

REPUBLIC OF KENYA



Paper laid.
By Hon (Hon. Aden Duale, MP)
24/10/18
Wednesday
Afternoon

Sitting
HB

OFFICE OF THE AUDITOR-GENERAL

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REPORT



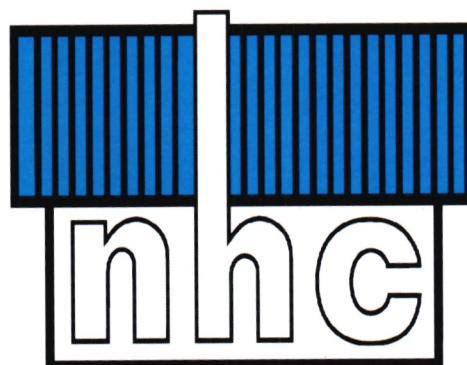
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THE AUDITOR-GENERAL

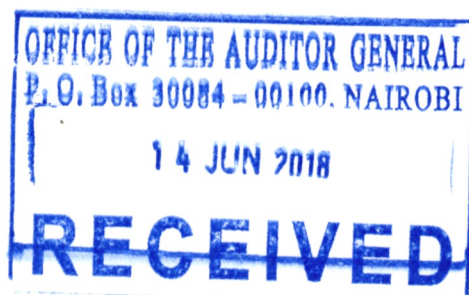
ON

THE FINANCIAL STATEMENTS OF
NATIONAL HOUSING CORPORATION

FOR THE YEAR ENDED
30 JUNE 2017



NATIONAL HOUSING CORPORATION



ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

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 entity.

OUR VISION

Sustainable and decent housing for Kenyans

OUR MISSION

To efficiently provide and facilitate access to innovative housing solutions

OUR CORPORATE VALUES

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



PRINCIPAL ACTIVITIES

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

The principal roles of NHC are:

- Development of decent and affordable housing.
- Facilitation of rural housing development.
- Mobilization of local and international capital for housing development.
- Forging partnerships with the County governments, Cooperative Societies, Private Sector and other stakeholders in housing development.

DIRECTORS

The directors who served the Corporation during the period 2016/2017 were as follows

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

Corporation Secretary

Mr. William Kettany
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.co.ke
Website: www.nhckenya.co.ke

Corporation Bankers:

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

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

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

Independent Auditors:

The Auditor General
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

Architect Francis Gitau Mungai



Architect (Arch.) Francis Gitau Mungai born in 1957 is the Chairman of National Housing Corporation. He joined the Corporation in April 2015 as a Director, and was appointed the Chairman of the Corporation in November the same year. He is an Architect by profession and is a founder partner of Aaki Consultants, a leading firm of Architects and Urban Designers in Nairobi.

He has a vast experience spanning over 30 years in Architectural Design and Contract Management. He has excellent leadership skills having been Chairman of various bodies, among them is Architectural Association of Kenya (AAK), Kenya Private Sector Alliance (KEPSA) Building and Infrastructure Board, Commonwealth Association of Architects (CAA) where he was the Vice President Africa region among others. As the Chairman KEPSA Infrastructure board, he was a member of a team that was advising the then Minister for Nairobi Metropolitan which was nearly formed Ministry. He is currently a member of Board of Family Bank Limited, one of the leading indigenous banks where he sits in both Human Resource and Credit committees. He is also the Chairman of Faculty Advisory and Building Committees of the Diocese of Mt. Kenya South.

In his Architectural practice, Arch. Mungai has been involved in the design and supervision of a number of major commercial, institutional and housing schemes one example being over 800 houses for Mwalimu Sacco in Kitengela. He has also done Master planning for a number of



institutions including universities. He was a lecturer at the University of Nairobi in Architecture and Building Sciences Department where he focused on Architectural and Urban Design Studios, as well as Professional Practice and Management. Arch. Mungai holds a master's degree from the University of California (UCLA) Graduate School of

Architecture. He also has a Bachelor degree in Architecture from University of Nairobi where he graduated with First Class Honors. Arch. Mungai is a fellow of the Architectural Association of Kenya (FAAK) and is registered by the Board of Registration of Architects & Quantity Surveyors (BORAQS) in Kenya.

Mr. Henry Rotich, EGH

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

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

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

Architect Aidah N. Munano

Architect (Arch.) Aidah Munano was born in 1957. She is the Principal Secretary for State Department of Housing and Urban Development having been appointed by His Excellency the President on 18th December 2015. Arch. Munano holds a Bachelor of Architecture degree from the University of Nairobi and Master of Science in Construction Project Management from Jomo Kenyatta University of Agriculture and Technology. Professionally, Arch. Munano is a registered architect with the Board of Registration of Architects and Quantity Surveyors of Kenya (BORAQS) and is a Corporate Member of the Architectural Association of Kenya (AAK)

as an Architect and Construction Project Manager.

Prior to this appointment as Principal Secretary, Arch. Munano served as Works Secretary in the Public Works Directorate. As a career civil servant, she served as an Assistant Architect from 1982 and rose through the ranks to the position of Works Secretary. While serving as the Works Secretary, she gained invaluable experience as a Project Manager while coordinating the inputs of the buildings project professionals who include Architects, Quantity Surveyors, Electrical, Mechanical, Civil and Structural Engineers in the implementation of government projects. While undertaking the responsibilities of the Chief Architect, her duties included advising the Government on building construction matters. She has also been involved in a number of Government programs.

Arch. Munano has vast experience in the regulation of the built environment profession having served in various boards in the public sector including BORAQS and the National Construction Authority. Arch. Munano has been severally honored by the Architectural Association of Kenya for her positive contribution to the construction industry.

Engineer Mohamud Noor Ali



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

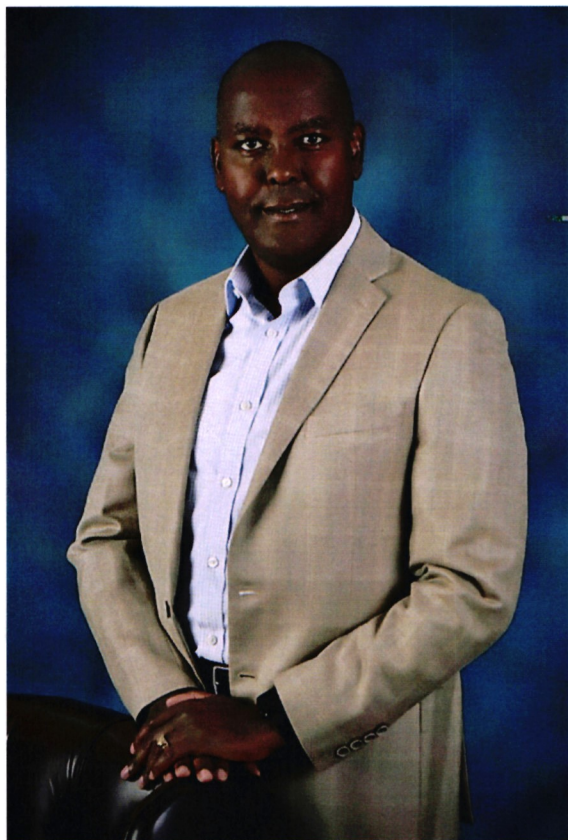
He previously served as a Board director, KENGEN Company Limited from 1997 to 2002; Technical Manager, Agricultural Development Corporation (ADC) from 1998 to 2006 and as an irrigation Engineer, Bura irrigation project (a World Bank Project) from 1986 to 1989.

Ms. Gladys Mboya



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

Mr. Wainaina Kenyanjui



Mr. Wainaina Kenyanjui was born in 1964 and is a senior executive with over twenty (20) years' experience in leadership, management, and entrepreneurial practice. Mr. Kenyanjui has served in a senior management position for over five (5) companies and provided leadership that has resulted in exemplary company performance. As founder and Chairman of Africa REIT, he has directed strategic and

successfully led high level fundraising efforts and completed residential and commercial property developments of combined contract values of over Ksh. 3.5B.

Most recently, he spearheaded efforts to establish a joint venture company, Kikuyu

MIH Project, with Pan African Housing Fund that is developing 66-unit apartment home complex with contract value of nearly Ksh. 300M. Mr Kenyanjui also sits on the Board of the largest leading insurance company in South Sudan. He is part of the Company's development of the first Class A commercial office block worth over USD 20M.

Previously, Mr. Kenyanjui has also served as a Board Member in the Privatization Commission (Kenya) during the divestiture of Government ownership in public assets and was part of the team that presided over the 25 years concession deal to Rift Valley Railways Consortium. Mr. Kenyanjui has a commitment to professional development and maintains affiliation with the Kenya Chamber of Commerce and Industry, American Chamber of Commerce in Kenya, and Kenya Property developers Association

Mr. Philip Wachira



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

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

Ms. Pamela Dede



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

Williams College, Massachusetts and a Bachelor of Arts Degree in Economics and Government from the University of Nairobi.

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

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

Ms Jane Mwangi



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

She has a wealth of experience on housing matters and management; having worked with the Department of Housing in the National Government since 1987 and currently holds the position of Director of Housing. She is also a Member of the Institution of Surveyors of Kenya (Building Surveyors Chapter).

Ms. Naomi Matheri



Ms. Naomi Matheri born in 1981 is an alternate Director, representing the Cabinet Secretary National Treasury. She holds a Master's Degree in Economics from the University of Nairobi and Bachelor of Science (Statistics) Degree from Moi University.

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

Mr. Andrew Saisi - Managing Director



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

MANAGEMENT TEAM

Mr. Andrew Saisi - Managing Director



Mr. Andrew Saisi was born in 1966. He holds a Masters degree in Business Administration from the Oxford Brookes University. He is a qualified Civil Engineer and an Accountant registered with the Institute of Association of Chartered Certified Accountants (ACCA). He has a wide experience spanning over 20 years in Management, Engineering and manufacturing. He was employed on 09th September 2011 as the General Manager Manufacturing Division and appointed as the Managing Director of the Corporation on 1st September 2015.

Mr. Robert Mwanga Ambuku – Ag. General Manager Technical



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

CPA Albert N. Nyaga - Ag. General Manager Finance



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

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

Mr. John Washington Agutu - Ag. General Manager Estates



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

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



William Keitany was born in 1969. He holds a Bachelor of Laws degree from the University of Nairobi and a

Postgraduate Diploma in law from the Kenya School of Law. He is an advocate of the High Court, a Certified Public Secretary, a member of the Law Society of Kenya and a member of the Institute of Certified Public Secretaries of Kenya. He has a wide experience spanning over 20 years in matters of Administration and Law.

Mr. Jackson M. Mwaura - Ag. GM Business Development

Jackson Mwaura born in 1959 holds a Master of Business Administration

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

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

Mr. Kepher Manani – Ag General Manager Manufacturing



Mr. Kepher Manani was born in 1968. He is a registered architect and holds a Bachelor of Architecture (Honors) degree from the University of Nairobi. He has over 20 years

experience in the construction industry with special interest in low cost housing development. He is well versed with the industry, including specialist training and knowledge in roofing solutions, light gauge steel and EPS construction systems.

Before joining NHC he worked as a construction manager in a large property development firm, with special interest in housing, hospitality and goods manufacturing entities and ancillary facilities in Kenya and abroad.

He has also worked in training and marketing management for a leading producer of roofing materials in the country.

He was appointed senior Architect at NHC in 2013 before being seconded to the EPS factory as the Ag. General Manager, Manufacturing Division from September 2015 to-date.

CHAIRMAN'S STATEMENT



On behalf of the Board of Directors of National Housing Corporation, I have the pleasure of presenting to you the Annual Report and financial statements for the year ended 30th June 2017.

Macro Economic Environment Financial Year 2016/17

Kenya's economy remains bullish and supports growth. This is demonstrated by the expansion of the 2016/2017 budget from Kshs. 2.2 trillion to Kshs. 2.3 trillion in 2017/2018 indicating a growth of 2.4%. The Gross Domestic Product (GDP) grew by 4.7% in quarter four of financial year 2016/2017 compared to the projected economic growth rate of 5.6%. Inflation increased to 9.8% in quarter four of 2016/17 compared to 5% in the same period in 2015/16. This was slightly above the Central Bank of Kenya target for year on year inflation of between 2.5% to 7.5%. The rise in inflation was largely attributed to high food prices due to drought in the region and a



slight devaluation of the Kenya shilling against major international currencies. The USD/KES rate closed at 103.7 in Q4 of 2016/17 compared to a rate of 101.1 in Q4 of 2015/16.

Highlights of Housing Sub Sector

The real estate and construction sectors contributed a combined 16.5% to GDP in quarter four of 2016/17 compared to 12.4% during the same period in 2015/16. Performance of the real estate sector has generally continued to grow with positive returns on investment averaging approximately 20% to 30%. This can generally be attributed to efforts by the Government to strengthen the business, legal and regulatory environments aimed at attracting local and foreign investments to the real estate market.

Among the key interventions by the government to support the Housing Sub Sector include the revised National Housing Policy, the Draft National Housing Bill 2016, adoption and domestication the European construction guidelines (Euro codes) to facilitate rapid delivery of large scale affordable housing units targeting low income segment of the population, reduction in corporate tax from 30% to 15% for developers/investors delivering a minimum of 400 low cost residential units annually. During the reading of the 2016-2017 Budget the National Treasury Cabinet Secretary approved the use of pension savings held by National Social Security Fund (NSSF) in the development of low cost housing. Further, in an effort to enhance the ease of doing business in the Housing Sub-Sector the Government waived the National Construction Authority (NCA) construction levies and National Environment Management Authority (NEMA) licensing fees in financial year 2016/2017.

Some of the key factors which constrain performance of the Housing Sub Sector include, lack of relatively cheap long term finance to facilitate affordable housing solutions to the floating middle class and low income earners (bottom of the pyramid) who have the highest unmet need for housing, high cost of land and competing needs for land use (i.e. agrarian versus housing), slow adoption of industrial building technology in housing and absence of a well structured national housing delivery framework anchored on supporting legal and regulatory framework.

Economic Outlook Financial Year 2017/18

National Housing Corporation's future outlook is towards positive economic growth averaging 5.5% to 6.0% in 2017/18 based on a stable political environment and growth oriented macro-economic policies. This perspective is premised upon prudent fiscal policies and monetary policies particularly those impacting on the interest rates, inflation and credit growth. The Housing Sub Sector is capital intensive and requires huge investments in the form of upstream construction finance and downstream mortgage finance respectively. Housing is not only a social good but has a multiplier effect on economic growth in terms of growth in production facilities and more importantly generating employment. Additional Government policies which



facilitate access to long term housing finance are bound to increase the sectors contribution to the Country's GDP and economic growth.

Business Strategy

In the Kenya Vision 2030, the government gave a commitment to facilitate provision of 200,000 units annually. NHC being the principal government agency in housing development is expected to play a leading role in this endeavor. The Corporation's long term business strategy is anchored on four key pillars. First is to leverage on the EPS industrial building technology at our factory located in Mavoko, Machakos County and other rapid building methods to deliver affordable housing to Kenyans. Second, is to facilitate collaborations in housing developments with private sector stakeholders and facilitate public entities at both the national and county government levels respectively deliver housing solutions. Third, is to enhance efficiencies in the Corporation's operations by automating internal business processes. Finally, NHC takes cognizance of the fact that housing development is a capital intensive enterprise. In this regard the Corporation has been working on modalities of unlocking affordable long term funds to finance large scale housing projects targeting a majority of middle and low income segment of the working population.

Operational indicators

During the period under review NHC commenced the development of 520 housing units out of which 240 were completed while the rest are at different levels of implementation. The Corporation entered into Memorandum of Understanding (MOUS) with nine project sponsors to facilitate the delivery of approximately 1,500 affordable housing under collaborative frameworks which include Joint Venture (JV) partnerships and provision of consultancy services in built environment.

As part of its financing strategy, the Corporation is working on modalities of attracting long term funds from the Capital Market through issuance of a Housing Bond. This is geared towards our objective of financing long term assets with long term liabilities and packaging housing products with long tenors that meet the financial needs and expectations of our target market. This fundraising effort together with a prudent risk management framework adopted by NHC is bound to enhance financial performance.

We take cognizance of the fact that in order to remain competitive in the industry it is vital to continuously improve our internal business process in line with best industry practices. Towards this end NHC obtained ISO 9001 2008 recertification in 2016. In addition to this the Corporation is in the process of upgrading its automated platform and transitioning to an ERP System. This will enable NHC to enhance efficiency in internal operations will driving business strategy.



NHC completed a job evaluation process in January 2017 and is in the process of reconfiguring the organizational structure to drive business strategy. It is anticipated that these realignments will improve service delivery to our customers and also enhance performance in the short to medium term.

Finally, the Corporation has implemented an effective Corporate Governance & Strategic Leadership Framework aimed at steering its strategic direction and enhancing performance. This is demonstrated by the diverse skills and competencies represented in the Board. Further, NHC has robust Board Committees with dynamic Charters crafted in strict adherence to the Mwongozo guidelines. The Board also provides strategic leadership by closely monitoring implementation of the Corporation's Corporate strategic plan and the annual Performance Contract signed with our Parent Ministry.

Overview of Financial Results

The National Housing Corporation recorded a pretax of Kshs. 391 million representing a 15% increase from the previous financial year. The Corporation's total turnover for the year was Kshs. 1.27 billion, compared to the last financial year turnover of Kshs 1.09 billion.

Dividends

The board proposes a dividend of Kshs. 12,785,488 based on 5% of profits after tax.

Conclusion

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

A blue ink signature of Francis Gitau Mungai, written in a cursive style.

Francis Gitau Mungai
CHAIRMAN

REPORT OF THE CHIEF EXECUTIVE OFFICER



The National Housing Corporation (NHC) recorded good results in the Financial Year ended 30th June, 2017 and it is my pleasure to present to you the highlights of our financial performance, operational developments and the outlook for the financial year 2017/2018.

Over the course of the financial year 2016/2017, we maintained progressively good growth, quarter by quarter, delivering against a Strategic Plan and a Performance Contract supported by a strong governance and control framework.

Financial Performance

The National Housing Corporation recorded a profit before tax of Kshs 391 million representing a 15% increase from the previous financial year. The Corporation's total turnover for the year was Kshs. 1.27 billion compared to the last financial year turnover of Kshs 1.09 billion.



Operational Developments

In the year ended June, 2017 the Corporation continued to execute its mandate, that of Housing the Nation.

Various projects commenced, others were completed, while others are still ongoing as tabulated here below:-

PROJECT	STATUS
Stoni Athi View	Ongoing
Lang'ata mixed use Development	Ongoing
Stoni Athi Economy Block	Started
Kibera mixed use Development	Started
Changamwe Infill	Started
Lang'ata VI	Completed
Kisumu Kanyakwar	Completed
Madaraka Sector BD	Completed
Kisii Phase II	Completed
Ruai Police - Administration & Canteen blocks	Completed

Financial Year 2017/2018 Outlook

The Corporation intends to commence more projects within the FY 2017/2018. This will be made possible through internally generated funds as well as partnerships. These partnerships will be with the various County Governments with a view to assisting them alleviate the housing shortage that is being experienced across the Counties, as well as like-minded persons and institutions through joint ventures. National Housing Corporation will continue to grow sales and consumption of the EPS panels.

On behalf of the Management and staff of National Housing Corporation I extend our appreciation to the Board of Directors, Shareholders, our esteemed customers and business partners for the continued support rendered to the corporation. We shall continue to count on your support as we take the Corporation to greater heights.

Andrew Saisi

MANAGING DIRECTOR



CORPORATE GOVERNANCE STATEMENT

Separation of Duties

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

Responsibilities of Directors

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

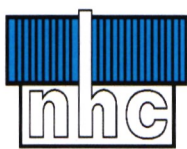
The Board has delegated the authority for day to day management of the Corporation to the Managing Director. However, it retains overall responsibility for the Corporation's financial performance, compliance with laws and regulations, and monitoring of its operations as well as ensuring competent management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

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

Board Composition

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

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



Board Meetings – Information for Directors

The directors are given appropriate and timely information on key activities of the business regularly and on request in order to carry out their roles. Specifically the Directors are provided with all available information in respect of items to be discussed at a meeting of the Board or committee prior to the meeting. The Board members have open access to management through the Chairman and Managing Director. Regular presentations are made by management to the Board. Board Committees and directors may seek briefing from management on specific matters as well as seek independent professional advice.

Oversight Role of the Board

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

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

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

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

Conflict of Interest

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



Committees of the Board

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

1. Audit, Risk and Compliance Committee

The Audit Committee meets at least four times a year, with authority to convene additional meetings, as circumstances require. Its primary responsibilities are to assist the Board in ensuring integrity of the Corporation's Financial Statements, review the Corporation's internal control systems, monitor and review the effectiveness of the internal audit function, and ensuring the Corporation's compliance with legal and regulatory requirements. The Audit Committee has authority to conduct or authorize investigations into any matter within its scope of responsibility.

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

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

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

- Mr. Mohamud Noor Ali - Chairman
- Mr. Phillip Wachira
- Ms. Pamela A. Dede
- Ms. Naomi Matheri
- Internal Audit Manager

2. Finance and Business Development Committee

The Finance Committee meets at least four times a year or at such other times as the Chairman of the Committee shall require. Its primary purpose is to determine the Corporation's investment strategy and policy and to consider the proposed strategic investments and make



recommendation to the Board. It also maintains an interactive strategic planning, implementation and monitoring process with management.

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

- Mr. Wainaina Kenyanjui – Chairman
- Ms. Gladys Mboya
- Mrs. Jane Mwangi
- Ms. Naomi Matheri
- Mr. Maurice Ogola
- Mr. Andrew Saisi -- (Managing Director)

3. Human Resource and Administration Committee

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

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

The members of the Human Resource and Administration Committee are:

- Ms. Gladys Mboya - Chairperson
- Mr. Maurice Ogola
- Mr. Phillip Wachira
- Mr. Andrew Saisi - (Managing Director)

4. Technical Committee

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



The members of the Technical Committee are:

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

Attendance of Board Meetings

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

NAME	BOARD MEETINGS			
	196 TH	197 TH	198 TH	199 TH
Francis Mungai	√	√	√	√
Philip Wachira	√	√	√	×
Jane Mwangi	√	√	√	√
Maurice Ogola	×	√	×	×
Pamela Dede	√	√	×	√
Naomi Matheri	×	√	√	×
Gladys Mboya	√	√	√	√
Wainaina Kenyanjui	√	√	√	√
Mohamud Noor Ali	√	√	√	√
Aidah Munano	×	×	√	×
David Gichuhi	√	×	√	√
Andrew Saisi	√	√	√	√

The Corporation held substantive board meetings in the year.



MANAGEMENT DISCUSSIONS AND ANALYSIS

Operational and Financial Performance

The National Housing Corporation (N.H.C.) recorded impressive results in the year ended 30th June, 2017.

Financial Performance

The Corporation realized a profit before tax of Kshs. 391 million in the year ended 30th June 2017. This was a 15 % growth from the profits of Kshs. 338 million realized in the previous financial year.

The Corporation's financial position is extremely strong with total assets of Kshs. 20.7 billion at the end of the year compared to Kshs. 11.7 billion reported in the previous period. The sharp increase in the total assets is as a result of adoption of revalued figures in our financial statements. The Corporation's land and buildings were revalued in the year by Dansal and Associates Limited. NHC will be revaluing its properties every five years.

Opportunities

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

- **Building Technology:** The Corporation's EPS technology continued to gain acceptance from the general public and in 2016/2017, the number of houses built using the EPS technology across the country increased significantly.
- **Devolution:** This continued to be a great opportunity in the year ended 30th June, 2017 with various counties approaching the Corporation for assistance with construction of dwellings. The Corporation continues to collaborate with these Counties to ensure the realization of these projects.

Challenges

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

- **Inflation:** Inflation has affected the cost of construction which in turn affects the cost of the end product.



- **Harsh economic times:** which have eroded the purchasing power of potential home buyers. This has adversely affected our project revenues.

The foregoing challenges notwithstanding, N.H.C. remains committed to fulfilling its mandate of Housing the Nation and growing its business.

Compliance with Statutory Requirements

National Housing Corporation adheres to the tenets of the Constitution of Kenya and the provisions of relevant statutes, including but not limited to the Housing Act cap 117, Public Procurement & Asset Disposal Act 2015, Public Finance Management Act 2012, Employment Act 2007 and Occupational Safety & Health Act 2007.

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

Operational Developments

In the year ended 30th June, 2017 the Corporation continued to execute its mandate, of Housing the Nation. Various projects were commenced, others completed while others are ongoing as shown below

Project	Status
Stoni Athi View	Ongoing
Lang'ata mixed use Development	Ongoing
Stoni Athi Economy Block	Started
Kibera mixed use Development	Started
Changamwe Infill	Started
Lang'ata VI	Completed
Kisumu Kanyakwar	Completed
Madaraka Sector BD	Completed
Kisii Phase II	Completed
Ruai Police - Administration & Canteen blocks	Completed

The Corporation intends to commence more projects within the financial year 2017/2018. This will be made possible through internally generated funds as well as partnerships. The planned partnerships with County Governments will alleviate the prevalent housing shortage in the



country. Collaboration with like-minded persons and institutions through joint ventures will enhance our capacity to deliver houses. N.H.C. will continue to grow sales and consumption of the EPS panels and Rural Housing Loans.

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

Risk Analysis

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

Project Implementation

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

Inflation

There is the risk that a general 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 the units expensive.

Access to Capital Funds

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

Credit Risk

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



Liquidity Risk

The Corporation continues to actively monitor and control its liquidity levels to ensure that it reduces any risk exposures associated with cashflow management.

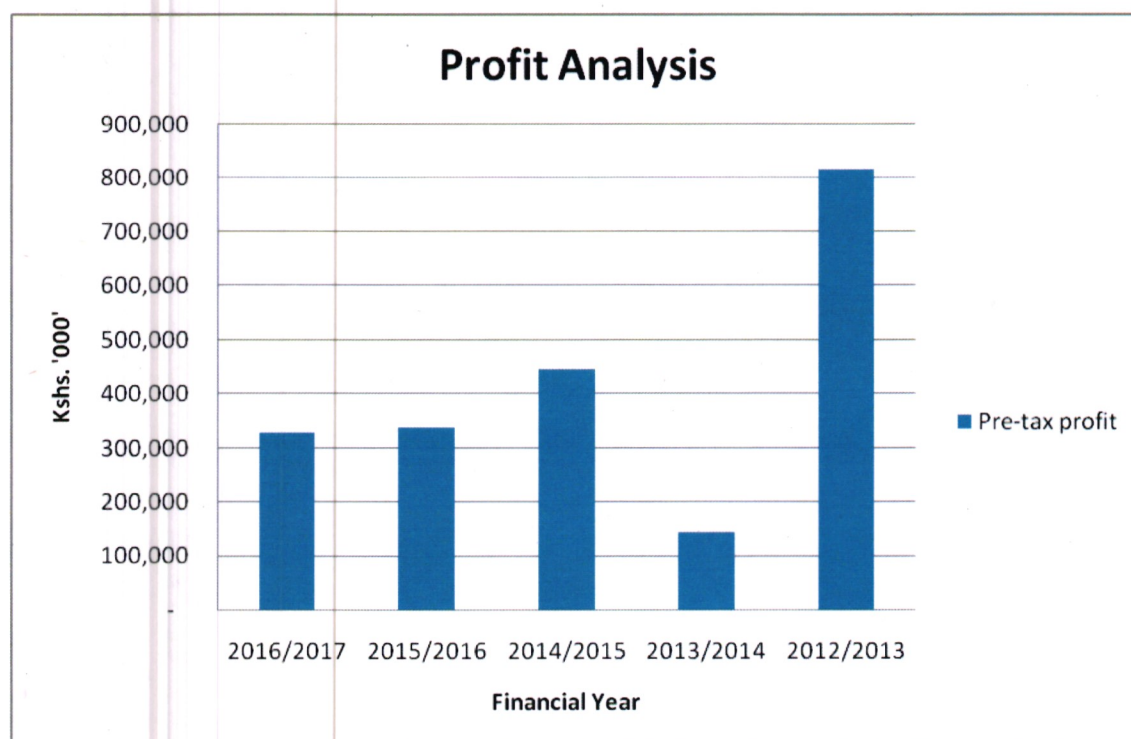
Material Arrears in Statutory/Financial Obligations

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

Corporation's Financial Probity and Serious Governance Issues

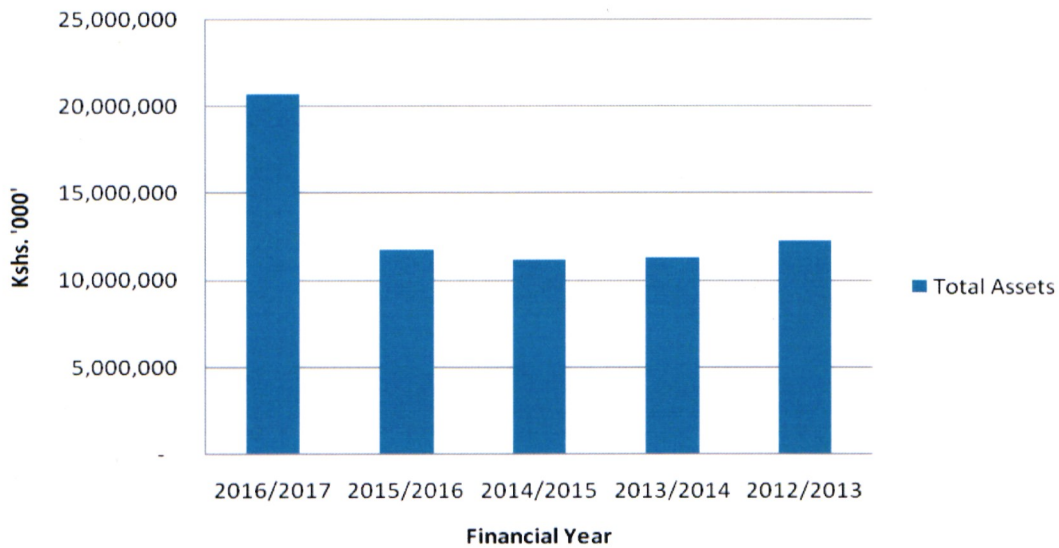
National Housing Corporation has committed itself to good corporate governance. NHC's board of directors continues to ensure accountability, fairness and transparency in the Corporation's relationship with its stakeholders. There was no serious governance issues or financial probity reported in the period

Review of Performance

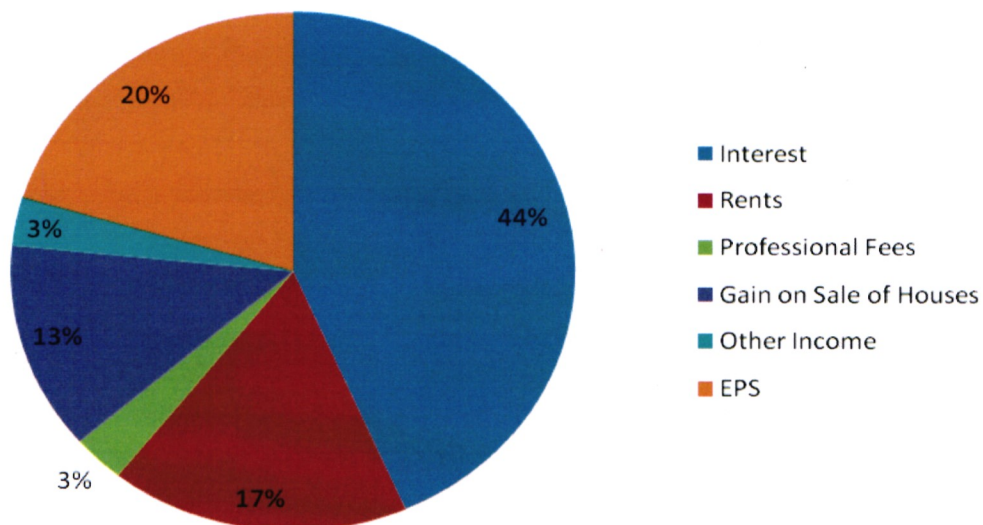




Analysis of Growth in Assets



Revenue Streams





CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Introduction

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

During the financial year 2016/2017, NHC participated in the following CSR activities:

- The Mater Heart Run which is held annually to support the Mater Hospital in their quest for helping children who have a heart problem to undergo an operation. NHC donated Kshs. 100,000 towards this noble initiative.
- The Corporation also participated in the Standard Chartered Marathon under the “seeing is believing” initiative by sponsoring Kshs. 100,000 towards this event.



REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2017 which show the state of the Corporation's affairs.

Principal Activities

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

Results of Dividend

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

The directors propose payment of a dividend of Kshs 12,785,488 being 5% of the profit after tax for the financial year 2016/2017. In the year 2015/2016, the board approved a dividend of Kshs 23,723,283.

Directors

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

Auditor

The Auditor General is responsible for the statutory audit of the Corporation in accordance with article 229 of Kenya and the Public Audit Act 2015.

By Order of the Board


for **William Kimutai Keitany**
Corporation Secretary
Date:



STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012, the state corporation Act, Cap 446 section 14 and CAP 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, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the State Corporations Act, Cap 446. The Directors are of the opinion that the corporation's financial statements give a true and fair view of the state of corporation's transactions during the financial year ended 30th June, 2017, and of the corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the corporation, which have been relied upon in the preparation of the corporation's financial statements as well as the adequacy of the systems of internal financial control.

Approval of the financial statements

The corporation's financial statements were approved by the Board on 26th September, 2017 and signed on its behalf by:

Francis Gitau Mungai	-	Chairman	
Andrew Saisi	-	Managing Director	

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NATIONAL HOUSING CORPORATION FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Housing Corporation set out on pages 43 to 104, which comprise the statement of financial position as at 30 June 2017, the statement of profit or Loss and other comprehensive income, the statement of changes of Equity, the Statement of Cash flow and statement of budget and actual Comparison 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 of the effects of the matter described in the Basis for Qualified Opinion Section of my report, the financial statements present fairly, in all material respects, the financial position of National Housing Corporation as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Housing Act, Cap.117 of the Laws of Kenya.

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

Basis for Qualified Opinion

1.0 Property, Plant & Equipment

1.1 Land

As disclosed in note 12 to the financial statements and as previously reported, the Corporation owned land with a total cost of Kshs.2,433,711,460 as at 30 June 2017. Excluded from this balance are fifty (50) parcels of land which had not been valued and has no ownership documents as shown below:

Name	Location	County	Estimated Size	Remarks
Nairobi				
KIBERA FLATS	Nairobi	Nairobi	0.13HA	Title being process by Ministry of Land and Physical Planning

Report of the Auditor-General on the Financial Statements of National Housing Corporation for the year ended 30 June 2017

Name	Location	County	Estimated Size	Remarks
KIBERA HIGHRISE (Parking Plot)	"	Nairobi	0.0588149HA	Registry Index Map (RIM) amended, awaiting indent from National Land Commission (NLC)
CENTRAL				
WAMAGANA RENTAL	Nyeri	Nyeri	0.5428 HA	waiting approval and authentication by Director of Survey
MURANGA NEW ALLOCATION	Muranga	Muranga	0.0465HA each	RIM awaiting indent from NLC
EASTERN				
KITHIMANI RENTALS	Machakos	Machakos	-	Part Development Plan (PDP) preparation in progress by Chief Land Surveyor
ATHI RIVER RENTALS	Athi River	Machakos	1.7098 HA	" "
A. KITUI RENTALS	Kitui	Kitui	1.6HA	" "
B. KITUI RENTALS	Kitui	Kitui		PDP available & in approval progress – Chief Land Surveyor (CLS)
WOTE RENTAL	Wote	Makueni		PDP to be approved by Cabinet Secretary
MAVOKO PLOT	Mavoko	Machakos	12.57HA	Title to be transferred to National Housing Corporation (NHC) by Ministry
MARSABIT RENTALS	Marsabit	Marsabit	-	PDP in Approval Process - CLS
MUTITU	Kitui	Kitui	0.280HA	PDP to be approved by Cabinet Secretary
MUTOMO	Kitui	Kitui	0.301HA	PDP to be approved by Cabinet Secretary
COAST				
KILIFI PLOT – BEACH PLOT	Kilifi	Kilifi	0.2500 HA	Title being process by Ministry of Land and Physical Planning
CHANGAMWE RENTALS	Mombasa	Mombasa	23.710 HA	Title being process by Ministry of Land and Physical Planning
BUBUBU	"	Mombasa	0.0245HA(each)	Title being process by Ministry of Land and Physical Planning
WESTERN				
SIRISIA RENTALS	Bungoma	Bungoma	-	PDP IN PROGRESS [Visit should be done} to quicken the process
NAMBALE	Busia	Busia	0.3775 HA	PDP IN PROGRESS CLS
BUSIA RENTAL	Busia	Busia	0.3075 HA	PDP IN PROGRESS }
AMAGORO	Teso	Busia	0.1812 HA	PDP IN PROGRESS }
MUMIAS	Kakamega	Kakamega	2.00 HA	PDP in approval process by CLS
VIHIGA	Vihiga	Vihiga	0.3960 HA	" " "
NYANZA				
HOMA BAY RENTALS	Homa Bay	Homabay	-	PDP preparation in progress{District Physical Planning Officer (DPPO) - CLS}
KISII RENTALS NYANCHWA	Kisii	Kisii	0.500 HA	PDP IN PROGRESS {DPPO - CLS}
NDHIWA RENTLS	Ndhiwa	Homabay	0.9237 HA	waiting approval and authentication by Director of Survey

Name	Location	County	Estimated Size	Remarks
MANGA RENTALS	Kisii	Kisii	-	PDP in {Approval PROCESS } "
OGEMBO RENTALS	Kisii	Kisii	-	PDP Awaiting Approval "
OYUGIS	Oyugis	Homabay	-	Titles with Private Individuals } "
MIGORI RENTAL	Migori	Migori	-	PDP in progress } "
MBITA RENTALS	Mbita	Homabay		PDP in progress } "
RONGO RENTALS	Homa-Bay	Homabay	0.1386HA	Awaits Ident from National Land Commission to amend RIM
SIAYA TP REMAINDER	Siaya	Siaya	5.29HA	Scheme plan preparation
KANYAKWAR TITLES	Kisumu	Kisumu	8.60HA	Title being process by Ministry of Land and Physical Planning
GINGO	Suba/H-Bay	Homabay	7.85HA	Initiate a fresh process for PDP Approval- CLS
MIGOSI PHASE I, II, III & IV	Kisumu	Kisumu	-	CLS to initiate surveys/scheme plan
RIFT VALLEY				
KIDIWA	Eldoret	UasinGishu	0.7899HA	Awaiting Indent from NLC to assist in RIM ammendment
KIDIWA	"	UasinGishu	0.8850	" " " } "
KIDIWA	"	UasinGishu	3.592	" " " } "
KIDIWA	"	UasinGishu	0.8421	" " " } "
KIDIWA	"	UasinGishu	0.7932	" " " } "
KIPCHOGE	"	UasinGishu	1.505HA	" " " } "
KAPSUSWA (ELDORET)	Eldoret	UasinGishu	0.529HA	Title being Processed - CLS
MARALAL RENTALS	Maralal	Samburu	-	Awaits Ident from NLC - CLS
ITEN TABACH (TWO PLOTS)	Iten	Elgeyo-Marakwet	1.950HA	PDP being prepared
KIPKELION	Kipkelion	Kericho	6.33HA	" " " }
KAPSABET	Kapsabet	Kericho	1.456 HA	RIM amendment for remainder in process
MOLO SITE & SERVICE SCHEME	Molo	Nakuru		PDP preparation in progress
Kitale - Masaba, Mumias, Shauri Moyo	Kitale	Trans-zoia	1.06HA	Debt swap with County Government yet to be finalised
Kericho	Kericho	Kericho	1.4915 HA	Title being Processed

Consequently, the ownership and value of these properties could not be confirmed as at 30 June, 2017.

1.2 Amalemba Land

Three pieces of land of Parcel No. 352, 402 & 260 estimated at 0.3078 hectares, 0.1974 hectares and 0.1958 hectares respectively in Amalemba, Kakamega County are in dispute as stated in letter ref: NHC.8.4.10.XXII/ (63) JOK dated 7/3/2017, where individuals went ahead to prepare titles without the knowledge of the Corporation. During

the audit the Corporation did not avail any evidence or correspondence showing any effort taken to address and resolve the dispute.

2.0 Long Term Loans Advanced

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

Further, the Corporation has not explained how an un-reconciled balance of Kshs.2,966,194 reported in the prior year (2015/2016) was cleared.

3.0 Procurement of Enterprise Resource Planning System (ERP)

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

The tender was re-advertised on 16 May 2013 and evaluated between 28 June 2013 and 30 June 2013. Out of the nine (9) firms that responded, only two: M/S Seven Seas Technologies Group and M/S Deloitte Consulting qualified at the technical evaluation stage, and their financial bids were Kshs129,748,418 (USD 1,509,922) and Kshs.220,675,971(USD 2,568,073) respectively. The tender committee awarded the tender to M/S Seven Seas Technologies at their bid price of Kshs.129,748,418 (USD 1,509,922). Consequently, the corporation and M/S Seven Seas Technologies group entered into a formal contract which was signed on 13 August 2013, and the contract period was for 12 months. However, the following issues were observed in the procurement of the Enterprise Resource Planning (ERP) system.

3.1 User Requirements

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

3.2 Procurement Process

In contravention of Regulation 16 (4) of the Public Procurement and Disposal Act, 2005, the Chairman of the Evaluation Committee was a member of the Tender Committee. In addition, there is no evidence that he disqualified himself from the deliberations to award the tender to M/S Seven Seas Technologies Group. During the evaluation, it was noted that there were two consultants who were actively involved in the tender evaluation and also signed the evaluation report dated 2 July 2013. There was no evidence to indicate how the consultants were procured and how they were appointed to the evaluation committee. Further, the Consultants were paid Kshs.596,298 which was an avoidable expenditure given that the Corporation has qualified ICT personnel. The budgeted amount of an ERP for the year 2012/2013 was Kshs.100 Million. The tender committee however awarded the tender for Kshs.129 Million in contravention of Section 26 (3) (a) of the public Procurement and Disposal Act, 2005 which states that all procurement shall be within the approved budget of the procuring entity.

3.3 Awarding the Contract

From the signed contract, the following was noted:-

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

3.4 Payment

As previously reported, during 2013/2014 financial year, the Corporation paid two instalments of USD926,020 (Kshs.80,678,519) which was contrary to the payment terms as per the contract. The contract provided for 30% upon execution of the contract and

15% upon completion of the project preparation phase which is USD452,977 (Kshs.38,924,525) and USD 226,488.28 (Kshs.19,462,263) respectively. The corporation therefore overpaid by USD 246,555 (Kshs.21,186,579) at Kshs.85.93 exchange rates as per the contract value. According to the contract, all payments to the vendor were to be made in US Dollars to Bank of Africa (K) Limited, Westland's branch Account Number 03007430015 and Swift Code AFRIKENX. Examination of the payment vouchers however revealed that the two payments made to the vendor were paid to Kenya Commercial Bank Kshs.52,498,000 and Co-operative Bank of Kenya Kshs.28,180,509. The anomaly had not been explained to date.

3.5 Disclosure

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

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

Further, documents obtained in the current year revealed that the Board directed management to authorize the ICT team to visit the provider and obtain the software and all related documents and information on behalf of the Corporation. By the conclusion of the audit, it had not been confirmed whether the Corporation managed to obtain the software. Consequently, the propriety of the expenditure of Kshs.129,748,417 on the ERP could not be confirmed as at the time of this audit the issue remained unresolved as at 30 June 2017.

4.0 Electronic Database Management System (EDMS)

As previously reported, the Corporation acquired a data conversion System through M/S Digital Scope Ltd and paid Kshs.13,250,000 in the financial year 2011/2012. This system was to help improve the Corporation's records by digitizing its records and make retrieval of records faster. However, during the audit for the year it was noted that records were still manually processed. The software and resultant infrastructure (hardware) could not be physically verified and by the conclusion of the audit, it was not possible to confirm existence of the system. In the circumstances, it has not been possible to confirm whether the Corporation got value for money from the expenditure of Kshs.13,250,000 for digitizing of records and the issue remained unresolved as at 30 June 2017.

5.0 Trade and other Payables

Trade and other payables included in the statement of financial position as at 30 June, 2017 amounted to Kshs.993,293,798. Included in this amount is Kshs.373,131,890 received from prospective house buyers as deposits from three (3) schemes namely Tenant Purchase deposits, House Rental deposits and House Mortgage deposits but no supporting schedules were availed for verification. Further, the Corporation has not explained how an un-reconciled balance of Kshs.78,152,844 reported in the prior year

(2014/2015) was cleared. In addition, the Corporation has also indicated that Kshs.1,383,027 (2015/2016 – Kshs.13,511,819) was prepaid rent as at 30 June 2017. Although the corporation has provided names and amounts of rental payments, it was not possible to establish the actual dates when such payments were made. Consequently, it has not been possible to confirm the accuracy and validity of the balance for trade and other payables of Kshs.993,293,798 in the statement of financial position as at 30 June, 2017.

6.0 Trade and other Receivables

6.1 Rent Arrears

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

7.0 Loan Amounts Receivable

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

8.0 Unquoted Investment in Research Development Co Ltd.

As previously reported, the investment of the Corporation in Research Development Company Ltd (RDC), a wholly owned subsidiary, under note 16 totalled Kshs.99,457,797 as at 30 June 2017. However, no share certificate in support of this investment was availed for audit review and as a result it was not possible to confirm the propriety of this investment. Further, although it is indicated that the Board of directors had recommended

for RDC to be wound - up, the corporation has not made any progress in this process. In the absence of consolidated accounts and evidence of liquidation, then the management failed to comply with International Financial Reporting Standards number 10 which requires the entity to consolidate the financial statement of the entities it controls.

9.0 Schemes in Progress

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

As previously reported, the Corporation took over the Makande estate (in Mombasa) from the defunct Mombasa Municipal Council through a debt swap to off-set the loan debt of Kshs.260 million owed to the Corporation by the council. The estate was then valued at Kshs.310 million. The Corporation paid the excess value of Kshs.50 million to the council and took over the estate. When the Corporation started some developments on the acquired estate, some individuals claimed ownership of the parcels of land within the estate and filed cases in Mombasa High Court. The Corporation could not continue with its planned development due to the pending court cases. When the audit team visited the site for inspection, it was noted that within the estate, some individuals have fenced some plots and put up small business which are operational. The wall which was being erected for security purposes had stalled and was incomplete, and generally the estate was in poor state. The Corporation however, did not explain measures being undertaken to improve the security of the estate. Further, no explanation was provided on why the Corporation decided to enter into the agreement for the debt swap without establishing the true ownership of the land and whether the land had any encumbrances. In addition, it has not explained how it is dealing with the issue of encroachment into the estate. In the circumstances, the Corporation may not have attained value for money in the purchase of the disputed property and the matter remained unresolved as at 30 June 2017.

9.2 Kanyakwar II- Kisumu

As reported in the previous year, Note 17 to the financial statements reflects schemes in progress of Kshs.1,848,868,430. Included in the figure is Kanyakwar II project in Kisumu amounting to Kshs.207,330,708 which had stalled due some disputes with the contractor. Although this project had stalled since the beginning of the financial period, it has continued to attract costs amounting to Kshs.13,854,373. It was noted that out of these charges; Kshs.12,579,377 relates to "interest on construction cost" and Kshs.436,350 relates to "supervisory costs". It is not clear how the project which is already stalled attracted supervisory costs of Kshs.436,350. In addition, it was not explained to the audit team, how a turnkey project fully funded by the contractor could attract interest on construction of Kshs.12,579,377. It was therefore difficult to establish if the indicated payments were justified. Effectively, the Corporation may not have obtained value for money in this contract totaling Kshs.207,330,708 and the issue remained unresolved as at 30 June 2017.

9.3 Dormant Schemes

Included in the figure for schemes in progress of Kshs.1,848,868,430 as at 30 June 2017 are dormant schemes amounting to Kshs.196,709,492 (2015/16 – Kshs.251,099,767) and

which have remained dormant for over one year. Although the dormant schemes continue to tie up the Corporation funds, management has not explained what it is planning to do with the schemes to release the tied-up capital.

10.0 Boundary Wall and Civil Works at Stoni Athi-Nhc/Tech/Bwsa/002/2016-2017.

10.1 Lack of Performance Bond

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

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

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

10.2 As per the contract agreement signed between the Contractor and the employer, the project completion date should have been 19 May 2017 with a revised completion date of 2 August 2017. However as at April 2018 the project was still in progress and this may lead to escalation of Project costs.

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

11.1 Project Period and Extension of Time

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

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

11.2 Irregular Payment of Advance

Clause xiv of Instructions and Conditions of Tendering states categorically that no advance or mobilization payments shall be made either for construction plant, tools and materials or any other purpose. In addition, according to Appendix B –

Amendments/Deletions to Conditions of Contract, Clause 23.7 of Conditions of Contract on payment of advance was deleted entirely implying that no advance payment was to be granted. Further, Regulation 98 of Public Financial Management (National Government) Regulations, 2015 states that advance payment shall not be paid to suppliers unless provided for in the contractual terms and conditions contained in a valid contract signed between the procuring entity and the supplier.

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

11.3 Written Contract Agreement

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

11.4 Payments for Illegal Squatters

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

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

12.0 Procurement of Intangible Assets

Included in the schedule for Intangible Assets is an expenditure of Kshs.2,197,620 being additions to Intangible assets during the financial year 2016/2017. However, the tender committee minute's No. 91/2015/2016 were never signed by the chairperson but the management went ahead and procured the systems. This contravenes Section 135 of the

Public Procurement Act, 2015 which states that existence of a contract shall be confirmed through the signature of a contract document incorporating all agreements between the parties and such contract shall be signed by the accounting officer or an officer authorized in writing by the accounting officer of the procuring entity and the successful tenderer.

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

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Housing Corporation in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of annual report and financial statements in Kenya. I believe that the audit evidence 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. Except for the matters described in the Basis for Qualified Opinion section of my report, I have determined that there are no Key Audit Matters to communicate in my report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such 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.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so.

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

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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,

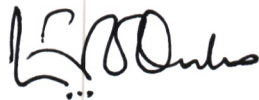
and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 (7) of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee 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.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

05 July 2018



STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2016/2017 Kshs	2015/2016 Kshs
INCOME			
Turnover	3	977,795,096	893,759,876
Other Income	4	38,770,511	36,992,330
EPS Sales	5	259,425,295	157,147,646
		1,275,990,902	1,087,899,852
EXPENSES			
EPS Expenses	5 (c)	279,371,158	216,305,875
Staff Costs	6	336,897,846	379,060,658
Administration Costs	7 (a)	253,321,408	237,004,936
Board Expenses	7 (b)	19,065,346	16,554,847
Depreciation	11 (b)	77,122,915	61,971,062
Amortization of Intangible Assets	13	3,145,394	1,973,003
		968,924,067	912,870,381
OPERATING PROFIT		307,066,835	175,029,471
Finance Income	8	84,538,841	163,874,570
Profit Before Taxation		391,605,675	338,904,041
Tax	9 (a)	135,895,911	101,671,212
Profit After Taxation		255,709,764	237,232,828
Proposed Dividends	10	12,785,488	23,723,283
Retained Earnings		242,924,276	213,509,546
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss:			
Gains on Property Revaluation	26	8,652,167,205	-
Profit attributable to Shareholders		8,895,091,481	213,509,546



STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2017

	NOTES	2016/2017 Kshs	2015/2016 Kshs
ASSETS			
NON CURRENT ASSETS			
Property, Plant & Equipment	11	1,377,114,324	830,775,570
Land	12	2,433,711,460	901,398,588
Intangible Asset	13	2,350,388	3,234,362
Investment Property	14	7,575,609,631	1,020,537,780
Long Term loan Advanced	15	3,139,348,913	3,269,411,371
Unquoted Investment	16	104,657,797	104,657,797
TOTAL NON-CURRENT ASSETS		14,632,792,513	6,130,015,465
CURRENT ASSETS			
Schemes in Progress	17	1,848,868,430	1,800,228,669
Loan Amount Receivable	18	2,349,013,010	1,954,446,830
Inventories	19	729,110,446	245,632,206
Trade and other Receivables	20	357,957,079	361,972,424
Tax Recoverable	9 (b)	78,563,794	-
Cash and Bank balances	21	707,530,412	1,249,132,468
TOTAL CURRENT ASSETS		6,071,043,171	5,611,412,597
TOTAL ASSETS		20,703,835,684	11,741,428,062
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Equity	22	6,936,000,000	6,936,000,000
Unrealised Gain on Sale of Houses	23	536,006,779	557,419,796
Retained Profit	24	3,104,695,958	2,615,896,348
House Equalization Reserve	25	383,118,995	383,118,995
Revaluation Reserve	26	8,652,167,205	-
TOTAL EQUITY		19,611,988,937	10,492,435,139
CURRENT LIABILITIES			
Trade and other Payables	27	993,293,798	1,004,622,597
Proposed Dividends	10	36,508,771	65,101,494
Tax Payable	9 (b)	-	179,268,832
Deferred Tax Liability	9 (c)	62,044,178	-
TOTAL CURRENT LIABILITIES		1,091,846,747	1,248,992,923
TOTAL EQUITY AND LIABILITIES		20,703,835,684	11,741,428,062

The financial statements were approved by the Board on 26th September 2017 and signed on its behalf by

CHAIRMAN.....

DATE.....

MANAGING DIRECTOR.....

DATE.....

GENERAL MANAGER FINANCE.....

DATE.....

ICPAK Membership Number 3064



Annual Report & Financial Statements For The Year Ended June 30, 2017

STATEMENT OF CHANGES IN EQUITY

	NOTE	EQUITY Kshs	UNREALISED GAIN ON SALE OF HOUSES Kshs	RETAINED PROFIT Kshs	HOUSE EQUALIZATION RESERVE Kshs	REVALUATION RESERVE Kshs
1ST JULY 2015		6,936,000,000	525,116,077	2,209,028,284	355,731,778	
Prior Year Adjustments	24					
House Equalization Reserve	25		74,493,920	193,358,518		
Unrealised Gain	23		(42,190,200)		27,387,217	
Proposed dividends for year	10			(23,723,283)		
Profit for the year	24			237,232,828		
30TH JUNE 2016		6,936,000,000	557,419,797	2,615,896,348	383,118,995	-
1ST JULY 2016		6,936,000,000	557,419,797	2,615,896,348	383,118,995	-
Prior Year Adjustments	24			245,875,336		
House Equalization Reserve	25					
Realised Gain	23		(39,751,921)			
Unrealised Gain	23		18,338,903			
Proposed dividends for year	10			(12,785,488)		
Profit for the year	24			255,709,764		
Revaluation Reserve	26					8,652,167,205
30TH JUNE 2017		6,936,000,000	536,006,779	3,104,695,958	383,118,995	8,652,167,205



STATEMENT OF CASH FLOWS

	Notes	2016/2017 Kshs	2015/2016 Kshs
OPERATING ACTIVITIES			
Cash generated from operations	29	(454,204,986)	(237,306,041)
Dividends paid	10	(41,378,211)	-
Taxation paid	9	(95,561,541)	(22,039,310)
Net cash generated from/(used in) operating activities		(591,144,738)	(259,345,351)
INVESTING ACTIVITIES			
Purchase of fixed assets			
- Land	12	(1,611,402)	(824,155)
- Property, Plant & Equipment	11 (a)	(70,002,129)	(64,124,752)
- Intangible Assets	13	(2,261,420)	(608,547)
- Investment Property	14	(20,431,795)	(2,508,741)
Loans advanced	30	(152,010,672)	(73,489,704)
Tenant purchase loans advanced	30	(148,382,400)	(79,406,800)
Cash proceeds from disposal of assets		3,576,000	4,701,208
Redemption of loans	30	174,320,563	167,462,740
Redemption of Tenant Purchase Loans	30	256,134,967	278,667,672
Net cash generated from/(used in) investing activities		39,331,713	229,868,921
FINANCING ACTIVITIES			
House Equalisation Account	25	-	27,387,217
Prior year adjustments		10,210,969	193,358,518
Unrealized Gain			74,493,920
Net cash generated from/(used) in financing activities		10,210,969	295,239,655
Increase/ (Decrease) in cash and cash equivalents		(541,602,056)	265,763,225
CASH & CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		1,249,132,468	983,369,243
CASH & CASH EQUIVALENTS AT THE END OF THE YEAR	21	707,530,412	1,249,132,468

STATEMENT OF BUDGET AND ACTUAL COMPARISON

	Budget	Actual	Variance	% Variance	Explanation of material variances
	Kshs. '000'				
REVENUE					
Interest Earned	533,068	555,076	22,008	4%	31(a)
Rental Income	241,985	218,618	(23,367)	-10%	
Professional fees	87,287	38,828	(48,459)	-56%	31(b)
Gain/(Loss) on sale of houses	338,520	165,273	(173,247)	-51%	31(c)
Eps Sales	421,050	258,377	(162,673)	-39%	31(d)
Other Incomes	36,329	38,771	2,442	7%	31(e)
Finance Income	40,000	84,539	44,539	111%	
Total Revenue	1,698,239	1,359,482	(383,296)	-23%	
OPERATING EXPENSES					
Salaries & Benefits	438,475	336,898	101,577	23%	31(f)
Staff Uniforms	1,995	401	1,594	80%	31(g)
Staff Training	21,000	14,900	6,100	29%	
Staff Welfare/Sports Clubs	3,370	1,202	2,168	64%	31(h)
Travelling General	10,000	9,449	551	6%	31(i)
Marketing,Advertising & Public Relations	11,750	2,229	9,521	81%	31(j)
Audit fees	1,225	1,225	0	0%	
Rents - Offices	21,605	16,110	5,495	25%	
Telephones & Postage	4,000	3,219	781	20%	
Printing & Stationery	11,000	8,506	2,494	23%	31(k)
Exhibitions/Shows	5,000	4,349	651	13%	31(l)
Library Expenses & Publication	1,000	823	177	18%	31(m)
Official Entertainment	11,900	11,483	417	4%	31(n)
Debt Collection Expenses	2,000	1,546	454	23%	31(o)
Motor vehicle - Running Expenses	10,523	8,151	2,372	23%	31(p)



STATEMENT OF BUDGET AND ACTUAL COMPARISON

	Budget	Actual	Variance	% Variance	Explanation of material variances
	Kshs. '000'				
Furniture&Equipment Maintainance	16,000	7,359	8,641	54%	31(s)
Insurance	12,399	12,801	(402)	-3%	
Bad Debts	30,000	15,405	14,595	49%	31(t)
Depreciation	101,256	80,268	20,988	21%	31(u)
Legal charges	15,000	11,233	3,767	25%	31(v)
Corporate Social Responsibility	1,000	334	666	67%	31(w)
Consultancy General	29,000	16,259	12,741	44%	31(x)
Medical Insurance	45,000	45,104	(104)	0%	
NHC rebranding	10,000	-	10,000	100%	31(y)
EPS Factory Expenses	374,742	278,322	96,420	26%	31(z)
Bank Charges	5,400	3,884	1,516	28%	31(aa)
Property & Estates	52,126	52,097	29	0%	
Board Expenses	25,296	19,065	6,231	25%	31(bb)
Post Contract Payments	16,000	5,255	10,745	67%	31(cc)
Total Expenses	1,288,062	967,874	320,188	25%	
Profit Before Tax	410,175	391,606	(18,568)	-5%	

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



NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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 judgment in the process of applying the Corporation's accounting policies.

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 to all the years presented.

B. Application of New and Revised International Financial Reporting Standards

(i) New standards and amendments to published standards effective for the year ended 30 June 2017

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

(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 16 Leases	1 January 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 9 Financial Instruments

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

Key requirements of IFRS 9:

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

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

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. IASB deferred the effective date to 1st January 2018.

(iv) Early adoption of standards

The company did not early-adopt any new or amended standards in 2017.

B. 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.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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. 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Property, plant and equipment

Property, plant and equipment is reported at cost or valuation less depreciation. Valuations on land and buildings are done at least every five years by an external independent valuer. .

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.

D. Depreciation and impairment of property, plant and equipment

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

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

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

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

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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.

F. 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.

G. Amortization and impairment of intangible assets

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. 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.

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 the year under review, the Corporation revalued its properties in June 2017 by an independent valuer Cyprian Wanjir of Dansal and Associates Limited.

I. Unquoted investments

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

J. 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.

K. 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.

L. Taxation

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. 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 financial year.

N. 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.

O. Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees. The scheme is administered by Octagon Pension Services while GenAfrica Asset Managers and Standard Chartered Limited are the fund managers and the custodians respectively. The Corporation also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The Corporation's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month and has been reviewed to Kshs.1,080 per month.

P. 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.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Comparative figures

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

R. Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

(a) Critical Accounting Estimates and Assumptions

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.

Deferred Tax

The Corporation accounts for deferred taxation 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.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

(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:

	2016/2017	2015/2016
	Kshs.	Kshs.
Interest	555,076,282	553,918,230
Rents	218,617,696	215,713,806
Professional Fees	38,828,030	81,937,639
Gain on Sale of Houses	165,273,088	42,190,201
Total	977,795,096	893,759,876

4. OTHER INCOME

	2016/2017	2015/2016
	Kshs.	Kshs.
Interest on Staff Loans	30,899,750	30,033,210
Income from Partnerships	200,000	-
Gain on Disposal of Fixed Assets	1,864,813	2,691,788
Miscellaneous (Tender Documents, Application Forms)	5,805,948	4,267,333
Total	38,770,511	36,992,330

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. MANUFACTURING, TRADING, PROFIT AND LOSS ACCOUNT (EPS FACTORY)

(a) Manufacturing Account

	2016/2017	2015/2016
	Kshs	Kshs
Raw Materials	141,696,133	132,500,636
Direct Labour	19,172,470	20,018,650
Other Direct Overheads	5,512,750	3,109,401
Prime Costs	166,381,353	155,628,686
Production and Other Factory Overheads	10,172,030	10,429,172
Depreciation	29,616,495	27,812,935
Opening Cost of Work in Progress	33,093,074	63,251,359
Add: Purchases	25,921,200	
Less: Closing Cost of Work in Progress	(13,507,486)	(33,093,074)
Production Costs of Goods Completed	251,676,666	224,029,080

(b) Trading, Profit and Loss Account

	2016/2017	2015/2016
	Kshs	Kshs
EPS Sales	259,425,295	157,147,646
Cost of Goods Sold		
Opening Stock of Finished Goods	26,431,174	6,025,828
Production Costs of Goods completed	251,676,666	224,029,080
Closing Stock of Finished panels(Cost)	(11,598,202)	(26,431,174)
Cost of Goods Sold	266,509,638	203,623,735
Gross Profit/(Loss)	(7,084,343)	(46,476,089)
	(7,084,343)	(46,476,089)
Selling and Marketing Costs	2,974,773	3,526,755
Depreciation	1,580,000	1,313,471
Administration expenses	8,306,747	7,841,915
	12,861,520	12,682,141
Trading Loss	(19,945,863)	(59,158,230)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. MANUFACTURING, TRADING, PROFIT AND LOSS ACCOUNT (EPS FACTORY) (Continued)

(c) Trading, Profit and Loss Account

EPS trading loss is arrived at after charging

	2016/2017	2015/2016
	Kshs	Kshs
EPS Expenses		
Cost of Goods Sold	266,509,638	203,623,735
Selling and Marketing Costs	2,974,773	3,526,755
Depreciation	1,580,000	1,313,471
Administration expenses	8,306,747	7,841,915
Total	279,371,158	216,305,875

EPS Depreciation of Kshs. 29,616,496 has been included as costs of goods sold arriving in arriving at the total cost of Kshs. 266,509,638. Furthermore depreciation cost of Kshs. 1,580,000 has been reported as an expense in the income statement. Total EPS depreciation charge is Kshs. 31,196,496 as shown in note 11(b).

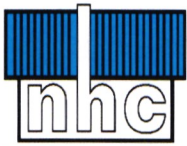
6. STAFF COSTS

Staff costs comprise the following:

	2016/2017	2015/2016
	Kshs	Kshs
Retirement Benefit Costs	42,250,370	48,225,883
Salaries & Emoluments	294,647,477	330,834,776
Total	336,897,846	379,060,658

The number of persons employed by the Corporation as at 30.06.2017 was 225 compared to 231 as at 30.06.2016.

National Housing Corporation established the NHC provident fund scheme in 1998. In compliance with the Treasury Circular number 18/2010, the scheme was closed from 1st



NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 30th June 2017 there were no amounts owed to the Staff Retirement Benefits Scheme.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. PROFIT BEFORE TAX

Profit before tax is stated after charging:

(a) Administration Costs

	2016/2017	2015/2016
	Kshs	Kshs
Auditors Remuneration	1,224,960	1,224,960
Property & Estates	52,096,540	45,231,689
Motor Vehicle Expenses	8,150,749	8,026,984
Repairs of Equipment	7,359,141	11,276,360
Travelling General	9,448,986	8,671,136
Printing & Stationery	8,506,151	10,640,651
Office rents	16,109,834	21,207,169
Postage & Telephones	3,218,696	3,964,279
Advertising	2,228,508	20,134,485
Insurance	12,801,188	7,735,834
Bank Charges	3,883,854	3,084,280
Library Expenses	822,520	940,415
Staff Uniforms	401,048	1,040,956
Exhibition	4,348,725	1,076,380
Training	14,900,336	9,169,737
Bad Debts Provision	15,404,544	9,921,989
Post contract payments	5,255,022	13,967,516
Debt Collection Expenses	1,546,024	1,166,945
Legal Charges	11,233,423	10,038,313
Staff Sports Club	1,202,269	1,226,495
Consultancy General	16,258,546	15,097,947
Medical Insurance	45,104,095	21,867,052
Corporate Social Responsibility	334,000	269,730
Entertainment	10,966,672	9,788,383
Staff welfare	515,578	235,252
Total Administration Costs	253,321,408	237,004,936

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. PROFIT BEFORE TAX (Continued)

(b) Board Expenses

	2016/2017	2015/2016
	Kshs	Kshs
Honoraria	960,000	848,000
Sitting Allowances	3,480,000	5,956,000
Travel and Accommodation	4,275,091	3,828,859
Other Expenses	10,350,255	5,921,988
Total	19,065,346	16,554,847

8. FINANCE INCOME

The interest income is made up of:

	2016/2017	2015/2016
	Kshs	Kshs
Securities	-	7,232,166
Interest from current accounts with banks	84,538,841	156,642,405
Total	84,538,841	163,874,570

9. TAXATION

a) Reconciliation of expected tax based on profit before taxation

	2016/2017	2015/2016
	Kshs	Kshs
Profit before taxation	329,561,497	338,904,041
Tax applicable rate of 30%	98,868,449	101,671,212
Tax effect of expenses not subject to tax	45,376,894	-
Wear & tear allowance	(14,107,405)	-
Tax effect of losses from previous periods	(74,899,458)	-
Tax charged for the year	73,851,733	101,671,212
Deferred tax	62,044,178	-
Total taxation charge	135,895,911	101,671,212

NOTES TO THE FINANCIAL STATEMENTS (Continued)

- b) Tax for the year 2016/2017 is provided at Kshs. 55,238,480 being 30% of taxable profits.

	2016/2017	2015/2016
	Kshs	Kshs
Balance Brought Forward	179,268,832	99,636,930
Adjustments for Over Provision in Previous Years	(236,122,818)	-
Provision for tax for the year 2016/2017	73,851,733	101,671,212
Tax payable	-	-
Paid During the year	(95,590,625)	(22,039,310)
Withholding Tax Liability	29,084	-
At end of the year	(78,563,794)	179,268,832

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

	2016/2017	2015/2016
	Kshs	Kshs
Deferred Tax Liability	-	-
Accelerated capital allowances	117,372,090	-
Deferred Tax Assets	-	-
Various provisions	(55,327,912)	-
Tax Losses	-	-
At end of the year	62,044,178	-

The Corporation introduced computation of deferred tax in year.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. PROPOSED DIVIDENDS

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

	2016/2017 Kshs.	2015/2016 Kshs.
At the beginning of the year	65,101,494	41,378,211
Provision for the year	12,785,488	23,723,283
Paid during the year	(41,378,211)	-
At the end of the year	36,508,771	65,101,494



NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. (a) PROPERTY, PLANT AND EQUIPMENT SCHEDULE

	BUILDING	EPS PRODUCTION		PLANT & EQUIPMENT	MOTOR VEHICLES	FURNITURE & FITTINGS	COMPUTER SYSTEM	TOTAL
COST/VALUATION	Kshs.	PLANT & MACHINERY	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
At 1st July 2015	257,033,191	531,397,426	64,695,942	62,594,473	113,489,083	73,156,974	1,102,367,090	
Additions	24,797,362	1,087,251	9,509,820	16,559,031	7,329,959	4,841,330	64,124,752	
Disposals	-	-	(100,000)	(9,398,829)	-	(135,500)	(9,634,329)	
Adjustments	-	-	(3,649)	-	-	-	(3,649)	
At 30th June 2016	281,830,553	532,484,676	74,102,113	69,754,675	120,819,042	77,862,804	1,156,853,864	
At 1st July 2016	281,830,553	532,484,676	74,102,113	69,754,675	120,819,042	77,862,804	1,156,853,864	
Additions	-	28,910,844	2,868,724	32,630,000	2,650,258	2,942,303	70,002,129	
Disposals	-	-	-	(10,805,891)	-	-	(10,805,891)	
Adjustments	(24,080,089)	-	-	-	-	-	(24,080,089)	
Revaluation	542,249,536	-	-	-	-	-	542,249,536	
Adjustments	-	-	-	-	-	-	-	
At 30th June 2017	800,000,000	561,395,520	76,970,837	91,578,784	123,469,300	80,805,107	1,734,219,548	
DEPRECIATION								
At 1st July 2015	13,301,481	54,435,855	45,125,551	45,575,560	52,289,475	63,540,857	274,268,779	
Charge for the year	5,775,424	22,484,709	5,548,812	4,562,598	20,901,143	2,437,299	61,709,986	
On Disposal/Adjustment	-	-	(1,443,585)	(8,374,331)	-	(82,552)	(9,900,468)	
At 30th June 2016	19,076,904	76,920,564	49,230,779	41,763,827	73,190,618	65,895,605	326,078,297	
At 1st July 2016	19,076,904	76,920,564	49,230,779	41,763,827	73,190,618	65,895,605	326,078,297	
Charge for the year	6,960,805	22,690,721	4,673,903	7,606,218	19,309,127	3,251,901	64,492,675	
On Disposal/Adjustment	(24,371,044)	-	-	(9,094,704)	-	-	(33,465,748)	
At 30th June 2017	1,666,665	99,611,285	53,904,682	40,275,341	92,499,745	69,147,505	357,105,224	
NET BOOK VALUE								
At 30th June 2016	262,753,649	455,564,112	24,871,334	27,990,848	47,628,424	11,967,200	830,775,567	
At 30th June 2017	798,333,334	461,784,234	23,066,157	51,303,442	30,969,553	11,657,601	1,377,114,324	



NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. (b) Depreciation

The depreciation amount charged to the statement of comprehensive income is as shown below

Asset Class	Kshs.
Land & Building	
Investment Property	43,826,736
Property, Plant & Equipments	
<i>-Motor Vehicle</i>	6,303,000
<i>-Plant & Equipment</i>	4,588,310
<i>-Furniture & Equipment</i>	19,152,969
<i>-Computer System</i>	3,251,901
TOTAL	77,122,915

The depreciation amount charged to EPS Manufacturing, Trading, Profit and Loss Account in note 5 (c) is as shown below

Asset Class	Kshs.
Land & Building	6,960,805
Property, Plant & Equipments	
<i>-Motor Vehicle</i>	1,303,217
<i>-Plant & Equipment</i>	85,593
<i>-EPS Production Plant</i>	22,690,721
<i>-Furniture & Equipment</i>	156,159
TOTAL	31,196,496



NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. LAND

	2016/2017	2015/2016
	Kshs.	Kshs.
At start of year	901,398,588	889,140,228
Additions	1,611,402	824,155
Disposals/ Adjustments	1,530,701,470	11,434,205
At end of year	2,433,711,460	901,398,588

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

13. INTANGIBLE ASSETS

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

	2016/2017	2015/2016
Cost	Kshs	Kshs
At start of year	19,149,826	18,541,279
Additions	2,261,420	608,547
At end of year	21,411,246	19,149,826
Amortization		
At start of year	15,915,464	13,942,461
Charge for the Year	3,145,394	1,973,003
At end of year	19,060,858	15,915,464
Net Book Value	2,350,388	3,234,362

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. INVESTMENT PROPERTY

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

	2016/2017	2015/2016
Cost	Kshs.	Kshs.
At start of year	1,273,585,669	1,281,290,750
Additions	20,431,795	2,508,741
Revaluation	6,579,216,199	
Disposals/ Adjustments	(278,815,852)	(10,213,822)
At end of year	7,594,417,811	1,273,585,669
Depreciation		
At start of year	253,047,889	222,103,922
Adjustment prior year		
Charge for the Year	43,826,736	30,943,967
On Disposal/ Ajustment	(278,066,446)	
At end of year	18,808,179	253,047,889
Net Book Value	7,575,609,631	1,020,537,780

15. LONG TERM LOANS ADVANCED

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

	2016/2017	2015/2016
	Kshs	Kshs
Local Authorities	44,392,079	47,289,935
Rural Housing Loans	386,501,471	390,802,373
Staff Loans	517,647,483	532,758,615
Tenant Purchase	2,190,807,880	2,298,560,447
Total	3,139,348,913	3,269,411,371



NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. UNQUOTED INVESTMENTS

These are investments held with;

	2016/2017	2015/2016
	Kshs	Kshs
Consolidated Bank		
4% Non-Cum Preference Shares of Sh.20.00 each.	4,100,000	4,100,000
Ordinary Shares of Sh.20 each	1,100,000	1,100,000
Research & Development Ltd		
Ordinary Shares of Sh.20 each	99,457,797	99,457,797
Total	104,657,797	104,657,797

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

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

17. SCHEMES IN PROGRESS

These are valued at cost, and comprise:

	2016/2017	2015/2016
	Kshs	Kshs
Tenant Purchase	182,591,276	237,441,230
Outright sale	1,387,560,632	1,319,377,311
Other Projects	278,716,522	243,410,128
Total	1,848,868,430	1,800,228,669



NOTES TO THE FINANCIAL STATEMENTS (Continued)

Included in other projects are Kshs. 81,274,817.10 being amounts incurred in the Enterprise Resource Planning (ERP) system. The ERP system is still at the design stage.

18. LOAN AMOUNTS RECEIVABLE

	2016/2017	2015/2016
	Kshs	Kshs
Rural Housing Loans		
Amounts Due	592,197,948	543,467,635
Provision for Bad Debts	(102,056,295)	(89,310,450)
	490,141,653	454,157,185
Local Authorities	1,288,598,441	1,173,919,495
Staff Loans	13,738,573	10,395,136
Tenant Purchase	301,794,281	231,873,201
Outright sale Debtors	254,740,062	84,101,813
Total	2,349,013,010	1,954,446,830

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. INVENTORIES

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

	2016/2017	2015/2016
	Kshs	Kshs
Consumable Inventories-NHC	1,674,091	2,168,767
Stock of unsold houses-NHC	667,165,313	74,271,490
Consumable Inventories-EPS	7,941,846	8,139,571
EPS Work In Progress	13,507,486	33,093,074
EPS stock of Finished panels	11,598,202	26,431,174
EPS stock of Raw materials	27,223,507	101,528,130
Total	729,110,446	245,632,206

20. TRADE AND OTHER RECEIVABLES

These are made up of:

	2016/2017	2015/2016
	Kshs	Kshs
Rent Arrears	147,166,374	144,553,153
Sundry Debtors	289,969,831	265,557,996
Provision for bad debts	(79,179,126)	(48,138,724)
Total	357,957,079	361,972,424

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. CASH AND BANK BALANCES

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

	2016/2017	2015/2016
	Kshs	Kshs
Mobile Money	171	-
Co-operative Bank	687,209,822	1,204,512,362
National Bank of Kenya	6,471,265	761,492
Kenya Commercial Bank	13,849,154	43,858,615
Total	707,530,412	1,249,132,468

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

22. EQUITY

The Corporation was established under the Housing Act, Cap 117 and is fully owned by the Government of Kenya.

The equity arose when inter-ministerial Committee on National Housing Corporation's capital restructuring presented its report to the Cabinet in 2003. The Cabinet, during its deliberations, approved capital restructuring of NHC which included the following:

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

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;



NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. EQUITY (Continued)

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

There was no capital injection in the year under review.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. UNREALIZED GAIN

This is the gain on sale of Tenant Purchase schemes, which will be realized over the life of the Tenant purchase loans. The balance as at the balance sheet date was Kshs. 536,006,779

	2016/2017	2015/2016
	Kshs	Kshs
Opening balance	557,419,796	525,116,077
Add: Unrealized gain recognized in the year	18,338,903	-
Less: Realized gain recognized in the year	(39,751,921)	(42,190,200)
Total Movement in the year	(21,413,018)	(42,190,200)
	536,006,779	482,925,877
Adjustment:		
Langata Phase I	-	12,211,869
Langata Phase II	-	53,764,551
Langata Phase III	-	8,517,499
	536,006,779	557,419,796

24. RETAINED PROFIT

This is made up as follows:

	2016/2017	2015/2016
	Kshs	Kshs
Opening balance	2,615,896,348	2,209,028,284
Prior year adjustments	245,875,336	193,358,518
Proposed Dividends (Note 10)	(12,785,488)	(23,723,283)
Profit after tax for the year	255,709,764	237,232,828
Closing balance	3,104,695,958	2,615,896,348

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. HOUSE EQUILIZATION RESERVE

This is made up as follows:

	2016/2017	2015/2016
	Kshs	Kshs
Opening balance	383,118,995	355,731,778
Charge in the year	-	27,387,217
Closing balance	383,118,995	383,118,995

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

26. REVALUATION OF LAND, BUILDINGS AND INVESTMENT PROPERTY

	Land	Buildings	Investment Property	Total
	Kshs	Kshs	Kshs	Kshs
Net book value at 31st May 2017	903,009,990	257,750,464	1,041,453,167	2,202,213,621
At Fair Value	2,433,711,459	800,000,000	7,620,669,366	10,854,380,826
Revaluation Surplus	1,530,701,470	542,249,536	6,579,216,199	8,652,167,205



NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. TRADE AND OTHER PAYABLES

These comprise:

	2016/2017	2015/2016
	Kshs	Kshs
House Deposits	373,131,890	428,562,771
Ruai Police Housing Development Deposit	149,368,295	149,368,295
Service Charge	116,147,162	137,764,267
Due to Contractors	221,866,319	158,025,684
Sundry Creditors	131,397,106	117,389,762
Prepaid Rent	1,383,027	13,511,819
Total	993,293,798	1,004,622,597

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

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

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

28. RELATED PARTY TRANSACTIONS

(a) Principal Loan Balances for Staff

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. RELATED PARTY TRANSACTIONS (Continued)

	2016/2017	2015/2016
	Kshs.	Kshs.
Tenant Purchase Loans	293,423,669	335,266,481
Staff Loans		
Car Loans	35,709,842	31,004,473
Computer Loans	1,301,707	587,420
House loans	480,635,933	501,166,721
	517,647,483	532,758,615
Total Loan Amount Advanced to Staff	811,071,152	868,025,096

The loans classified as staff loans are amounts advanced to staff at an interest rate of 5% per annum.

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

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

(b) Directors Expenses

The directors' expenses were Kshs. 19,065,346 (2015/2016: Kshs. 16,554,847) as detailed in note 7(b).

(c) Remuneration of Key Management

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

	2016/2017	2015/2016
	Kshs.	Kshs.
Salaries & Benefits	39,164,415	37,475,916
Total	39,164,415	37,475,916

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29. CASH GENERATED FROM OPERATING ACTIVITIES

	2016/2017	2015/2016
	Kshs	Kshs
CASHFLOW GENERATED FROM OPERATIONS		
Net Profit (Loss) before Tax	391,605,675	338,904,041
Adjustments:		
For items not involving movement of cash		
Depreciation		
-Property, Plant & Equipment (Note 12)	64,492,675	60,266,128
- Intangible Assets (Note 13)	3,145,394	1,973,003
- Investment Property (Note 14)	43,826,736	30,943,967
Realised gain on Sale of Tenant Purchase Houses (Note 23)	(39,751,921)	(42,190,201)
Unrealised gain on Sale of Tenant Purchase Houses (Note 23)	18,338,903	
Bad Debts Provisions	15,404,544	9,921,989
(Gain) /loss on disposal	(1,864,813)	(2,691,788)
Operating profit before working capital	495,197,193	397,127,139
Working capital adjustments:		
Decrease/(Increase) in debtors & prepayments	(11,389,199)	(75,437,378)
Decrease (Increase) in inventories	(483,478,240)	15,465,142
(Decrease) Increase in creditors	(11,328,799)	(37,232,629)
Housing schemes in progress	(48,639,761)	(481,281,499)
Increase in Loan amount receivable	(394,566,180)	(55,946,816)
Working capital changes	(949,402,179)	(634,433,180)
CASH GENERATED	(454,204,986)	(237,306,041)



NOTES TO THE FINANCIAL STATEMENTS (Continued)

30. REDEMPTION OF LONG TERM LOANS

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

	2016/2017	2015/2016
	Kshs	Kshs
TENANT PURCHASE		
At start	2,298,572,571	2,508,595,608
Advanced	148,382,400	79,406,800
Repayment	(256,134,967)	(289,429,837)
At 30th June	2,190,820,004	2,298,572,571
Other Loans		
At start	970,838,800	1,064,799,711
Advanced	152,010,672	73,489,704
Repayment	(174,320,563)	(167,450,615)
At 30th June	948,528,910	970,838,800
Total	3,139,348,913	3,269,411,371

31. STATEMENT OF BUDGET AND ACTUAL EXPLANATION OF MATERIAL VARIANCES

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

- Favorable variance in interest earned is due to interest on deposits from cash held in current accounts as a result of decrease in outflow to capital projects.
- The unfavorable variance is due to delay in completion of Changamwe infill rental project and review of rent for estates that is yet to be implemented upon expiry of lease agreements.
- The unfavorable variance is due to delay in commencement and completion of housing projects as per budget.

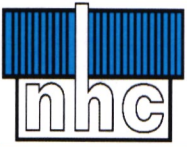
NOTES TO THE FINANCIAL STATEMENTS (Continued)

31. STATEMENT OF BUDGET AND ACTUAL EXPLANATION OF MATERIAL VARIANCES

- d) The unfavorable variance is due to delay in completion and sale of housing projects as per budget.
- e) The variance is due to slow uptake of the EPS panels by the external market and delay in commencement of in-house projects.
- f) The unfavorable variance is as a result of management decision not to charge fees on application forms for purchase of houses.
- g) The favorable variance is due to delay in recruitment of staff due to compliance to freeze in recruitment in the public service during the year.
- h) The variance is due to savings realized on purchase of additional uniform during the year.
- i) A positive variance in training expense is a result of cost cutting measures undertaken in the year.
- j) The favorable variance is as a result of savings realized in various activities for staff in the year.
- k) The variance is due to savings realised in implementation of marketing plan activities for Corporations products in the year.
- l) The positive variance is due to provision for review of rent in the rented premises by the Corporation but was not effected in the year.
- m) The expenditure is below budget due to planned expenditure for additional staff that were not recruited within the year.
- n) The favorable variance is as a result of reduced project activity compared to plan due to delay in commencement of projects.
- o) The below budget expenditure is due to savings realized in exhibition activities in the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

- p) The favorable variance is as a result of saving realized in purchase of library books and materials during the year.
- q) The positive variance in debt collection expenses is due to engagement of alternative collection mechanisms that had no impact on cost.
- r) The favorable variance is due to phased purchase of new vehicles to match disposal of old vehicles.
- s) The variance is due to non purchase of some new assets as initially planned.
- t) The favorable variance is due to aggressive debt collection strategies that were deployed in the year.
- u) The positive variance is due to delay in purchase of some new fixed assets.
- v) The favorable variance is as a result of negotiated court fees for concluded cases.
- w) Favorable variance due to reduced social responsibility activities the corporation engaged in during the year.
- x) The favorable variance was due to
 - 1) Implementation of recommendations of base line survey internally rather than engagement of external facilities and services.
 - 2) Savings made in Land and housing market surveys in the year.
 - 3) Savings realized in training activities for Public sector Integrity programme.
 - 4) Savings realized in training activities and workshops for HIV/AIDs control programme that were conducted during the year.
- y) The positive variance is due to some rebranding activities not undertaken as earlier planned.
- z) The favorable variance is due to reduction in production activities and other operations impacted by slow uptake of panels in the year.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

- aa) The favorable variance in bank charges is due to reduction in payment transactions arising from reduced construction activity in the year.
- bb) The favorable variance is due to overestimation of board expenses in the budget for the year.
- cc) The corporation realized savings due to savings realized in specific post contract projects.

32. CONTINGENT LIABILITIES

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



PROGRESS AND FOLLOW UP OF ISSUES RAISED BY THE EXTERNAL AUDITOR

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.0 Property, Plant and Equipment	As disclosed in note 12 to the financial statements and as previously reported, the Corporation owned land with a total cost of Ksh. 901,398,588 as at 30 June 2016. Excluded from this balance are fifty (50) parcels of land which had not been valued and has no ownership documents.	The Corporation is pursuing the issue of title documentation with the Ministry of Lands. Delays in acquiring title documentation for its properties have proved to be challenging because of the lengthy processes at the Lands office.	Julius Kobado Chief Land Surveyor	Not Resolved	June 2020
2.0 Procurement of Enterprise Resource	As reported in the previous year, the Corporation on 10 December 2012 advertised for supply, implementation and commissioning of an Integrated Enterprise Resource Planning (ERP) system tender number NHC/ERP/345/2012. Out of the 8 firms that returned their bids, only two firms M/s Twenty Third Century	NHC's Board of Directors approved implementation of the Enterprise Resource Planning System	Ken Mochire Information Technology Manager	Not Resolved	Awaiting directions from Ministry of Information, Communication and Technology (ICT) as directed in Treasury Circular number OP/CAB.39/1A of 1 st March 2018



Annual Report & Financial Statements For The Year Ended June 30, 2017

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	and M/s Attain Enterprise solutions qualified at the technical level and the finance bids were Ksh. 90,937,929.81 and Ksh. 127,728,432.98 respectively. The evaluation committee recommended the award to M/s Twenty Third Century but the tender committee subsequently cancelled and ordered for a re-tender. The tender was re-advertised on 16 May 2013 and evaluated between 28 June 2013 and 30 June 2013. Out of the nine (9) firms that responded, only two: M/s Seven Seas Technologies Group and M/s Deloitte Consulting qualified at the technical evaluation stage, and their financial bids were Ksh. 129,748,417.50 (USD				



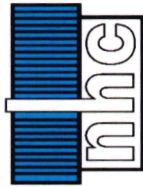
Annual Report & Financial Statements For The Year Ended June 30, 2017

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	1,509,921.84) and Ksh. 220,675,971.34 (USD 2,568,073.47) respectively. The tender committee awarded the tender to M/s Seven Seas Technologies at their bid price of Ksh. 129,748,417.50 (USD 1,509,921.84). Consequently, the Corporation and M/s Seven Seas Technologies group entered into a formal contract which was signed on 13 August 2013 and the contract period was for 12 months.				
3.0 Electronic Data Management System (EDMS)	As previously reported the Corporation acquired a data conversion System through Ms Digital Scope Ltd and paid Ksh. 13,250,000 in the financial year 2011/2012. This system was to help improve the Corporation's	In August 2011, the Corporation awarded tender for document conversion in preparation for deploying an electronic document management System. The purpose of this project was to digitize three million records from the Corporation files in all	Ken Mochire Information Technology Manager	Not Resolved	Awaiting directions from Ministry of Information, Communication and Technology (ICT) as directed in Treasury Circular number OP/CAB.39/1A of 1 st March 2018



Annual Report & Financial Statements For The Year Ended June 30, 2017

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	records by digitizing its records and make retrieval of records faster. However, during the audit for the year it was noted that records were still manually processed. The software and resultant infrastructure (hardware) could not be physically verified and by the conclusion of the audit, it was not possible to confirm existence of the system. In the circumstances, it has not been possible to confirm whether the Corporation got value for money from the expenditure of Ksh. 13,250,000 for digitizing of records.	registries. The Project scope entailed the following: 1) File preparation a. De- stapling document b. Removing dog ears c. Repairing torn papers before scanning d. Straightening of pages 2) Scanning of both A4 and A3 (Maps in Rural registry files are on A3 paper size) 3) Indexing scanned images 4) Data entry /verification 5) Quality control. Images were checked for quality on the following parameter a. Blank pages b. Black borders			



Annual Report & Financial Statements For The Year Ended June 30, 2017

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		c. Distorted images d. Illegible images e. Inverted images 6) Burning of DVDs and also making backups on external hard disks. This project was completed in January 2012 and the Corporation registries staff were trained. Scanners were bought and the registries continued scanning incoming paper records. Phase (II) of the EDMS project was to follow after procurement of the EDMS software application that could manage the scanned and indexed images. The Corporation intends to plug this remaining phase into the ERP when it is fully implemented.			



Annual Report & Financial Statements For The Year Ended June 30, 2017

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
4.0 Trade and Other Payables	Trade and other payables included in the statement of financial position as at 30 June 2016 amounted to Ksh. 1,004,622,597. Included in this amount is Ksh. 428,562,771 received from prospective house buyers as deposits from three (3) schemes namely Tenant Purchase deposits, House Rental deposits and House Mortgage deposits. However, the supporting schedules availed for Ksh.6,643,458.60 and which the management has not explained or reconciled. Further, the Corporation has not explained how an un-reconciled balance of Ksh. 78,152,844.35 reported in the prior year (2014/2015) was cleared. In addition, the	Accounts have since been reconciled.	Mercy Atemi Ag. Senior Accountant	Resolved	



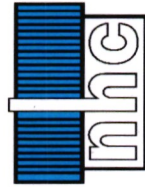
Annual Report & Financial Statements For The Year Ended June 30, 2017

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	corporation has also indicated that Ksh.13,511,819 was prepaid rent as at 30 June 2016. Although the corporation has provided names and amounts of rental payments, it was not possible to establish the actual dates when such payments were made. Consequently, it has not been possible to confirm the accuracy and validity of the balance for trade and other payables of Ksh.1,004,622,597 in the statement of financial position as at 30 June 2016.				
5.0 Trade and Other Receivables	Included in the trade and other receivables balance of Ksh.361,972,424 as at June 2016 is rent arrears of Ksh.144,553,153 (Ksh. 143,406,096 in 2014/2015).	Amounts owed on rent arrears comprise arrears from both current and past tenants. The past tenants are residents who vacated the houses but were in arrears at the time of leaving.	John Agutu Ag. General Manager Estates	Resolved (Debt and Credit Policy in place)	
				Not Resolved	



Annual Report & Financial Statements For The Year Ended June 30, 2017

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Although the Corporation has provided a record of its tenants, monthly rent receivable and total rental arrears in the specific areas, it did not explain why the arrears has accumulated for long periods without any recoveries being made. In addition, it is also noted that the Corporation lacks guidelines or a formal framework on the management of rental arrears. Without such guidelines, or policy in place it is difficult to establish whether any efforts to recover the rent would be effective or whether the arrears would be fully recovered. Further, the corporation did not explain, or provide a breakdown of	NHC has pursued debts from the past tenants by using debt recovery agents. In addition, the Corporation has also tried to recover its debts from the past tenants through the courts. In regard to sitting tenants the Corporation has successfully managed to collect rent from them as and when they fall due. However, there are cases of tenants in Changamwe (these tenants comprise the bulk of amounts owed) who took the Corporation to Court, disputing rent increment which was applied by NHC. We recognise the new rates in our books. On the other hand, the discordant tenants continue to pay NHC the old rents. The difference in amounts owed and received leads to an increase in our rental arrears. The Court		(Collection of outstanding arrears)	January 2020 to resolve the court cases

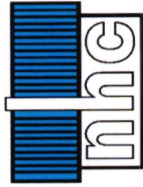


Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	the credit balance of Ksh. 12,412,536.06 described as rent arrears in the supporting schedule of trade and other receivables. Consequently, it was not possible to establish whether trade and other receivables of Ksh. 361,972,424 as at 30 June 2016 is fairly stated.	cases curtailed our efforts to enforce collection of the arrears. Fortunately, the cases were recently ruled in our favour and we are currently pursuing the defaulters for full recovery of the arrears. In regard to the query on lack of a formal framework on management of rental arrears we wish to clarify that the Corporation has an approved Debt Management Policy which was given to the auditors. A copy of the Policy is still available for your review.			
6.0 Loans Amounts Receivable	Note 18 to the financial statements reflect loan amount receivable of Ksh. 1,954,446,830 as at 30 June 2016. Included in this balance are Rural Housing	- Reconciliation exercise is currently ongoing. - The Corporation has an approved debt management policy	Alfred Kipngurat Senior Accountant Loans	Resolved (Debt and Credit Policy in place) Not Resolved (Reconciliations)	December 2019



Annual Report & Financial Statements For The Year Ended June 30, 2017

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Loans of Ksh. 543,467,635 and outright sales debtors of Ksh. 84,101,813. However, the management provided support schedules of Ksh.505,544,084.28 and Ksh.84,281,414.44 for rural housing loans and outright sales debtors respectively resulting in unreconciled difference of Ksh.37,923,550.72 and Ksh.179,601.44 respectively. Further, the Corporation lacks a policy on debt management especially as regards determination and management of bad debts. In addition, it was noted that the outstanding loans portfolio is quite significant and in the absence of debt management policy, recoverability of these debts				



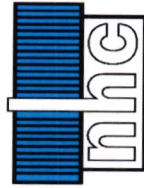
Annual Report & Financial Statements For The Year Ended June 30, 2017

Reference No. on the External Audit Report	Issue / Observations from Auditor	Management Comments	Focal Point Person to Resolve the Issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	may be doubtful. In the circumstance, the accuracy, validity and recoverability of loan amounts receivable of Ksh.1,954,446,830 as at 30 June 2016 is doubtful.				
7.0 Unquoted Investment in Research Development (RDU) Co. Ltd	As previously reported, the investment of the Corporation in Research Development Company Ltd. (RDC), a wholly owned subsidiary, under note 16 totalled Ksh.99,457,797 as at 30 June 2016. However, no share certificate in support of this investment was availed for audit review and as a result it was not possible to confirm the propriety of this investment. Further, although it is indicated that the Board of Directors had recommended for RDC to be	The Corporation is pursuing the Directors who are holding shares in trust for NHC to transfer the same to the current NHC Directors. Once this is done the company will be wound up. Since the Company is not a going concern by virtue of having ceased operations, consolidation of the financial statements would have been misleading to the readers of the financial statements	William Keitany Ag. Corporation Secretary	Not Resolved	June 2020



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	wound-up, the Corporation has not made any progress in this process. In the absence of consolidated accounts and evidence of liquidation, then the management failed to comply with International Financial Reporting Standards number 10 which requires the entity to consolidate the financial statement of the entities it controls.				
8.0 Schemes in Progress	Makande Estate - Mombasa (Estate purchased through a debt Swap) As previously reported, the Corporation took over the Makande estate (in Mombasa) from the defunct Mombasa Municipal Council through a debt swap to offset the loan debt of Ksh. 260	The Corporation took over the ownership of Jomo Kenyatta Makande estate from the then Mombasa Municipal Council in a debt swap agreement. True ownership of the land was established and due diligence conducted. However, upon transfer of the said estate to NHC, the Corporation discovered that	William Keitany Ag. Corporation Secretary		June 2020 to resolve court case



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	million owed to the Corporation by the council. The estate was then valued at Ksh.310 million. The corporation aid the excess value of Ksh.50 million to the council and took over the estate. When the Corporation started some developments on the acquired estate, some individuals claimed ownership of the parcels of land within the estate and filed cases in Mombasa High Court. The Corporation could not continue with its planned development due to the pending court cases. When the audit team visited the site for inspection, it was noted that within the estate, some individuals have fenced some plots and put up	the Municipal Council of Mombasa had leased some 17 pieces of land from within the said property. The Corporation also resolved to rescind the transfer/sale agreement with the then Council and issued a rescission notice to the Council accordingly citing misrepresentation of facts. Thereafter the then Council filed suit against the Corporation insisting that the transfer was valid. The suit is still pending in court Security and Encroachment in Jomo Kenyatta Makande-Mombasa As part of its measures to improve security of the estate and deter any encroachment, the Corporation decided to construct			



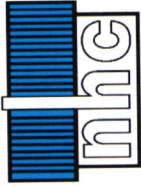
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	small business which are operational. The wall with was being erected for security purposes had stalled and was incomplete, and generally the estate was in poor state. The Corporation however, did not explain measures being undertaken to improve the security of the estate. Further, no explanation was provided on why the Corporation decided to enter into the agreement for the debt swap without establishing the true ownership of the land whether the land had any encumbrances. In addition, it has not explained how it is dealing with the issue of encroachment into the estate. In the circumstances, the Corporation may not	a perimeter wall around the estate. However, some residents/tenants of the estate and the alleged owners of the 17 existing plots went to court and obtained orders stopping the Corporation from erecting the perimeter wall (case numbers HCC 8 of 2011, CMCC 31 of 2011 and HCC 72 of 2011). The cases filed by the tenants and the alleged owners of the 17 excised plots have been stayed pending the outcome of the main suit (case number HCC 241/2011). Value for Money In the recent valuations conducted in June 2017, Jomo Kenyatta Makande was valued at Kshs. 1.8 billion. The property was acquired at Kshs. 310 million. The property capital appreciation			



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	have attained value for money in the purchase of the disputed property.	of Kshs. 1.5 billion is a clear indication that the Corporation received value for money. Current Status The Corporation intends to hold bilateral discussions with the County Government of Mombasa on Jomo Kenyatta Makande with a view to finding a solution even as the court matter progresses. Further the Corporation commenced requisite communication with the National Land Commission on the same. It is worth noting that NLC has instructed the Land Registrar to place restrictions on the affected titles.			
	Kanyakwar II - Kisumu Note 17 to the financial statements reflects schemes	Interest on Construction Finance Charged to the Project	Robert Ambuku Ag. General	Not Resolved	June 2020



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	in progress of Ksh.1,800,228,669 included in the figure is Kanyakwar II project in Kisumu amounting to Ksh.207,330,707.65 which had stalled due some disputes with the contractor. Although this project had stalled since the beginning of the financial period, it has continued to attract costs amounting to Ksh.13,854,373. It was noted that out of these charges; Ksh.12,579,377 relates to "interest on construction cost" and Ksh.436,350 relates to "supervisory costs of Ksh.436,350. In addition, it was not explained to the audit team, how a turnkey project fully funded by the contractor could attract	Interest on construction finance is the opportunity cost of the funds tied up in projects during construction period. The interest charged is based on the current Treasury bill rate and is computed on project disbursements made by the Corporation. In the case of Kisumu Kanyakwar II, the contract provided for an advance payment of 5% of Kshs.2,165,000,000(contract sum) at commencement of the project. Since the project has not been closed and the Corporation's funds in the amount of Kshs. 108,250,000 have been tied up in the project, then the advance payment continues to attract interest on construction finance until the project is closed.	Manager Technical Services		
		Supervisory Costs Charged to			



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	interest on construction of Ksh.12,579,377. It was therefore difficult to establish if the indicated payments were justified. Effectively, the Corporation may not have obtained value for money in this contract totalling Ksh.207,330,707.65 for the year ended 30 June 2016.	the Project Supervisory costs relate to technical team visits to the site in the form of subsistence allowance and travelling expenses incurred after the project stalled but during the investigation by oversight bodies.			
	Dormant Schemes Included in the figure for schemes in progress of Ksh.1,800,228,669 as at 30 June 2016 are dormant schemes amounting to Ksh.251,099,766.85 and which have remained dormant for over one year. Although the dormant schemes continue to tie up the corporation funds, management has not	Kibera III - These are amounts paid to consultants on preliminary designs of the project. The project stalled because the project land had some squatters who were to be evicted by the Government but which proved difficult. This was the site that was recently developed into a slum-upgrading project by KENSUP.	Erastus Rintaugu Ag. General Manager Finance	Not Resolved	December 2018



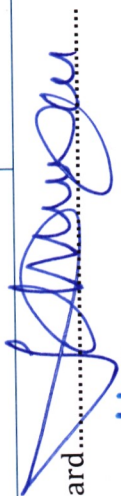
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	explained what it is planning to do with the schemes to release the tied-up capital.	Although the Government had committed itself to funding the project, such funds were not released since the project land was not free of squatters. Board approval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



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		stalled but is currently ongoing			

Chairman of the Board.....


Date.....
 13th June 2018

Managing Director.....


Date.....
 13th June 2018

