing sector.

### **Mr. William Kimutai B. Keitany - Corporation Secretary**



Mr. William Keitany is the Corporation Secretary. 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

### Dr. (Qs). Patrick M. Bucha, MBS - Ag. Managing Director



Dr. (Qs) Patrick Bucha is currently the Ag. Managing Director, he has been seconded from the State Department for Housing and Urban Development. He holds a Masters degree in Building Management and a Bachelors degree in Building Economics both from the University of Nairobi and currently pursuing a PhD in Leadership and Governance. He served as a part time lecturer in Architectural Department, University of Nairobi. He is a registered Quantity Surveyor and has worked with the Government for over 30 years in various positions including Deputy Director Housing, Programme Coordinator, Kenya Slum Upgrading Programme (KENSUP), Project Manager, Civil Servants Housing Programme and Director of Estates Management in charge of all government houses. He previously served as Managing Director, National Housing Corporation and chaired a team on housing bond issue and capital restructuring of the Corporation. Currently, he serves as the Secretary Housing in the State Department for Housing and Urban Development in charge of implementing the Housing Agenda under the Big 4, formulation of housing policies as well as coordinating implementation of National Police and Kenya Prisons Services Housing Slum Upgrading and Civil Servants Housing. His Excellency the President honored him with Moran of the Burning Spear (MBS) on 12th December, 2011 for his contribution in the housing sector.

### Mr. Robert M. Ambuku - Ag. General Manager Manufacturing Division



Mr. Robert Ambuku is the Acting General Manager – Technical Services. He holds a Masters in Business Administration Finance and Bachelor of Arts in Building Economics 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.

### Mr. John Washington Agutu - General Manager - Estates



Mr. John Washington Agutu is the acting General Manager - Estates Division. He is a registered valuer and estate agent by the Valuers Registration Board and Estates Agents Registration Board respectively and is a full member of the Institution of Surveyors of Kenya.

Mr. Agutu is an accomplished real estate professional who holds a Master of Arts in Housing Administration and Bachelor of Arts (Land Economics) (Hons), from the University of Nairobi. He has 24 years experience in estate management, housing development, financing and valuations accumulated while working for the central government, private sector and the National Housing Corporation.

**Mr. William Kimutai B. Keitany - Corporation Secretary**

Mr. William Keitany is the Corporation Secretary. 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.

**Ms. Moraa Ongeru - Ag. General Manager Business Development**

Ms. Moraa Ongeru is an MBA alumna of Management College of Southern Africa (MANCOSA); and holds Bachelor of Arts (Economics) Degree from Moi University. She also holds a Diploma in Applied Statistics from the then Kenya Polytechnic (Technical University of Kenya). She is a qualified Monitoring and Evaluation professional having trained at University of Nairobi's Population Services Research Institute (PSRI). She is a qualified Internal Quality Auditor for ISO 9001:2015 Quality Management System.

Moraa has over 15 years experience in both Private and Public sector. She has worked at Moi Teaching and Referral Hospital in various capacities including Heading the Planning, Monitoring and Evaluation department. At United States International University Africa, she held the position of Monitoring and Evaluation Specialist for a period of four years for a

two programs; one training program focusing on women in business funded by Goldman Sachs Foundation and another focusing on agribusiness entrepreneurs funded by Bill and Melinda Gates Foundation.

She is currently co-ordinating the activities in Business Development, Planning Section as the Ag. Corporate Planning Manager.

### **Mr. Joel Gatune - General Manager Finance**



Joel is a Certified Public Accountant and Certified Public Secretary. He is a member of the Institute of Certified Public Accountants of Kenya and the Institute of Certified Public Secretaries of Kenya. He holds a Bachelor of Arts in Economics (First Class Honours) from Kenyatta University and a Master of Business Administration from the University of Nairobi.

He has over 25 years experience in Auditing, Strategy, Financial planning and Management. Prior to joining NHC,, Joel worked for Deloitte as a Senior Auditor, ICEALION Group as the Head of Finance, CIC Group as the Group General Manager, Finance and Investments and Kenya Orient Insurance as the General Manager, Finance and Strategy.

**Eng. Thomas Ofwa-Ag. General Manager Technical Services**

Mr. Thomas Ofwa is the acting General Manager – Technical Services Division. He has over 25 years experience in design, construction supervision and contract management for civil/structural engineering projects. Thomas joined NHC in 2004 and has risen through the ranks to the position of Principal Engineer. Currently, he heads and coordinates the functions of EPS Factory/Manufacturing Division. He holds Bsc. In Civil Engineering from University of Nairobi and MBA from Kenyatta University. He is a registered consulting engineer with the Engineers Board of Kenya; a corporate member of the Institution of Engineers of Kenya; a member of the American Society of Civil Engineers; and a member of the Chartered Institute of Arbitrators (UK and Kenya Branch).

## CHAIRMAN'S STATEMENT



On behalf of the Board of Directors, I am pleased to present National Housing Corporation's annual report and financial statements for the year ended 30<sup>th</sup> June, 2021.

### Real Estate sector overview

The Kenyan Constitution spells out adequate housing and reasonable sanitation as a fundamental need. Thus, affordable housing is arguably a major pillar of the Government's Big Four Agenda. National Housing Corporation has been in the forefront in developing an inclusive framework to facilitate the development and delivery of affordable housing units to Kenyans. NHC aims at improving the living conditions of our citizens by providing decent and affordable housing.

To achieve this objective, the Government is implementing policy and administrative reforms in line with AHP, restructuring housing delivery frameworks, availing land for the AHP programme, incorporating rapid building

technologies and review of affordable mortgage services among others. The focus is to lower the cost of housing.

Key policies and legislation to further the AHP programme by the National Government have been introduced. These include but not limited to:

1. The formation of the Kenya Mortgage Refinancing Company (KMRC), whose main function is to support the affordable housing agenda by providing secure, long-term funding to the mortgage lenders, thereby increasing the availability and affordability of mortgage loans to Kenyans.
2. Introduction of incentives by the National Government such as exemption from stamp duty tax for first time home buyers.
3. Establishment of the National Housing Development Fund (NHDF).

The Government is keen on delivering the housing units across the country by 2022. This will not only provide decent homes to Kenyans but will also create additional jobs, provide market

for manufacturers and suppliers and raise the contributions to the economy of real estate and construction sector.

### **Challenges facing the real estate sector**

The last FY2020/2021 was hard hit by the COVID-19 pandemic which has had immense negative effect in the real estate sector and the Corporation as well. Completion of projects was greatly affected by materials delays in the local as well as the global supply chain. Further, the sector suffered labour shortages due to health and safety concerns as well as travel restrictions.

Due to the frequent to the land reforms being undertaken at the lands office, during the period under review there was reduction of conveyance transactions at the Ministry of Lands and Physical Planning.

The sector is expected to experience a slow recovery post-COVID-19 as uptake will be subdued due to depressed income levels and changed priorities by prospective investors. Financial uncertainty is expected to dampen uptake of houses in the real estate sector in 2021. Given that real estate buying is often characterized by speculation, most investors are already counting losses as the COVID-19 pandemic impedes access to credit, lower inflows of revenue and payment defaulters.

### **NHC Strategic Focus**

It is incumbent upon National Housing Corporation as the principal entity for implementation of Government's housing policies and programmes to play a fundamental role in the delivery of the affordable housing programme.

The Corporation through its business strategy strives to:-

- Play a key role in the delivery of the Government affordable housing programmes
- Re-engineer internal business processes and systems in line with best practice
- Focus on stakeholders to create and maintain synergistic relationships with key stakeholders in the housing industry
- Enhance and implement NHC's business continuity in COVID-19 times and/or during any other pandemic and risk
- Enhance the institutional capacity and entrench Corporate Governance in service delivery.
- Embrace and mainstream environmental sustainability in all business operations

### **Overview of Financial Results**

The National Housing Corporation recorded a pre-tax profit of Kshs. 100million representing 60% decrease from the previous financial year. The Corporation's total turnover for the year was Kshs.0.9 billion, compared to the last financial year turnover of Kshs 1.008 billion.

**Dividends**

The board proposes a dividend of Kshs. 2,588,314.00 based on 5% of profits after tax.

**Conclusion**

The Board commits to maximizing the shareholder's value and relentlessly supports the Corporation's endeavor towards housing the nation and the affordable housing programme.

A handwritten signature in blue ink, appearing to be 'S. Muriuki Ngare', written over a horizontal line.

Hon. Eng. Stephen Muriuki Ngare  
**CHAIRMAN**

## REPORT OF THE CHIEF EXECUTIVE OFFICER



**Dear Shareholders,**

On behalf of the Management of the National Housing Corporation, it is my pleasure to present to you the Corporation's annual performance for the financial year 2020/2021. This report provides an opportunity to reflect on factors and challenges that influenced NHC's performance during the year under review, as well as refocus on the strategic initiatives put in place to steer business growth.

Housing continues to be an integral part of the Corporation, a role we have played since inception through the various products and services offered.

As a Corporation, we are dedicated towards the actualization of the Affordable Housing Programme (AHP) and the specific housing plans under the Social Pillar in the Third Medium Term Plan (MTPIII) of

Kenya's Vision 2030.

NHC takes great pride in spearheading the delivery of affordable housing to Kenyans under President Uhuru Kenyatta's Big Four Agenda.

### **Operational Overview**

In upholding the provisions of the Constitution of Kenya 2010 as provided for in Article 43(1)(b) - Every person has the right to accessible and adequate housing, and to reasonable standards of sanitation; the National Housing Corporation has been at the forefront in delivering decent and affordable housing to Kenyans.

As an institution, we are committed towards housing the nation under the affordable housing agenda. To this end, the Corporation is accelerating the delivery process of housing units through various development projects across the country.

Current ongoing NHC housing projects include:

- NHC Nyeri Mixed Use Development
- Voi Infill TP
- Changamwe Rental Infill Phase II

Despite the numerous constraints in the building industry, demand for good quality affordable housing remains robust. To cater for the ballooning demand, NHC is in the process of developing more housing units across the country. Some of the proposed projects in the pipeline include:

- Kajiado Housing Phase I
- Changamwe Phase III
- Kibera Karanja Road Housing
- Turkana Phase I
- Stoni Athi Phase III
- Narok Housing Phase I
- Malindi Housing Phase II
- Kakamega Amalemba
- Kericho Housing Phase I
- Bububu Housing Phase II
- Eldoret Housing Phase I
- Kisumu Kanyakwar Phase III
- Stoni Athi Sector II A
- Meru Mixed Use Development
- Nakuru Bondeni Mixed Use Development

The Corporation is keen to further the AHP agenda across the country through joint housing ventures with various counties. These counties include Kiambu, Muranga, Kirinyaga, Homabay, Marsabit, Samburu and Laikipia.

In pursuit of our mandate, the Corporation strives to bridge the housing deficit through the provision of outright sale and tenant purchase modes of sale as well as through rentals and the provision of rural and peri-urban housing loans. The provision of housing loans and extended payment methods aim at encouraging and accelerating home ownership amongst Kenyans of all economic classes.

## **The Role of NHC in the Affordable Housing Programme (AHP)**

NHC is privileged to spearhead the Affordable Housing Programme (AHP) which seeks to deliver 500,000 housing units to Kenyans.

As a Corporation, we seek to promote delivery of AHP through direct construction of housing units, adopting innovative projects and through facility management methods that reduce construction time and guarantee quality of the units.

Further, NHC is engaging strategic partners such as the National Government and other state agencies to unlock land for affordable housing and redevelopment of existing old housing stock to high-rise residential developments.

The use of Expanded Polystyrene -EPS technology in construction has been a major game changer in the built industry. As NHC, we are leveraging on this innovative technology by producing factory engineered EPS panels in our factory. The panels significantly reduce the total construction time and cost, thus affordably enabling development of many units in a short span of time.

NHC will also serve as a demand aggregator. The Corporation looks to fill this void by promoting off take of affordable units at pre-agreed terms with developers thereby stimulating housing supply.

## **Financial Overview**

2020/2021 was an extraordinary financial year by any measure. It was a year of a global pandemic, a global recession, unprecedented government actions, inflationary pressures and the slowdown in private sector credit growth. Throughout the period National Housing Corporation demonstrated resilience despite the difficult times to report positive results in the FY 2020/2021. However, revenues were below our expectations following the relatively hostile economic environment that the business was operating in.

Revenues in the year 2020/2021 were Kshs.1.0 Billion compared to Kshs.1.008Billion in the year ended 30<sup>th</sup> June, 2020. The Corporation's reported a reduction of 60% in its profits. The profits

for the year were Kshs.100 million from a profit of Kshs. 257 million reported in the same period last year.

NHC has renewed its emphasis on prudent utilization of resources and we are pleased to see our cash reserves for the year improve from Kshs. 118 million in the previous year to Kshs. 600 million this year. This therefore meant that as a Corporation we were able to meet our expectation of declaring dividend of Kshs. 896,012.00 representing 5% of our pretax profit.

### **Way Forward**

As the Corporation carries out its mandate, it faces numerous challenges. Key among them is budgetary constraints to undertake the proposed housing projects spread across the country. Whereas NHC's mandate is broad, the provision of loans, grants, alternative technology, partnerships and applied research has been partially realized.

As an institution, we seek to leverage on the following aspects to increase the momentum of the delivery of affordable housing to Kenyans during the 2021/2022 FY:

- Alternative building technologies (EPS technology) to save on construction costs and time.
- Partnerships with relevant stakeholders, institutions and agencies.
- Digital technology to improve management, service delivery and customer satisfaction.

### **Conclusion**

I would like to take this opportunity to thank the Government of Kenya and the NHC Board of Directors for the immense support they have accorded the Management team as we continue to house the nation. I am looking forward to a collective effort to grow the Corporation to greater heights and deliver value to our stakeholders.

A handwritten signature in blue ink, appearing to read 'Patrick M. Bucha', with a long horizontal stroke underneath.

**Dr.(Qs) PATRICK M. BUCHA, MBS**  
**Ag. MANAGING DIRECTOR**

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operational and Financial Performance

The National Housing Corporation (NHC) recorded positive results in the year ended 30<sup>th</sup> June, 2021.

### Financial Performance

The Corporation reported a pre-tax profit of Kshs. 100 million in the year under review. However, the performance was below the forecast due to:

1. The global pandemic Covid 19 caused unexpected challenges that delayed commencement of some of our projects.
2. Slow market uptake of the EPS panels
3. Projects earmarked for borrowing didn't commence due to failure to obtain necessary approvals in time
4. Projects budgeted for government funding did not commence as the Corporation did not receive funding from the GoK.

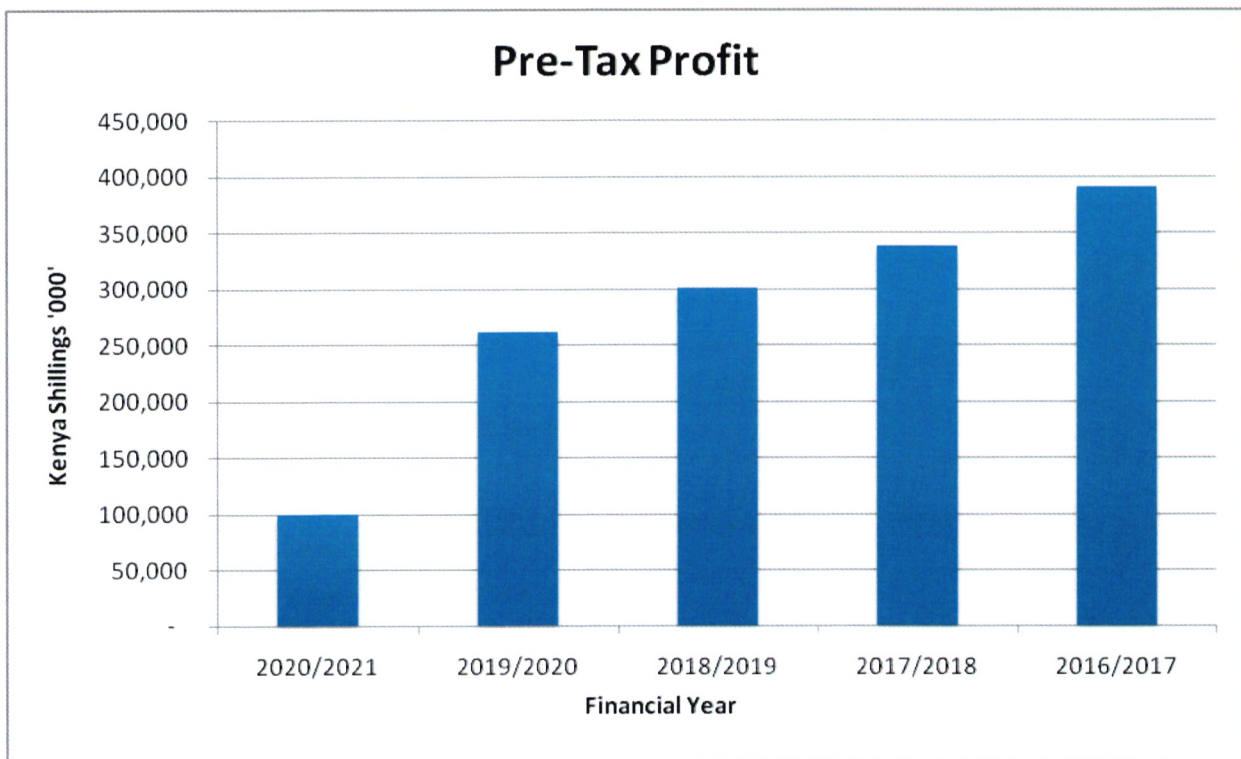


Figure 1 Analysis of Annual After Tax Profit

The Corporation continued to enjoy an extremely strong financial position with total assets of Kshs. 21.1 billion at the end of the year ended June 2021.

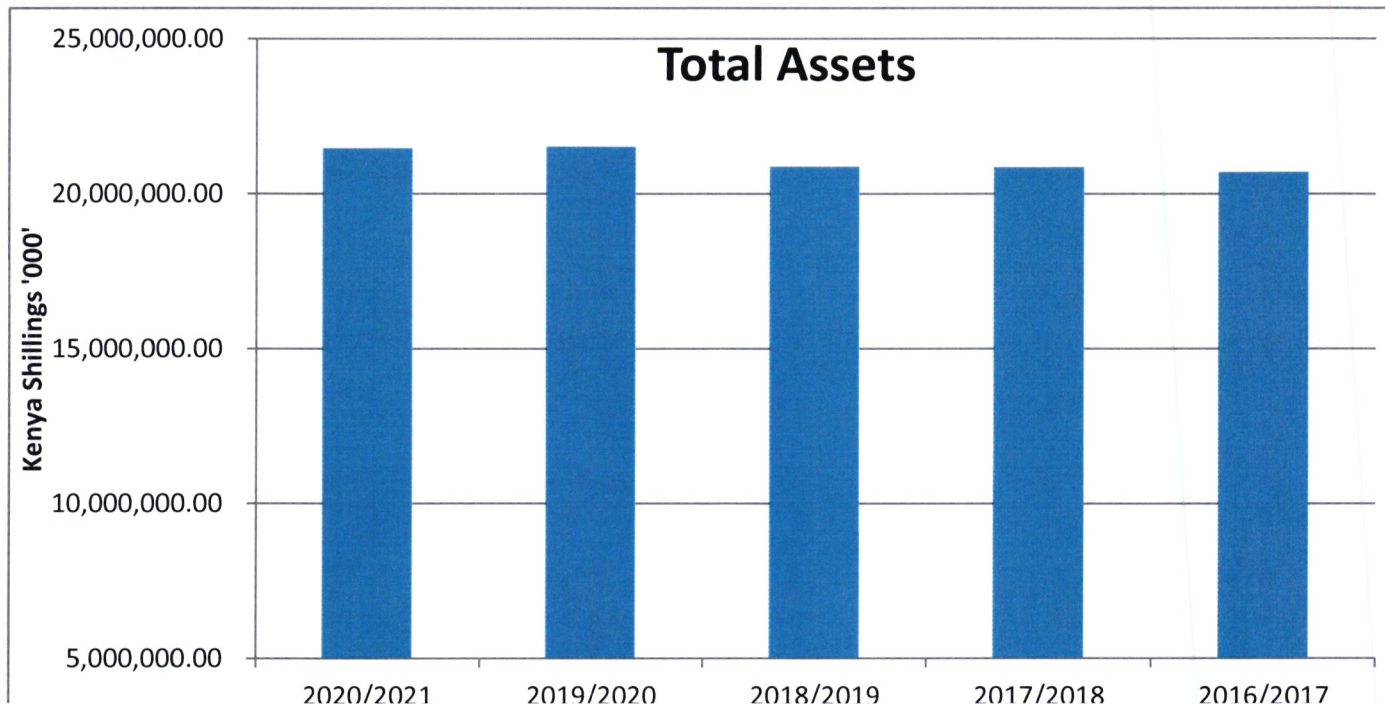


Figure 2 Analysis of Total Assets

## Revenue

Interest Income is the highest source of revenue, accounting for 50% of total turnover. Rent income accounts for 24% of total revenue, EPS sales at 14% and gain on sale of houses, professional fees and other income at 4%, 4% and 4% respectively as indicated on the pie chart on revenue streams.

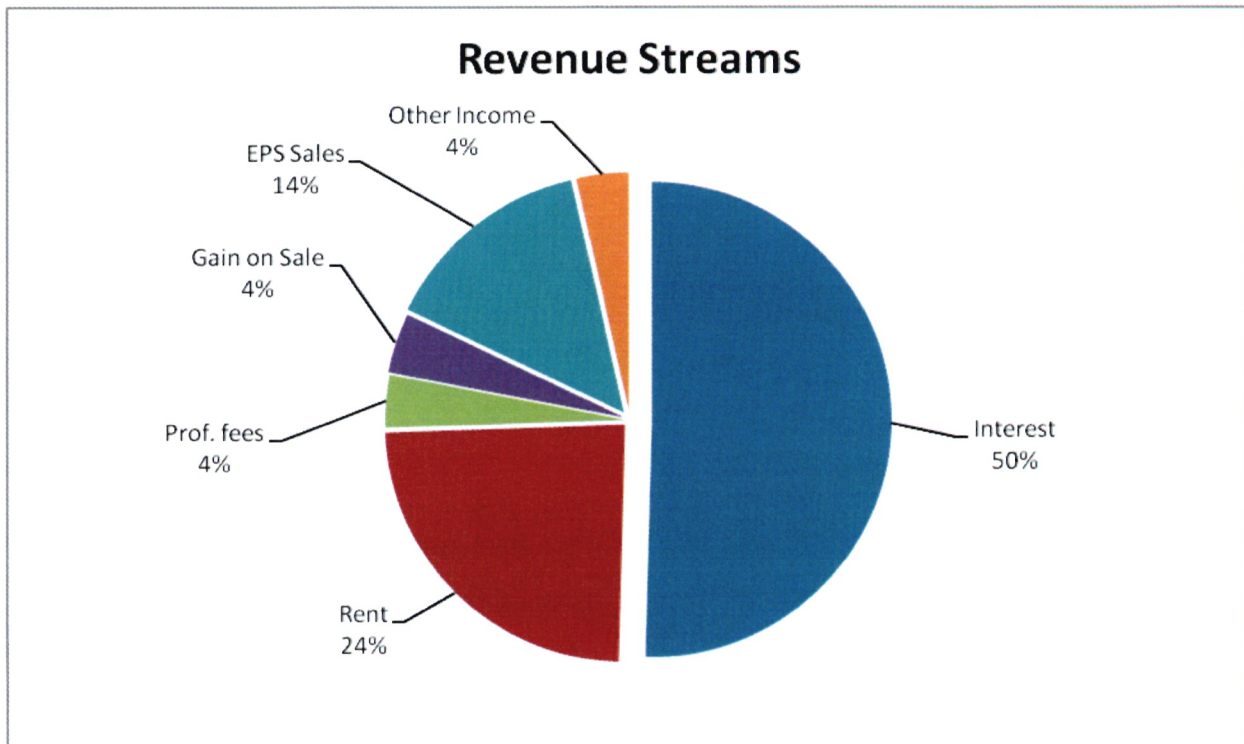


Figure 3 Analysis of Different Sources of Revenue

## Opportunities

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

1. **Devolution:** This continued to be a great opportunity with various Counties approaching the Corporation for assistance with construction of dwellings using EPS Panels. The Corporation continues to collaborate with these Counties to ensure the realization of these projects.
2. **Affordable Housing:** The Corporation has been mandated to deliver the Affordable Housing Programme (AHP) and will manage the delivery of 500,000 housing units throughout the project life cycle as part of the GoK's Big - Four Agenda. This augurs well with the Corporation's Mission and is set to deepen our commitment to housing the nation.

## Challenges

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

1. **Covid-19:** The pandemic has greatly affected all sectors of the economy including the housing sector which has led to many job cuts, collapsing of businesses, making potential home owners unable to acquire a unit for shelter.
2. **Inflation:** Inflation has affected the cost of construction which in turn affects the cost of the end product.
3. **Harsh economic times:** Have eroded the purchasing power of potential home buyers. This has adversely affected our project revenues.
4. **Building Technology:** Slow market uptake of the Corporation's Expanded Polystyrene Styrofoam (EPS).

NHC 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 August 2019, NHC was certified in ISO 9001:2015-Quality Management System standard. This is recognition and an indication of continual quality improvement in the organization's operations.

## Operational Developments

In the year ended June 2021, the Corporation continued to execute its mandate, of Housing the Nation.

The Corporation intends to commence more projects within the FY 2021/2022. This will be made possible through internally generated funds, borrowings, government grants as well as partnerships. The planned partnerships with County Governments will alleviate the prevalent housing shortage in the Country. Collaboration with other institutions through

joint ventures will enhance our capacity to deliver houses. NHC will continue to grow sales and consumption of the EPS panels and Rural Housing Loans.

The flagship projects 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.

1. **Project Implementation:** NHC's projects bear considerable construction risks arising from delayed completion and commissioning. To mitigate against this the Corporation will continue to effectively manage its projects in order to minimize factors that may result in project overruns and delays.
2. **Covid-19:** The pandemic makes the future uncertain. Continuation of the pandemic will adversely dip the economy leading to massive job losses, closure of businesses where majority of people and employee's purchasing power will decline thus unable to own decent housing.
3. **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.
4. **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.
5. **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.

6. **Liquidity Risk:** The Corporation continues to actively monitor and control its liquidity levels to ensure that it reduces any risk exposures on meeting its liabilities when they arise.
7. **Stock out of Raw Materials:** The major raw material used in the EPS factory is supplied from overseas by agents appointed by the Corporation. The Corporation has put in place mechanisms which reduces the risk of stock out by placing orders early enough to give the suppliers adequate time to source and deliver the required raw materials in good time.

### **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 obligations that may have arisen.

### **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 were no governance issues or financial probity reported in the period.

A handwritten signature in blue ink, appearing to read 'Patrick M. Bucha', with a long horizontal stroke underneath.

**Dr.(Qs) Patrick M. Bucha, MBS**  
**Ag.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, six other independent directors, and two other directors from the public sector, representing Ministry of Finance & Treasury and State Department for Housing & Urban Development (Ministry of Transport, Infrastructure & Urban 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 Risk and Compliance Committee, Finance, Strategy 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

Audit Risk and Compliance 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 Risk and Compliance Committee provides oversight with regard to risk management by evaluating the extent to which management has established effective risk management strategies, reviewing the Corporation's portfolio of risks being aware of the most significant risks and confirming whether management is responding appropriately.

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 attend the committee meetings on invitation.

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

Name	Position
Mr. Jackson Kimuri	Chairman
Ms. Patricia Gathuri	Member
Ms. Jacqueline Muindi	Member

The following is an analysis of attendance of the committee meetings in the year

Name	26/08/20	29/10/20	07/01/21	06/04/21
Mr. Jackson Kimuri	√	√	√	√
Ms. Patricia Gathuri	√	√	√	√
Ms. Jacqueline Muindi	√	√	√	√

## 2. Finance, Strategy and Business Development Committee

Finance, Strategy and Business Development Committee meets at least four times a year, with authority to convene additional meetings, as circumstances 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 committee further addresses all the procurement matters at corporate level.

The members of the Finance, Strategy and Business Development Committee were:

Name	Position
Dr. Habil Olaka	Chairman
Mrs. Jane Mwangi	Member
Mrs. Jacqueline Muindi	Member
Managing Director	Member

The following is an analysis of attendance of the committee meetings in the year

Name	27/08/20	13/10/20	8/01/21	08/04/21
Dr. Habil Olaka	√	√	√	√
Mrs. Jane Mwangi	√	√	√	√
Mrs. Jacqueline Muindi	√	√	√	√
Managing Director	√	√	√	√

## 3. Human Resource and Administration Committee

The Committee meets at least four times a year with authority to convene additional meetings, as circumstances 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, and legal matters at the corporate level.

The members of the Human Resource and Administration Committee were:

Name	Position
Ms. Caroline Armstrong	Chairperson
Mr. Jackson Kimuri	Member
Ms. Patricia Gathuri	Member
Managing Director	Member

The following is an analysis of attendance of the committee meetings in the year

Name	25/08/20	05/11/20	09/11/20	06/01/21	07/04/21	09/04/21
Ms. Caroline Armstrong	√	√	√	√	√	√
Mr. Jackson Kimuri	√	√	√	√	√	√
Ms. Patricia Gathuri	√	√	√	√	√	√
Managing Director	√	√	√	√	√	√

#### 4. Technical Committee

The Committee meets at least four times a year with authority to convene additional meetings, as circumstances 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 were:

Name	Position
Arch. Jerry Magutu	Chairman
Mrs. Jane Mwangi	Member
Ms. Gladys Mboya	Member
Managing Director	Member

The following is an analysis of attendance of the committee meetings in the year

Name	31/08/20	27/10/20	07/01/21	01/04/21
Arch. Jerry Magutu	√	√	√	√
Mrs. Jane Mwangi	√	√	√	√
Ms. Gladys Mboya	√	√	√	√
Managing Director	√	√	√	√

### Attendance of the Board Meetings

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

Name	30/07/20	30/09/20	03/12/20	13/01/21	13/04/21
	208 <sup>th</sup> Meeting	209 <sup>th</sup> Meeting	210 <sup>th</sup> Meeting	211 <sup>th</sup> Meeting	212 <sup>th</sup> Meeting
Mr. Stephen Ngare	√	√	√	√	√
Mr. Hinga Mwaura	√	-	-	√	√
Ms. Jacqueline Muindi	√	√	√	√	√
Ms. Gladys Mboya	√	-	√	√	√
Mr. Jackson Kimuri	√	√	-	√	√
Dr. Habil Olaka	√	√	√	√	√
Arch. Jerry Magutu	√	√	√	√	√
Ms. Caroline Armstrong	√	√	√	√	√
Ms. Patricia Gathuri	√	√	√	√	√
Mrs. Jane Mwangi	-	√	√	-	√
Managing Director	√	√	√	√	√

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

Name	06/11/20	06/05/21
Mr. Stephen Ngare	√	√
Mr. Hinga Mwaura	√	√



Ms. Gladys Mboya	√	√
Mr. Jackson Kimuri	√	√
Dr. Habil Olaka	√	√
Arch. Jerry Magutu	√	√
Ms. Caroline Armstrong	√	√
Ms. Patricia Gathuri	√	√
Mrs. Jane Mwangi	-	√
Mrs. Jacqueline Muindi	√	√
Managing Director	√	√

## CORPORATE SOCIAL RESPONSIBILITY STATEMENT

### Introduction

National Housing Corporation acknowledges the unique economic, social, civic and environmental responsibilities that come along with its position as a leader in the built industry.

As a Government entity that combines all the expertise necessary to generate value from property assets, we are obliged to share ideas and experiences in sustainability-related issues with all sectors of the Kenyan economy.

In each of our business lines, we develop solutions to respond to evolving client needs. In doing so, our Corporate Social Responsibility (CSR) commitments help integrate sustainable development and social responsibility into our activities. NHC aims to satisfy its clients and partners needs by delivering innovative products and services that create shared value so as to contribute collectively to the development of a sustainable society.

During the FY 2020/2021, the Corporation did not undertake any CSR project due to Covid-19 pandemic restrictions and challenges.



**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, 2021. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the 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 the Corporation's transactions during the financial year ended 30th June, 2021, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained by 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**

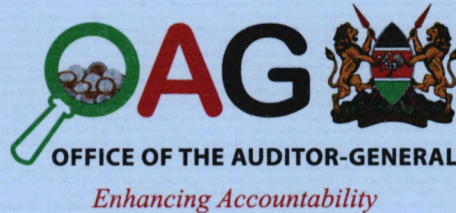
The Corporation's financial statements were approved by the Board on ..... and signed on its behalf by:

**Chairman** 

**Ag. Managing Director** 

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## REPORT OF THE AUDITOR-GENERAL ON NATIONAL HOUSING CORPORATION FOR THE YEAR ENDED 30 JUNE, 2021

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### PREAMBLE

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

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

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

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

### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of National Housing Corporation set out on pages 43 to 88, which comprise of the statement of financial position as at

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*Report of the Auditor-General on National Housing Corporation for the year ended 30 June, 2021*

30 June, 2021 and the statement of profit or loss and other comprehensive income, statement of changes in equity, 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 effect 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 the National Housing Corporation as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Housing Act, 2012 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Loan Amounts Receivable**

##### **1.1 Variances in Rural Housing Loans**

Included in the loan amounts receivable balance of Kshs.2,971,182,756 is rural housing loans balance of Kshs.798,291,479 for which the supporting schedule provided for audit reflected a balance of Kshs.752,802,984 resulting to an un-explained variance of Kshs.45,488,495. Further, loans amounting to Kshs.668,961,089 remained outstanding for more than one year. Although a provision for bad debts of Kshs.280,713,615 has been made, its adequacy is doubtful. In addition, loans totalling to Kshs.417,997,669 equivalent to 52% of the reported rural loans were unsecured.

In the circumstances, the accuracy, completeness and recoverability of loan amounts receivable balance of Kshs.2,971,182,756 as at 30 June, 2021 could not be confirmed.

##### **1.2 Outstanding Loans from Local Authorities**

Included in the loan amounts receivable balance of Kshs.2,971,182,756 is Kshs.1,771,775,091 in respect of outstanding loans from the defunct Local Authorities which were taken over by the respective County Governments, and which reflects an increase of Kshs.137,766,187 from the previous year balance of Kshs.1,634,008,904. Although the Management has engaged the respective Counties on debt recovery, the progress is slow.

In the circumstances, full recoverability of the debts is doubtful.

##### **1.3 Variance in Staff Loans**

Included in the loan amounts receivable balance of Kshs.2,971,182,756 is staff loans amounting to Kshs.28,087,352 whose supporting schedule reflected a balance of

Kshs.28,087,352 resulting in an unexplained variance of Kshs.5,281,561. Further, staff loans totalling to Kshs.26,714,558 have been outstanding for a period of over one year.

In the circumstances, the accuracy and full recoverability of staff loans balance of Kshs.28,087,352 could not be confirmed.

#### **1.4 Variance in Tenant Purchase Loans**

Included in the loan amounts receivable balance of Kshs.2,971,182,756 is tenant purchase balance of Kshs.500,081,378 which was an increase of Kshs.24,173,948 from the balance of Kshs.475,907,430 as at 30 June, 2020. However, the ledgers provided in support of the balance showed a balance of Kshs.480,570,813 resulting in an unexplained variance of Kshs.19,510,565. Further, despite the Corporation's loan policy requiring invoices to be paid within twenty-one (21) days after they become due, tenant purchase loans amounting to Kshs.500,081,378 remained outstanding as at 30 June, 2021.

In the circumstances, the accuracy and full recoverability of tenant purchase loans balance of Kshs.500,081,378 could not be confirmed.

#### **1.5 Un-Settled Outright Sale Debtors**

Included in the loan amounts receivable balance of Kshs.2,971,182,756 as at 30 June, 2021 is outright sale debtors' balance of Kshs.153,661,071. However, the outstanding balance of Kshs.153,661,071 was not settled within ninety (90) days from date of signing the sale agreements as provided in the signed contracts.

In the circumstances, full recoverability of outright sale debtors' balance of Kshs.153,661,071 as at 30 June, 2021 could not be confirmed.

### **2. Variance in Long-Term Loan Advanced**

The statement of financial position and as disclosed in Note 15 to the financial statements reflects long-term loans advanced of Kshs.2,561,491,373. However, the supporting schedules provided for audit reflected a balance of Kshs.2,476,828,231 resulting in an unexplained variance of Kshs.84,663,142.

In the circumstances, the accuracy and completeness of the long-term loans advanced balance of Kshs.2,561,491,373 as at 30 June, 2021 could not be confirmed.

### **3. Outstanding Trade and Other Receivables**

Included in the trade and other receivables balance of Kshs.511,779,936 and as disclosed in Note 20(a) to the financial statements is rent arrears of Kshs.204,678,788 which is net of provision for bad debts of Kshs.99,244,512 and which has been outstanding for over one (1) year. In addition, trade and other receivables includes a

balance of Kshs.307,101,148 in respect of debtors out of which an amount of Kshs.290,982,157 has been outstanding for over one (1) year.

In the circumstances, full recoverability of trade and other receivables balance of Kshs.511,779,936 as at 30 June, 2021, could not be confirmed.

#### **4. Parcels of Land without Title Deeds**

The statement of financial position and as disclosed in Note 12 to the financial statements, reflects land balance of Kshs.2,296,227,001 as at 30 June, 2021. As previously reported, the balance excludes forty-three (43) parcels of land measuring approximately ninety-two (92) hectares of undetermined value but without title deeds. Some of these properties have developments on them. Included in the land without titles are two (2) parcels of land in Kakamega-Amalemba Kakamega County which have ownership disputes. Further, title deeds for five (5) parcels of land measuring approximately five (5) hectares located in Nairobi and Nakuru were not provided for audit.

In addition, the land valuation schedule provided excludes three (3) pieces of land with a total value of Kshs.360,358,358 as indicated below: -

<b>Tag No.</b>	<b>Description</b>	<b>Value at Cost (Kshs.)</b>
00000001	Mariakani	350,000,000
00000004	Webuye	4,787,260
00000007	Undeveloped Land - Pumwani	5,571,098
		<b>360,358,358</b>

In the circumstances, the accuracy, ownership and completeness of the land balance of Kshs.2,296,227,001 as at 30 June, 2021 could not be confirmed.

#### **5. Unsupported Unquoted Investment**

The statement of financial position and as disclosed in Note 16 to the financial statements reflects unquoted investment balance of Kshs.104,657,797. The balance includes investment in Research and Development Limited at a cost of Kshs.99,457,797. However, and as previously reported, the investment in the company, a wholly owned subsidiary, was not supported by a certificate of registration and share certificates.

In the circumstances, the accuracy and validity of unquoted investment value of Kshs.104,657,797 as at 30 June, 2021 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Housing Corporation Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe

that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 report in the year under review.

### **Other Matter**

#### **1. Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised under Report on the Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management had not included a status report on resolving of auditor's recommendations as required by the Public Sector Accounting Standards Board template.

#### **2. Budgetary Control and Performance**

During the financial year under review, the Corporation allocated a total budget of Kshs.1,843,000,000 to all ongoing projects as indicated in the Corporation's approved budget dated 20 August, 2020. However, only Kshs.262,230,817 was utilized translating to 14% of the approved budget. This is an indication that most of the planned programs were not implemented during the year, a situation that could negatively impact on realization of the intended benefits to the citizens.

#### **3. Financial Performance of Expanded Polystyrene Panels (EPS) Factory**

As previously reported, Note 5 to the financial statements discloses trading loss of Kshs.42,987,606 (2020-Kshs.37,459,969) from the operations of the EPS Factory. This is indicative of the continued deterioration in the financial performances of the subsidiary. Although Management has highlighted strategies that have been put in place to avert the losses, the strategies have so far not yielded desired results.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

## Basis for Conclusion

### 1. Boundary Wall and Civil Works at Stoni Athi

As reported previously, the contract agreement for the boundary wall and civil works at Stoni Athi-NHC/Tech/Bwsa/002/2016-2017 was signed with the understanding of the performance security being provided within fourteen (14) days of contract award and before taking site possession or commencement of the works. However, the contractor was issued with a certificate of possession of site on 18 November, 2016 before complying with bond terms in the signed contract. It was also observed that the Corporation deducted an amount of 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 bond contrary to the terms of the contract and no satisfactory explanation was provided.

The Management was therefore in contravention of Section 142(1) of Public Procurement and Asset Disposal Act, 2015.

### 2. Stalled Projects

A review of contract records for projects implemented by the Corporation revealed that projects with expenditure totalling to Kshs.419,738,767 were dormant or stalled and no works were ongoing despite the initial costs having been incurred. These are as detailed below:

Project	Amount Previously Incurred (Kshs.)	Progress in 2020/2021	Remarks
Kibera Zone K	10,240,892	0%	Project site could not be identified for verification.
Kisumu Kanyakwar II	276,323,507	0%	Project commenced in 1 December, 2014 and was expected to end by 28 February 2017. An advance payment of Kshs.108,257,857 was paid to the contractor. Field verification conducted in February, 2022 noted that the project site was abandoned sometimes back at the foundation level with rusted column steel exposed, overgrown vegetation, abandoned trucks and other construction equipment. Dispute between the Contractor and the Corporation has resulted to claims amounting to Kshs.1,310,097,863 as at January, 2022. It is not clear the circumstances under which the contract was terminated.
Kibera III	133,174,368	0%	Project site could not be identified for verification

In view of the foregoing, value for money on the stalled projects have not been realized as expected.

### **3. Stock of Unsold Houses**

The statement of financial position under note 19 to the financial statements reflects a balance of Kshs.2,388,606,497 on inventories. Included in this balance is Kshs.2,332,645,215 relating to stock of unsold houses. The Corporation implemented seven (7) projects under outright sale and tenant purchase schemes. Although some of the projects were completed as far back in 2013 and 2016, the same have not been sold and hence reported as inventories.

In the circumstances, the Corporation may not have obtained value for money for the schemes implemented and included under inventories.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **Risk Management Policy**

During the year under review, the Corporation did not have in place an approved customized Risk Management Policy and therefore, had no approved processes and guidelines on how to mitigate operational, legal and financial risks such as assessing the likelihood or occurrence of risk, estimating the significance of risks, identifying business risks relevant to financial reporting objectives and deciding about actions to address those risks. The Corporation was therefore in breach of chapter 3 of Mwongozo, Code of Governance for State Corporations on Governance Practice which requires the Board to among other things to ensure the development of a policy on risk management, which should consider sustainability, ethics and compliance risks, set out

its responsibility for risk management in the Board charter and approve the risk management policy and the risk management framework.

In the circumstances, the effectiveness of the Corporation's risk management measures could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of the Management and the Board of Directors**

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, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Corporation's ability to continue sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Corporation or to cease operations.

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

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

The Board of Directors is responsible for overseeing the Corporation's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls 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 controls 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 Corporation's 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease to continue 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 controls that are identified during the audit.

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

  
**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**15 September, 2022**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	Notes	2020/2021 Kshs	Restated '2019/2020 Kshs
<b>INCOME</b>			
Turnover	3	821,158,063	884,403,613
Other Income	4	35,131,895	29,177,240
EPS Sales	5 (b)	143,519,884	95,222,713
		<b>999,809,842</b>	<b>1,008,803,566</b>
<b>EXPENSES</b>			
EPS Expenses	5 (c)	186,507,490	132,682,683
Staff Costs	6	293,928,151	303,401,492
Administration Costs	7 (a)	371,766,782	250,043,444
Board Expenses	7 (b)	7,042,913	13,638,433
Depreciation - Property Plant & Equipments	11 (b)	45,754,852	48,303,354
Amortization -Intangible Assets	13	2,905,341	3,451,991
		<b>907,905,530</b>	<b>751,521,397</b>
<b>OPERATING PROFIT</b>		<b>91,904,312</b>	<b>257,282,169</b>
Finance Income	8	8,750,435	-
<b>Profit Before Taxation</b>		<b>100,654,747</b>	<b>257,282,169</b>
Provision for tax	9 (a)	48,888,462	95,182,725
<b>Profit After Taxation</b>		<b>51,766,285</b>	<b>162,099,444</b>
Proposed Dividends	10	2,588,314	8,620,480
<b>Retained Profits</b>		<b>49,177,971</b>	<b>153,478,964</b>
<b>Profit attributable to Shareholders</b>		<b>49,177,971</b>	<b>153,478,964</b>



## STATEMENT OF FINANCIAL POSITION

	NOTES	2020/2021 Kshs	Restated 2019/2020 Kshs
<b>ASSETS</b>			
<b>Non Current Assets</b>			
Property, Plant & Equipment	11 (a)	1,189,171,064	1,226,752,842
Land	12	2,296,227,001	2,196,149,894
Intangible Asset	13	5,863,137	6,080,821
Investment Property	14	6,638,161,298	7,073,442,525
Long Term loan Advanced	15	2,561,491,373	2,788,167,870
Unquoted Investment	16	104,657,797	104,657,797
<b>Total Non-Current Assets</b>		<b>12,795,571,670</b>	<b>13,395,251,749</b>
<b>Current Assets</b>			
Schemes in Progress	17	1,761,071,854	1,731,388,693
Loan Amount Receivable	18	2,971,182,756	2,975,078,853
Inventories	19	2,388,606,497	2,663,062,249
Trade and other Receivables	20(a)	511,779,936	570,378,289
Tax Recoverable	9(b)	151,111,750	40,517,779
Deferred Tax asset	9(c)	10,785,337	
Cash and Bank balances	21	600,746,028	118,620,441
<b>Total Current Assets</b>		<b>8,395,284,158</b>	<b>8,099,046,304</b>
<b>TOTAL ASSETS</b>		<b>21,190,855,828</b>	<b>21,494,298,053</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Equity	22	6,936,000,000	6,936,000,000
Unrealised Gain on Sale of Houses	23	479,867,347	509,701,383
Retained Earnings	24	3,857,585,041	3,808,407,069
House Equalization	25	383,118,995	383,118,995
Revaluation Reserve	26	7,748,179,684	8,119,124,295
<b>Total Capital and Reserves</b>		<b>19,404,751,067</b>	<b>19,756,351,742</b>
<b>Non Current Liabilities</b>			
Long Term Loans	27	396,586,142	396,586,142
Deferred Tax Liability	9(c)	-	45,038,670
<b>Total Non Current Liabilities</b>		<b>396,586,142</b>	<b>441,624,812</b>
<b>Current Liabilities</b>			
Trade and other Payables	28	1,365,741,062	1,261,573,875
Dividend payable	10	23,777,558	34,747,623
Tax Payable	9(b)	-	-
<b>Total Current Liabilities</b>		<b>1,389,518,620</b>	<b>1,296,321,498</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>21,190,855,828</b>	<b>21,494,298,053</b>

The financial statements were approved by the Board and signed on its behalf by:

Chairman:.....Ag. Managing Director:.....General Manager Finance .....

ICPAK NO. 3200

## STATEMENT OF CHANGES IN EQUITY

	Kshs					Kshs						
	EQUITY	UNREALISED GAIN ON SALE OF HOUSES	RESTATED RETAINED PROFIT	HOUSE EQUALIZATION RESERVE	REVALUATION RESERVE	TOTAL	EQUITY	UNREALISED GAIN ON SALE OF HOUSES	RESTATED RETAINED PROFIT	HOUSE EQUALIZATION RESERVE	REVALUATION RESERVE	TOTAL
1ST JULY 2019	6,936,000,000	630,116,826	3,624,766,432	383,118,995	8,286,440,995	19,860,443,248						
Adjustments (Note 24)												
House Equalization Reserve (Note 25)			30,161,673			30,161,673						
Unrealised Gain (Note 23)		24,828,140				24,828,140						
Realised Gain (Note 23)		(145,243,583)				(145,243,583)						
Proposed dividends for year (Note 10)			(8,620,480)			(8,620,480)						
Profit for the year (Note 24)			162,099,444			162,099,444						
Revaluation reserve (Note 26)					(167,316,700)	(167,316,700)						
<b>30TH JUNE 2020</b>	<b>6,936,000,000</b>	<b>509,701,383</b>	<b>3,808,407,069</b>	<b>383,118,995</b>	<b>8,119,124,295</b>	<b>19,756,351,742</b>						
1ST JULY 2020	6,936,000,000	509,701,383	3,808,407,069	383,118,995	8,119,124,295	19,756,351,742						
Unrealised Gain (Note 23)		19,803,687				19,803,687						
Realised Gain (Note 23)		(49,637,723)				(49,637,723)						
Proposed dividends for year (Note 10)			(2,588,314)			(2,588,314)						
Profit for the year (Note 24)			51,766,285			51,766,285						
Revaluation reserve (Note 26)					(155,408,074)	(155,408,074)						
<b>30TH JUNE 2021</b>	<b>6,936,000,000</b>	<b>479,867,347</b>	<b>3,857,585,041</b>	<b>383,118,995</b>	<b>7,963,716,221</b>	<b>19,620,287,604</b>						

## STATEMENT OF CASH FLOWS

	Notes	2020/2021	'2019/2020
		Kshs	Kshs
<b>OPERATING ACTIVITIES</b>			
Cash generated from operations	29	548,846,480	(558,883,656)
Taxation paid	9 (b)	(215,306,441)	(72,593,452)
<b>Net cash generated from/(used in) operating activities</b>		<b>333,540,039</b>	<b>(631,477,108)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of fixed assets			
- Land	12		(977,206)
- Property, Plant & Equipment	11	(20,673,266)	(5,524,592)
- Intangible Assets	13	(2,151,100)	(3,558,997)
- Investment Property	14	(50,889,033)	(3,976,639)
Loans advanced	30	(36,110,422)	(79,501,552)
Tenant purchase loans advanced	30	(182,809,175)	(44,556,833)
Cash on disposal of fixed asset	11 (a)	1,572,060	
Redemption of loans	30	176,998,625	180,444,251
Redemption of TP Loans	30	267,455,803	273,567,138
<b>Net cash generated from/(used in) investing activities</b>		<b>153,393,492</b>	<b>315,915,570</b>
<b>FINANCING ACTIVITIES</b>			
Finance income	8	8,750,435	-
Dividends paid	10	(13,558,379)	-
Loan Received	27	-	396,586,142
<b>Net cash generated from/(used) in financing activities</b>		<b>(4,807,944)</b>	<b>396,586,142</b>
<b>Increase / (Decrease) in cash and cash equivalents</b>		<b>482,125,587</b>	<b>81,024,604</b>
Cash & Cash Equivalents at the beginning of the period		118,620,441	37,595,837
<b>Cash &amp; Cash Equivalents at the end of the period</b>	21	<b>600,746,028</b>	<b>118,620,441</b>

## STATEMENT OF BUDGET AND ACTUAL COMPARISON

	Actual	Final Budget	Variance	% Variance	Explanation of material variances (+/-10%)
	Kshs.	Kshs.	Kshs.	%	
<b>Revenue</b>					
Interest Earned	504,281,897	499,212,000	5,069,897	1%	
Rental Income	240,621,302	251,789,000	(11,167,698)	-4%	
Professional fees	35,668,198	496,552,000	(460,883,802)	-93%	(a)
Gain/(Loss) on sale of houses	40,586,666	178,533,000	(137,946,334)	-77%	(b)
Finance Income	8,750,435	12,000,000	(3,249,565)	-27%	(c)
Eps Sales	143,519,884	461,288,000	(317,768,116)	-69%	(d)
Other Incomes	35,131,895	35,143,000	(11,105)	0%	(e)
<b>Total Revenue</b>	<b>1,008,560,277</b>	<b>1,934,517,000</b>	<b>(925,956,723)</b>		
<b>Operating Expenses</b>			-		
Salaries & Benefits	293,928,151	568,443,000	274,514,849	48%	(f)
Board Expenses	7,042,913	30,000,000	22,957,087	77%	(g)
Depreciation	48,660,193	97,704,000	49,043,807	50%	(h)
EPS Expenses	186,507,490	267,921,202	81,413,712	30%	(i)
Auditors Remuneration	1,200,000	1,225,000	25,000	2%	
Property & Estates	29,970,355	66,495,000	36,524,645	55%	(j)
Motor Vehicle Expenses	5,442,647	6,300,000	857,353	14%	(h)
Repairs of Equipment	17,813,056	44,000,000	26,186,944	60%	(i)
Travelling General	6,495,010	14,141,000	7,645,990	54%	(k)
Printing & Stationery	4,248,748	14,864,000	10,615,252	71%	(l)
Office rents	22,248,317	24,200,000	1,951,683	8%	
Postage & Telephones	4,054,485	4,500,000	445,515	10%	(m)
Advertising	3,621,799	36,600,000	32,978,201	90%	(k)
Insurance	4,116,448	18,000,000	13,883,552	77%	(l)
Bank Charges	2,766,369	5,000,000	2,233,631	45%	(n)
Library Expenses	1,543,214	2,419,000	875,786	36%	(o)
Staff Uniforms	912,980	1,104,000	191,020	17%	(p)
Exhibition	116,750	8,000,000	7,883,250	99%	(q)
Training	5,050,066	59,700,000	54,649,934	92%	(r)
Bad Debts Provision	161,074,798	161,074,798	-	0%	(s)
Post contract payments	2,859,383	40,000,000	37,140,617	93%	(t)
Debt Collection Expense	2,832,449	5,000,000	2,167,551	43%	(u)
Legal Charges	23,811,159	60,000,000	36,188,841	60%	(v)
Consultancy General	15,893,339	35,570,000	19,676,661	55%	(x)
Medical in Patient	52,803,044	55,000,000	2,196,956	4%	
Corporate Social Responsibility	-	1,000,000	1,000,000	100%	(y)
Entertainment	1,432,107	10,541,000	9,108,893	86%	(z)
Staff welfare/Sports Club	1,460,260	4,000,000	2,539,740	63%	(aa)
<b>Total Expenses</b>	<b>907,905,531</b>	<b>1,642,802,000</b>	<b>734,896,469</b>		
<b>Profit</b>	<b>100,654,746</b>	<b>291,715,000</b>	<b>191,060,254</b>		

## **EXPLANATION OF MATERIAL VARIANCES ON STATEMENT OF BUDGET AND ACTUAL COMPARISONS**

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

- a)** The variance is attributable to delay in commencement of capital projects Kajiado Housing Phase I, Changamwe Phase III, Stoni Athi Phase III, Malindi Housing Phase II, Kanyakwar IV, Stoni Athi Phase II, Athi River Redevelopment, Kajiado Phase I, Stoni Athi Economy II sector II, Meru Phase I, Nakuru MUD, Malindi Housing, Kilifi Beach, Kakamega Amalemba, Kanyakwar III, Eldoret I, Bububu I and Kericho Housing Phase I, have contributed to the negative variance in professional fees and salaries charged to ongoing projects. Management's decision to defer the projects was based on delayed approval of the projects.
- b)** The Corporation expected to generate gain on sale from sale of houses in Stoni Athi Phase 1, Nyeri Mixed Development, Stoni Athi Economy phase II, Langata and Kibera Commercial Centres. However, during the year under review very few units were sold in these projects. This was attributable to the current credit crunch facing the Kenyan economy whereby lenders have adopted a conservative approach to lending. Management has decided to change its strategy on mode of sale on some of these schemes with a view to unlocking sales.
- c)** Finance Income: The positive variance realized was due to cash reserves that the Corporation was holding which was expected to have been utilized in housing projects.
- d)** The variance from EPS is attributed to delayed commencement of the Eldoret Phase I, Bububu Phase II, Kericho Phase I, Kisumu Kanyakwar Phase III, Kakamega Amalemba, Kilifi Beach Apartments, Malindi Housing, Nakuru Mixed Development, Meru Housing and the Stoni Athi Economy Phase II Sector II housing projects. The corporation had forecasted that the projects would consume EPS panels and therefore contribute to the factory's sales.

**f) Salaries:** The favorable variance in salaries and benefits is due to planned recruitments that are yet to be undertaken due an ongoing job evaluation and organizational restructuring.

**g- aa)** The favourable variance realized from the expenses is due to cost cutting measures adopted in line with prudent financial management and reduced production activity due to the adoption of the COVID-19 mitigation measures prescribed by the GoK.

## 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 of 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 made are significant to the financial statements.

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

##### *IAS 1 Presentation of Financial Statements*

##### **Description**

IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial

position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.

Further the board has issued 'Classification of Liabilities as Current or Non Current providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date.

**Effective Date**

The amendments were originally effective for annual reporting periods beginning on or after January 1, 2022, however, their effective date has been delayed to 1 January 2023 and are to be applied retrospectively.

**Effect**

The corporation will not be affected by these changes as this is a continuation of the practice.

***IAS 8 Accounting Policies. Changes in accounting Estimates and Errors***  
(Amendments on accounting estimates.)**Description**

In February 2021, the IASB issued 'Definition of Accounting Estimates to help entities to distinguish between accounting policies and accounting estimates.

**Effective Date**

The amendment is effective for annual reporting periods beginning on or after January 1, 2023.

***IAS 16 Property, Plant and Equipment (amendments regarding proceeds before intended use).*****Description**

On 14<sup>th</sup> May 2020, the IASB issued amendments regarding proceeds from selling items procured while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management.

**Effective Date**

The amendments are effective for annual reporting periods beginning on or after June 1, 2022.

### ***IFRS 16: Leases***

#### **Description**

The Board in March 2021 published Covid -19 Related Rent Concessions beyond 30<sup>th</sup> June 2020 that extends, by one year, the May 2020 amendment that provided lessees with an exemption from assessing whether a Covid-19-related rent concession is a lease modification.

#### **Effective Date**

The amendments are effective for annual periods beginning on or after April 1, 2021.

#### **(ii) Early adoption of standards**

The company did not early-adopt any new or amended standards in 2020/2021.

### **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.
- 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.

#### **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.

### **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.

#### **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. 1,080 per month per employee.

#### **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 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 2020.

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.

#### (ii) Deferred Tax

The Corporation accounts for deferred tax 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:

	2020 /2021	2019 /2020
	Kshs	Kshs
Interest	504,281,897	578,546,920
Rents	240,621,302	238,605,163
Professional Fees	35,668,198	19,005,344
Gain on Sale of Houses	40,586,666	48,246,186
<b>Total</b>	<b>821,158,063</b>	<b>884,403,613</b>

### 4. OTHER INCOME

	2020 /2021	2019 /2020
	Kshs	Kshs
Interest on Staff Loans	17,615,137	20,327,450
Income from Partnerships	200,000	
Gain on Disposal of Fixed Assets	72,227	-
Miscellaneous (Tender Documents, Application Forms)	17,244,531	8,849,790
<b>Total</b>	<b>35,131,895</b>	<b>29,177,240</b>

## 5. MANUFACTURING, TRADING, PROFIT AND LOSS ACCOUNT (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 30 number officers employed in the division with 22 number of them being machine operators (both permanent and casual) and the rest being in management and marketing operations.

### a) Manufacturing Account

	2020 /2021	2019 /2020
	Kshs	Kshs
Raw Materials	57,442,783	87,478,328
Direct Labour	22,774,058	22,157,211
Other Direct Overheads	7,200,411	10,594,548
<b>Prime Costs</b>	<b>87,417,252</b>	<b>120,230,087</b>
Production and Other Factory Overheads	5,261,294	5,968,587
Depreciation	23,925,660	25,276,021
Opening Cost of Work in Progress	23,980,819	20,229,229
Add: Purchases		-
Less: Closing Cost of Work in Progress	(6,201,463)	(23,980,819)
<b>Production Costs of Goods Completed</b>	<b>134,383,562</b>	<b>147,723,105</b>

## 5. MANUFACTURING, TRADING, PROFIT AND LOSS ACCOUNT (EPS FACTORY) Cont'd

### b) Trading, Profit and Loss Account

	2020 /2021	2019 /2020
	Kshs	Kshs
<b>Sales</b>	<b>143,519,884</b>	<b>95,222,713</b>
<b>Cost of Goods Sold</b>		
Opening Stock of Finished Goods	52,535,422	27,145,102
Production Costs of Goods completed	134,383,563	147,723,105
Closing Stock of Finished panels(Cost)	(11,056,707)	(52,535,422)
<b>Cost of Goods Sold</b>	<b>175,862,278</b>	<b>122,332,785</b>
<b>Gross Profit / (Loss)</b>	<b>(32,342,394)</b>	<b>(27,110,072)</b>
Selling and Marketing Costs	2,356,032	1,538,653
Depreciation	1,087,781	1,153,732
Administration expenses	7,201,399	7,657,512
<b>Total Adm Expenses</b>	<b>10,645,212</b>	<b>10,349,897</b>
<b>Trading Loss</b>	<b>(42,987,606)</b>	<b>(37,459,969)</b>

## 5. MANUFACTURING, TRADING, PROFIT AND LOSS ACCOUNT (EPS FACTORY) Cont'd

c) EPS trading loss is arrived at after charging

	2020 /2021	2019 /2020
	Kshs	Kshs
Cost of Goods Sold	175,862,278	122,332,785
Selling and Marketing Costs	2,356,032	1,538,653
Depreciation	1,087,781	1,153,732
Administration expenses	7,201,399	7,657,513
<b>Total</b>	<b>186,507,490</b>	<b>132,682,683</b>

## 6. STAFF COSTS

Staff costs comprise the following:

	2020 /2021	2019 /2020
	Kshs	Kshs
Salaries and Allowances	236,870,687	243,097,431
Casuals	7,973,715	7,921,155
Interns Allowance	-	1,558,064
NSSF	2,226,960	2,316,600
Other pension contributions	28,514,462	30,546,807
Leave pay	12,743,128	13,834,124
Gratuity Provisions	5,599,199	4,127,311
<b>Grand Totals</b>	<b>293,928,151</b>	<b>303,401,492</b>

The number of persons employed by the Corporation as at 30th June 2021 was 188.

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 1<sup>st</sup> 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.

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 30<sup>th</sup> June 2021, there were no amounts owed to the Staff Retirement Benefits Scheme

## 7. PROFIT BEFORE TAX

Profit before tax is stated after charging:

### a) Administration Costs

	2020 /2021	2019 /2020
	Kshs	Kshs
Auditors Remuneration	1,200,000	1,200,000
Property & Estates	29,970,355	43,675,615
Motor Vehicle Expenses	5,442,646	4,933,157
Repairs of Equipment	17,813,056	14,262,917
Travelling General	6,495,010	10,118,533
Printing & Stationery	4,248,748	3,496,764
Office rents	22,248,317	20,845,983
Postage & Telephones	4,054,485	4,043,288
Advertising	3,621,799	4,139,312
Insurance	4,116,448	3,739,483
Bank Charges	2,766,369	3,234,234
Library Expenses	1,543,214	1,730,620
Staff Uniforms	912,980	523,676
Exhibition	116,750	1,847,205
Training	5,050,066	4,357,826
Bad Debts Provision	161,074,798	12,730,642
Post contract payments	2,859,383	2,930,599
Debt Collection Expenses	2,832,449	2,754,822
Legal Charges	23,811,159	31,370,034
Staff Sports Club	172,965	299,450
Consultancy General	15,893,339	24,971,116
Medical in Patient	52,803,044	48,243,942
Entertainment	1,432,107	3,289,804
Staff welfare	1,287,295	1,304,422
<b>Total Administration Costs</b>	<b>371,766,782</b>	<b>250,043,444</b>

## 7. PROFIT BEFORE TAX (Continued)

## b) Board Expenses

	2020/2021	2019/2020
	Kshs	Kshs
Honoraria	960,000	960,000
Sitting Allowances	4,060,000	4,820,000
Travel and Accommodation	981,129	5,368,585
Other Expenses	1,041,784	2,489,848
<b>Total</b>	<b>7,042,913</b>	<b>13,638,433</b>

## 8. FINANCE INCOME

The interest income is made up of:

	2020/2021	2019/2020
	Kshs	Kshs
Interest from current accounts with banks	8,750,435	-
<b>Total</b>	<b>8,750,435</b>	<b>-</b>

## 9. TAXATION

### a) Reconciliation of expected tax based on profit before taxation

	2020/2021 Kshs	2019/2020 Kshs
Profit before taxation	100,654,747	257,282,169
Tax applicable rate of 30% of PBT	30,196,424	77,184,651
Tax effect of expenses not subject to tax	79,548,753	34,515,696
Wear & Tear allowance	(5,032,707)	(6,004,001)
<b>Provision for tax</b>	<b>104,712,470</b>	<b>105,696,346</b>
Deferred tax	(55,824,008)	(10,513,621)
<b>Total taxation charge</b>	<b>48,888,462</b>	<b>95,182,725</b>

### b) Tax (recoverable)/ Payable

	2020 /2021 Kshs	2019 /2020 Kshs
<b>Tax Movement Schedule</b>		
Balance Brought Forward	(40,517,779)	(73,620,673)
Provision for tax for the Year	104,712,470	105,696,346
Paid During the year	(215,306,441)	(72,593,452)
<b>At end of the year</b>	<b>(151,111,750)</b>	<b>(40,517,779)</b>

## c) Deferred tax asset/liability

	2020/2021	2019/2020
	Kshs	Kshs
<b>Deferred Tax Liability b/f</b>	<b>45,038,670</b>	<b>55,552,291</b>
Accelerated capital allowances	(7,915,590)	(6,694,428)
Add: Various provisions	(47,067,421)	(3,819,193)
<b>Deferred tax during the year</b>	<b>(55,824,008)</b>	<b>(10,513,621)</b>
<b>At end of the year</b>	<b>(10,785,337)</b>	<b>45,038,670</b>

## 10. PROPOSED DIVIDENDS

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

	2020 /2021	2019/2020
	Kshs	Kshs
At the beginning of the period	34,747,623	26,127,143
Provision for the Period	2,588,314	8,620,480
Paid during the Period	(13,558,379)	-
<b>At the end of the period</b>	<b>23,777,558</b>	<b>34,747,623</b>



**11 (a) PROPERTY, PLANT AND EQUIPMENT SCHEDULE**

NATIONAL HOUSING CORPORATION

PROPERTY, PLANT & EQUIPMENT MOVEMENT SCHEDULE 2020/2021

FIXED ASSETS	BUILDING	EPS PRODUCTION PLANT & MACHINERY	PLANT & EQUIPMENT	MOTOR VEHICLES	FURNITURE & FITTINGS	COMPUTER SYSTEM	TOTAL
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
<b>COST</b>							
AT 1ST JULY 2019	800,000,000	562,136,778	85,609,202	73,841,014	124,871,360	95,910,171	1,742,368,525
Additions			1,917,438		702,550	2,903,510	5,523,498
Revaluation							
Disposals							
Adjustments							
<b>AT 30th JUNE 2020</b>	<b>800,000,000</b>	<b>562,136,778</b>	<b>87,526,640</b>	<b>73,841,014</b>	<b>125,573,910</b>	<b>98,813,682</b>	<b>1,747,892,023</b>
AT 1ST JULY 2020	800,000,000	562,136,778	87,526,640	73,841,014	125,573,910	98,813,682	1,747,892,023
Additions			1,432,699		12,826,830	6,413,737	20,673,266
Revaluation							
Disposals			(3,117,564)	(9,547,026)	(910,165)	(4,784,876)	(18,359,631)
Adjustments							
<b>AT 30th JUNE 2021</b>	<b>800,000,000</b>	<b>562,136,778</b>	<b>85,841,775</b>	<b>64,293,988</b>	<b>137,490,575</b>	<b>100,442,542</b>	<b>1,750,205,658</b>
<b>DEPRECIATION</b>							
AT 1ST JULY 2019	40,720,985	142,040,842	62,888,477	44,579,594	121,700,244	79,518,212	491,448,355
Adjustment prior year							
Charge for the Year							
-Amortization							
-Depreciation	6,064,770	19,633,481	3,818,702	6,656,553	6,301,036	4,639,056	47,113,597
On Disposal/Adjustment	12,739,990				(30,161,686)		(17,421,696)
<b>AT 30th JUNE 2020</b>	<b>59,525,745</b>	<b>161,674,323</b>	<b>66,707,179</b>	<b>51,236,147</b>	<b>97,839,594</b>	<b>84,157,268</b>	<b>521,140,256</b>
AT 1ST JULY 2020	59,525,745	161,674,323	66,707,179	51,236,147	97,839,594	84,157,268	521,140,256
Adjustment prior year							
Charge for the Year							
-Amortization							
-Depreciation	5,908,467	19,023,793	3,794,308	5,649,990	4,823,291	4,553,822	43,753,672
On Disposal/Adjustment	12,411,652		(2,566,316)	(9,087,694)	(777,947)	(3,839,025)	(3,859,330)
<b>AT 30th JUNE 2021</b>	<b>77,845,864</b>	<b>180,698,117</b>	<b>67,935,170</b>	<b>47,798,444</b>	<b>101,884,938</b>	<b>84,872,065</b>	<b>561,034,598</b>
<b>NET BOOK VALUE</b>							
AT 30th JUNE 2020	740,474,256	400,462,455	20,819,461	22,604,866	27,734,315	14,656,414	1,226,751,767
AT 30th JUNE 2021	722,154,136	381,438,663	17,906,605	16,495,544	35,605,637	15,570,478	1,189,171,064

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 11. (b) DEPRECIATION SCHEDULE

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

DEPRECIATION ASSET CLASS	2020/2021				Restated 2019/2020			
	NHC	EPS	REVALUATION RESERVE	TOTAL	NHC	EPS	REVALUATION RESERVE	TOTAL
	Ksh '000'				Ksh '000'			
MOTOR VEHICLES	5,166,250	483,740		5,649,990	6,086,634	569,919		6,656,553
PLANT & EQUIPMENT	3,753,617	40,691		3,794,308	3,772,367	46,335		3,818,702
EPS PRODUCTION PLANT & Machinery		19,023,793		19,023,793		19,633,481		19,633,481
LAND & BUILDINGS		5,908,467	12,411,652	18,320,119		6,064,770	12,739,990	18,804,760
INVESTMENT PROPERTY	27,561,292		150,288,380	177,849,672	27,619,515		154,576,709	182,196,224
FURNITURE & FITTINGS	4,719,871	103,420		4,823,291	6,185,782	115,254		6,301,036
COMPUTER SYSTEM	4,553,822			4,553,822	4,639,056			4,639,056
INTANGIBLE ASSETS	2,905,341			2,905,341	3,451,991			3,451,991
Sub-total	48,660,193	25,560,112	162,700,032	236,920,337	51,755,345	26,429,759	167,316,699	245,501,803
TOTAL	48,660,193	25,560,112	162,700,032	236,920,337	51,755,345	26,429,759	167,316,699	245,501,803

### 12. LAND

	2020 /2021	2019 /2020
	Kshs	Kshs
<b>Cost</b>		
At start	2,196,149,894	2,373,672,688
Additions		977,206
Adjustments	100,077,107	(178,500,000)
<b>At end of year</b>	<b>2,296,227,001</b>	<b>2,196,149,894</b>

The Corporation has 43 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.

#### Adjustments Kshs. 100,077,107.00

The adjustment relates to the recognition of the value of Meru Tuntu Land after demolition of the rental units Kshs. 100million while the Kshs. 77,107.00 relates to the portion of Likoni Rental amortized for its Land after demolition of the rental units.

### 13. INTANGIBLE ASSETS

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

	2020/2021	2019/2020
Cost	Kshs.	Kshs.
At start of the year	38,736,241	35,177,246
Additions	2,687,657	3,558,995
<b>At end of the year</b>	<b>41,423,898</b>	<b>38,736,241</b>
<b>Amortization</b>		
At start of the year	32,655,420	29,203,429
Charge in the year	2,905,341	3,451,991
<b>At end of the year</b>	<b>35,560,761</b>	<b>32,655,420</b>
<b>Net Book Value</b>	<b>5,863,137</b>	<b>6,080,821</b>

### 14. INVESTMENT PROPERTY

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

	2020 /2021	2019 /2020
Cost	Kshs.	Kshs.
At start of the year	7,647,850,407	7,721,978,124
Additions	50,889,033	3,976,639
Revaluation		-
Disposals/ Adjustments	(351,477,107)	(78,104,356)
<b>At end of year</b>	<b>7,347,262,333</b>	<b>7,647,850,407</b>
<b>Depreciation</b>		
At start of the year	574,406,783	392,210,559
Charge for the Year	27,561,292	27,619,515
On Revaluation	150,288,380	154,576,709
Adjustment	(43,155,421)	
<b>At end of year</b>	<b>709,101,034</b>	<b>574,406,783</b>
<b>Net book Value</b>	<b>6,638,161,298</b>	<b>7,073,443,624</b>

## Adjustments

The adjustments of Kshs. 351 million are in respect of Meru Tuntu, Likoni and Nyeri 18 quarters which were demolished for redevelopment.

### 15. LONG TERM LOANS ADVANCED

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

	2020/2021	2019/2020
	Kshs	Kshs
Local Authorities	28,806,873	30,857,190
Rural Housing Loans	298,898,501	383,578,977
Staff Loans	425,506,549	479,663,971
Tenant Purchase	1,808,279,450	1,894,067,732
<b>Total</b>	<b>2,561,491,373</b>	<b>2,788,167,870</b>

### 16. UNQUOTED INVESTMENTS

These are investments held with;

	2020 /2021	2019 /2020
	Kshs	Kshs
<b>Consolidated Bank</b>		
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
<b>Total</b>	<b>104,657,797</b>	<b>104,657,797</b>

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 Research Development Unit Company Limited (a wholly owned subsidiary of NHC). The Corporation suspended operations of the subsidiary in financial year 2013/2014 with a view to developing a new strategy to reverse the trend of losses. Thereafter, the Corporation resolved through its Board of Directors that the unit be liquidated.

The operations of the Subsidiary were discontinued in the financial year 2013/2014 hence it has not been operational since then. Under IAS 1 Presentation of Financial Statements, guides that when the going concern of the company is in question, consolidation of the financial statements would be misleading to users of the financial statements.

## 17. SCHEMES IN PROGRESS

These are valued at cost, and comprise:

	2020 /2021	2019 /2020
	Kshs.	Kshs.
Tenant Purchase	638,300,092	534,454,965
Outright sale	1,014,357,214	873,626,526
Other Projects	108,414,548	323,307,202
<b>Total</b>	<b>1,761,071,854</b>	<b>1,731,388,693</b>

Included in other projects are Kshs. 81,274,817.10, and Kshs. 27,139,731 being amounts incurred in the new ERP system and NHC's minor works. The new ERP system is still at the design stage.

**18. LOAN AMOUNTS RECEIVABLE**

	2020 /2021	2019 /2020
	Kshs.	Kshs.
<b>Rural Housing Loans</b>		
Amounts Due	798,291,479	779,576,829
Provision for Bad Debts	(280,713,615)	(137,339,429)
	<b>517,577,864</b>	<b>642,237,400</b>
Local Authorities	1,771,775,091	1,634,008,904
Staff Loans	28,087,352	26,714,558
Tenant Purchase	500,081,378	475,907,430
Outright sale Debtors	153,661,071	196,210,561
<b>Total</b>	<b>2,971,182,756</b>	<b>2,975,078,853</b>

**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% and 5% on rent debtors. 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:

	2020 /2021	2019 /2020
	Kshs.	Kshs.
Consumable Inventories-NHC	4,971,941	2,074,706
Stock of unsold houses-NHC	2,332,645,215	2,538,681,502
Consumable Inventories-EPS	12,148,848	9,355,400
EPS Work In Progress	6,201,464	23,980,824
EPS stock of Finished panels	11,056,707	52,535,422
EPS stock of Raw materials	21,582,322	36,434,395
<b>Total</b>	<b>2,388,606,497</b>	<b>2,663,062,249</b>

## 20. a) TRADE AND OTHER RECEIVABLES

	2020 /2021	'2019 /2020
	Kshs.	Kshs.
Rent Arrears	303,923,300	285,363,257
Provision for bad debts on Rents	(99,244,512)	(81,543,901)
<b>Sub-Total</b>	<b>204,678,788</b>	<b>203,819,356</b>
Debtors	307,101,148	366,558,933
<b>Total</b>	<b>511,779,936</b>	<b>570,378,289</b>



**b) Aging analysis (Rent)**

Description	1 - 30 DAYS	31 - 60 DAYS	61 - 90 DAYS	91 - 180 DAYS	181 - 360 DAYS	OVER 360 DAYS	TOTAL
1 NHC HOUSE	6,163,309	2,281,015	5,912,913	10,833,324	7,945,036	40,031,729	73,167,325
2 WOODLEY ESTATE	436,990	388,198	262,495	597,032	414,103	4,531,222	6,630,040
3 SADIROAD ESTATE	1,210,946	974,572	885,538	2,079,653	2,168,028	13,712,447	21,031,184
4 KIBERA	340,000	288,491	264,000	388,600	338,000	2,260,953	3,880,044
5 MD'S RESIDENCE - NYARI HSE	275,000	275,000	275,000	264,000	0	0	1,089,000
6 KIBERA OLYMPIC VIEW	95,000	13,000	13,000	33,129	0	0	154,129
7 CHANGAMWE RENTAL	4,234,066	4,024,757	3,474,816	7,729,504	10,280,207	97,726,693	127,470,043
8 VOI RENTALS	72,000	80,000	69,000	166,000	178,000	1,989,000	2,554,000
9 JOMO KENYATTA-RENTAL	515,948	368,669	254,321	463,025	431,232	588,183	2,621,378
10 LIKONI RENTAL	0	0	0	0	0	3,067,332	3,067,332
11 TUNTU RENTALS-NHC	0	0	0	0	0	313,880	313,880
12 STONIATHI ECONOMY	177,500	161,500	77,000	190,000	127,480	92,000	825,480
13 MUMBI ESTATE-MURANG'A	72,700	63,490	53,000	142,306	133,000	135,500	599,996
14 NAKURU BONDENI RENTAL	0	0	0	39,600	99,000	1,329,500	1,468,100
15 NJORO RENTALS-NAKURU	28,050	30,831	25,790	55,800	77,811	312,804	531,085
16 MOGOTIO RENTALS	0	0	0	0	0	384,000	384,000
17 BONDENI I ELDORET RENTALS	96,976	32,340	14,600	17,290	5,700	22,100	189,006
18 KAPSUSWA II ELDORET RENTAL	77,844	59,468	48,266	83,671	86,540	84,788	440,577
19 KIDIWA 4 ELDORET RENTALS	161,021	135,915	120,539	280,720	278,262	931,591	1,908,049
20 KIPCHOGE ELDORET RENTALS	98,491	63,520	41,070	70,710	47,179	55,000	375,970
21 ITEN RENTALS	0	0	0	0	0	591,000	591,000
22 ELGON VIEW-ELDORET	489,067	365,000	280,000	442,500	225,000	1,305,643	3,107,210
23 MISC ESTATES	432,072	255,060	286,065	747,740	859,260	48,944,276	51,524,473
<b>TOTALS</b>	<b>14,976,980</b>	<b>9,860,826</b>	<b>12,357,413</b>	<b>24,624,604</b>	<b>23,693,837</b>	<b>218,409,641</b>	<b>303,923,300</b>



**b) Aging analysis (Debtors)**

Details	CURRENT	1 - 90 DAY	91 - 180 DAY	181 - 270 DAY	271 - 360 DAYS	OVER 360 DAYS	TOTAL
Insurance Prepayments	12,955,545						12,955,545
Fuel Deposit Total Kenya						597,000	597,000
Deposit Ministry Of Works						765,741	765,741
Fuel Deposit- Mombasa						21,000	21,000
Deposit - Postmaster General						8,622	8,622
Toyota Kenya Repairs Deposit						200,000	200,000
Deposits With Nairobi Hospital						149,000	149,000
Deposits With Mater-Misercordiae						270,000	270,000
Deposits With Aga Khan Hospital						200,000	200,000
Deposits With Aga Khan Hospital -Mbs						50,000	50,000
Deposit Aga Khan Hospital Kisumu						100,000	100,000
Deposit With Gertrude G. Hospital						10,000	10,000
Deposits With Kenyatta N. Hospital						200,000	200,000
Deposits With Valley Hospital Nakuru						50,000	50,000
Deposit With Kp&Lc Kanyakwar Ph 1						500,000	500,000
Deposit-East Africa Courier Lt						30,000	30,000
Arbitration Deposit						100,000	100,000
Rent Deposit - Kenya Re Kisumu Office						214,261	214,261
Deposits K.P. & T. Comm.						30,000	30,000
Prepayment Various	2,171,995					-	2,171,995
Webuye Rental Advances						1,362,496	1,362,496
Deposit K.P. & T. Comm.						216,520	216,520
Service Charge Debtors						29,277,024	29,277,024
Due From Pile Investment						300,000	300,000
Housing Finance						88,476,253	88,476,253
Rdu Limited Debt						31,047,760	31,047,760
Imprest	956,451						956,451
Salary Advances						598,160	598,160
Madaraka Old Rent & Rates Due						27,986,437	27,986,437
Standing Imprest( Office Float)	35,000						35,000
National Oil Fuel Deposit						1,006,000	1,006,000
Gok Debtors						43,390,212	43,390,212
Eps Factory Debtors						47,519,269	47,519,269
NHC Debts Various						11,800,427	11,800,427
Safaricom Mast						5,952,595	5,952,595
<b>Provision For Bad Debts Sundry Debtors</b>						<b>(1,446,622)</b>	<b>(1,446,622)</b>
<b>Total Sundry Debtors</b>	<b>16,118,991</b>	-	-	-	-	<b>290,982,157</b>	<b>307,101,148</b>

## 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.

	2020/2021	2019/2020
	Kshs.	Kshs.
Mobile Money	7,339,749	5,555,374
Co-operative Bank	182,532,394	86,296,120
National Bank of Kenya	8,012,025	2,393,551
Kenya Commercial Bank	6,638,406	24,336,090
ABSA Bank	396,223,453	39,306
<b>Total</b>	<b>600,746,028</b>	<b>118,620,441</b>

### 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 the 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:

a) Conversion of total debts (arrears and principal) owed to GoK by NHC amounting to Kshs. 5.32 billion into equity

b) Injection of additional funds in the form of equity to the tune of Kshs.4.8 billion

## 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 30th June 2020		Kshs.
2007/2008	216,000,000	216,000,000
2008/2009	250,000,000	250,000,000
2009/2010	250,000,000	250,000,000
2010/2011	900,000,000	900,000,000
<b>Total</b>	<b>1,616,000,000</b>	<b>1,616,000,000</b>
Conversion of Total Debts owed to GOK by NHC	5,320,000,000	5,320,000,000
<b>TOTAL EQUITY</b>	<b>6,936,000,000</b>	<b>6,936,000,000</b>

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.

	2020 /2021	2019 /2020
	Kshs.	Kshs.
<b>Opening balance</b>	<b>509,701,383</b>	<b>630,116,826</b>
Add: Unrealized gain recognized in the year	19,803,687	24,828,140
Less: Realized gain recognized in the year	(49,637,723)	(145,243,583)
Total Movement in the year	(29,834,036)	(120,415,443)
<b>Closing Balance</b>	<b>479,867,347</b>	<b>509,701,383</b>

## 24. RETAINED EARNINGS

This is made up as follows:

	2020/2021	Restated 2019/2020
	Kshs.	Kshs.
Opening Balance	3,808,407,069	3,624,766,432
Adjustments (please refer to our explanations in note 33; retained		30,161,672
Proposed Dividends	(2,588,314)	(8,620,480)
Profit after tax for the Year	51,766,285	162,099,444
<b>Closing balance</b>	<b>3,857,585,041</b>	<b>3,808,407,069</b>

## 25. HOUSE EQUALIZATION

	2020 /2021	2019 /2020
	Kshs.	Kshs.
Opening Balance	383,118,995	383,118,995
Charge in the Year	-	-
<b>Closing balance</b>	<b>383,118,995</b>	<b>383,118,995</b>

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.

**26. REVALUATION RESERVE**

	Land	Buildings	Investment Property	Total
	Kshs	Kshs	Kshs	Kshs
<b>2019/2020</b>				
Opening Balance	1,530,701,470	514,402,057	6,241,337,467	8,286,440,994
Charge in the Year	-	(12,739,990)	(154,576,709)	(167,316,699)
<b>Closing Balance</b>	<b>1,530,701,470</b>	<b>501,662,067</b>	<b>6,086,760,758</b>	<b>8,119,124,295</b>
<b>2020/2021</b>				
Opening Balance	1,530,701,470	501,662,067	6,086,760,758	8,119,124,295
Charge in the Year	-	(12,411,652)	(150,288,380)	(162,700,032)
Adjustment			(208,244,579)	(208,244,579)
<b>Closing Balance</b>	<b>1,530,701,470</b>	<b>489,250,415</b>	<b>5,936,472,378</b>	<b>7,748,179,684</b>

**27. LONG TERM LOANS**

	2020 /2021	2019 /2020
	Kshs.	Kshs.
Opening Balance	396,586,142	-
Amounts Borrowed in the Year	-	396,586,142
<b>Closing balance</b>	<b>396,586,142</b>	<b>396,586,142</b>

By the end of 30<sup>th</sup> June 2021, NHC had cumulatively borrowed Kshs. 396,586,142 from ABSA bank to finance the Nyeri Mixed Development and the Stoni Athi Economy projects. In the year under review NHC was not advanced any monies towards development of the projects.

## 28. TRADE AND OTHER PAYABLES

These comprise:

	2020 /2021	2019 /2020
	Kshs.	Kshs.
House Deposits	789,365,577	480,779,527
Ruai Police Housing Development Deposit	-	149,368,295
Deposits from Gov. Agencies	3,885,000	3,885,000
Service Charge	75,739,528	70,105,109
Due to Contractors	206,155,390	341,158,657
Sundry Creditors	180,114,491	159,438,997
Prepayments	83,355,756	56,838,290
Affordable Housing	27,125,320	-
<b>Total</b>	<b>1,365,741,062</b>	<b>1,261,573,875</b>

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 is amounts payable by house tenant purchasers and other rental property tenants to cater for maintenance of common areas and insurance of properties against fire and perils.

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.

**29. CASH GENERATED FROM OPERATING ACTIVITIES**

Operating profit	91,904,312	257,282,169
Adjustments for items not involving movement of cash		
<b>Depreciation</b>		
-Property, Plant & Equipment (Note11 (a) )	43,562,718	47,113,592
- Intangible Assets (Note 13)	2,905,341	3,451,991
- Investment Property (Note 14)	27,943,984	27,619,515
Realised gain on sale of TP Houses(Note 23)	-	-
Unrealised gain on Sale of Tenant Purchase Houses (Note 23)	19,803,687	24,828,140
Bad Debts Provisions (Note 7a )	161,074,797	12,730,642
Gain on disposal (Note 4)	(72,227)	-
<b>Operating profit before working capital</b>	<b>347,122,612</b>	<b>373,026,049</b>
<b>Working capital adjustments:</b>		
Decrease/(Increase) in debtors & prepayments	(105,062,755)	(86,858,394)
Decrease (Increase) in inventories	274,455,752	(1,700,034,235)
Increase in creditors	106,753,498	327,754,372
Housing schemes in progress	(79,460,384)	796,033,754
Decrease/ (Increase) in Loan amount receivable	5,037,757	(268,805,202)
<b>Working capital changes</b>	<b>201,723,868</b>	<b>(931,909,705)</b>
<b>CASH GENERATED</b>	<b>548,846,480</b>	<b>(558,883,656)</b>

### 30. REDEMPTION OF LONG TERM LOANS

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

	2020 /2021	2019 /2020
	Kshs.	Kshs.
<b>Tenant Purchase</b>		
Opening Balance	1,894,067,728	2,123,078,033
Advanced	182,809,175	44,556,833
Redemption	(267,455,803)	(273,567,138)
<b>Closing Balance</b>	<b>1,809,421,101</b>	<b>1,894,067,728</b>
<b>Other Loans</b>		
Opening Balance	894,100,135	995,042,834
Advanced	36,110,422	79,501,552
Redemption	(176,998,625)	(180,444,251)
<b>Closing Balance</b>	<b>753,211,932</b>	<b>894,100,135</b>
<b>Total</b>	<b>2,562,633,033</b>	<b>2,788,167,863</b>

### 30. CONTINGENT LIABILITIES

The Corporation is engaged in 3 disputes with some project contractors which are currently under arbitration. The value of the claims made by the claimants is analyzed as follows:

<b>NHC ARBITRATION MATTERS AS AT 30TH JUNE 2021</b>			
<b>No.</b>	<b>PARTIES</b>	<b>CLAIM/DISPUTE</b>	<b>STATUS OF ARBITRATION</b>
1	Mall of Africa -versus- NHC	60,457,218	Yet to be Determined
2	Custom General Construction Ltd -vs- NHC	229,381,524	Yet to be Determined
3	Tulsi Construction Limited - V- NHC	1,310,097,864	Yet to be Determined
	<b>Total Claims</b>	<b>1,599,936,606</b>	

### 31. RELATED PARTY TRANSACTIONS

#### (a) Principal loan balances for staff

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

	<b>2020/2021</b>	<b>Kshs</b>	<b>Restated 2019/2020 Kshs</b>
<b>Tenant purchase loans</b>	<b>165,975,422</b>		<b>185,991,236</b>
<b>Staff loan</b>			
Car loan	22,399,540		30,031,359
Computer loan	2,761,031		2,266,686
House loan	377,119,799		401,948,198
Rural housing loan	38,074,626		45,417,728
<b>Sub Total(staff loan)</b>	<b>440,354,997</b>		<b>479,663,971</b>
<b>Total loan amount advanced to staff</b>	<b>606,330,419</b>		<b>665,655,207</b>

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

Tenants 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 tenants 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 regulation.

**(b) Directors Expenses.**

The directors' expenses were Kshs 7,042,913 (2019/2020 Kshs 13,638,433) as detailed in note 7b.

**(c) Remuneration of key Management.**

Included in the staff cost in note 6 is the salaries and benefits of top management as follow:

	2020/2021	2019/2020
	Kshs	Kshs
Managing Director	8,891,774	8,663,678
Corporation Secretary	5,063,330	4,599,921
General Manager Finance	3,999,012	3,276,591
General Manager Estates	4,382,861	4,424,438
General Manager Manufacturing	4,299,706	4,299,705
General Manager Technical Services	5,207,745	5,056,563
General Manager Business Development	2,178,661	2,463,121
Internal Audit Manager	3,143,309	3,065,743
Information Technology Manager	5,436,929	5,436,929
<b>Total</b>	<b>42,603,325</b>	<b>41,286,689</b>

## 32. 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 they fall 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 insuring the loanee against death 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.

A provision for bad debts has also been provided for Rural Housing Loans at the rate of 20% and 5% on rent debtors. 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.

### (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, Risk and Compliance 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.

**(iv) 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.

**(v) 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.

### 33. RESTATEMENT OF THE FINANCIAL STATEMENTS

The Corporation restated its financial statements for the year 2019/2020. The following is a brief explanation on the reasons for restatement of the Statement of Financial Position and Comprehensive Income.

Statement of Financial Position					
Account Details	Restated 2019/2020 Kshs	Original 2019/2020 Kshs.	Variance	Remarks	
1	Property Plant and Equipment	1,226,751,767	1,201,009,005	25,742,762	An Adjustment to correct an erroneous depreciation amount posted to the Fixed assets register in prior periods.
Statement of Comprehensive Income					
Account Details	Restated 2019/2020	Original 2019/2020	Variance	Remarks	
1	Retained Earnings	3,808,407,069	3,788,555,543	19,851,526	An Adjustment to correct an erroneous depreciation amount posted to the Fixed assets register in prior periods.
2	Depreciation	6,301,036	1,882,109	4,418,927	An Adjustment of increased depreciation due to writing back of erroneous depreciation charged in prior years in 2019/2020.
3	Provision for Tax	95,182,725	89,291,501	5,891,224	An adjustment on to correct an omission of EPS depreciation of Ksh 26,883,883, the resulting tax from adjustment of profit by additional depreciation on furniture and fittings of Kshs. 4,418,927 and wear & tear allowance of Ksh 711,799.20 during computation of tax.