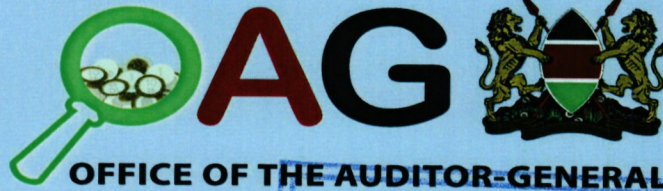


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REPORT

THE NATIONAL ASSEMBLY
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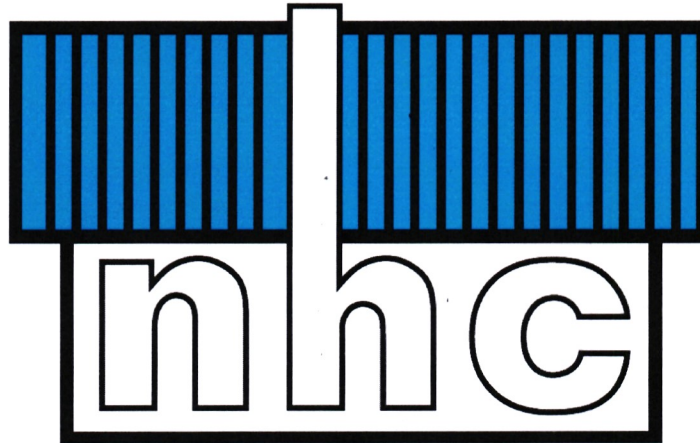
Mainah Wangku

THE AUDITOR-GENERAL

ON

**NATIONAL HOUSING
CORPORATION**

**FOR THE YEAR ENDED
30 JUNE, 2020**



NATIONAL HOUSING CORPORATION



FINANCIAL STATEMENTS FOR THE YEAR ENDED
30TH JUNE 2020

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

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BACKGROUND INFORMATION

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

OUR VISION

Sustainable and decent housing for Kenyans

OUR MISSION

To efficiently provide and facilitate access to innovative housing solutions

OUR CORPORATE VALUES

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

PRINCIPAL ACTIVITIES

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

The principal roles of NHC are:

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

DIRECTORS

The Directors who served the Corporation during the period 2019/2020 were as follows:

1.	Eng. Stephen Ngare	Board Chairman
2.	Amb. Ukur Yatani Kanacho	Cabinet Secretary, The National Treasury
3.	Charles Hinga Mwaura	Principal Secretary, State Department of Housing and Urban Development
4.	Gladys Mboya	Director
5.	Jackson Kimuri	Director
6.	Jane Mwangi	Alternate Director State Department for Housing & Urban Development
7.	Naomi Matheri	Alternate to the Cabinet Secretary, The National Treasury (Retired in 2019)
8.	Jacqueline Mbithe Muindi	Alternate to the Cabinet Secretary, The National Treasury
9.	Prof. Arch. Jerry Magutu	Director
10.	Dr. Habil Olaka	Director
11.	Patricia Nyambura Gathuri	Director
12.	Caroline Armstrong-Ogwapit	Director
13.	Andrew Saisi	Managing Director
14.	William K. B. Keitany	Corporation Secretary

Corporation Secretary

William K. B. Keitany

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



CORPORATE INFORMATION

Corporation Headquarters:

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

Corporation Contacts:

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

Corporation Bankers:

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

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

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

Independent Auditors:

The Auditor General
Office of the Auditor General
P.O. Box 30084 - 00100
Nairobi, Kenya

Principal Legal Advisers:

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

THE BOARD OF DIRECTORS

Hon. Eng. Stephen Muriuki Ngare - Chairman



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

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

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

Amb. Ukur Yatani Kanacho - Cabinet Secretary National Treasury

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

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

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

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

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

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



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

His core competencies include project and structured finance, deal structuring and business development. He has successfully led a number of landmark advisory mandates including the R1.5 billion City Of Johannesburg Broadband Network Project, PRASA restructuring and recapitalization plan, Phase 1B of Rea Vaya Rapid Bus Transportation System and Integrated Rapid Transport Network Project , just to mention a few. Until the time of his appointment as the Principal Secretary State Department for Housing and Urban Development, he was the Group Chairman of an advisory boutique with presence in South Africa and Kenya.

Ms. Gladys Mboya



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

Mrs. Jane Mwangi

Mrs. Jane Mwangi is an alternate Director representing the Principal Secretary, State Department for Housing and Urban Development. She holds a Masters Degree in Housing Administration and a Bachelor's Degree in Land Economics from the University of Nairobi.

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

Mr. Jackson Kimuri

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

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

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

Ms. Patricia Nyambura Gathuri



Ms. Patricia Nyambura Gathuri holds an Economics and Sociology degree from the University of Nairobi and is an experienced and dedicated professional with a successful background in customer management and banking operations.

She has a wealth of experience in risk management and compliance, financial reporting and corporate governance requirements.

She currently sits in the boards of Trust for Indigenous Culture and Health (TICAH) - an international Non-Governmental Organization dealing with indigenous culture and health in communities, Autism Support Centre Kenya (ASCK) - a non-profit organization dedicated to improving the social economic lives of those living within the autism spectrum in Kenya and Outward Bound Trust of Kenya (OBTK) - a trust set up for the running of the Outward Bound Mountain School as well as the Corporate and School Leadership Programmes.

Ms. Jacqueline Mbithe Muindi

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

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

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

Ms. Caroline Armstrong-Ogwapit



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

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

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

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

Prof. Arch. Gerald Jerry Magutu



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

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

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

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

Dr. Habil Olaka



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

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

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

Mr. Andrew Saisi - Managing Director

Mr. Andrew Saisi is the Managing Director for National Housing Corporation. He holds a Masters degree in Business Administration from the Oxford Brookes University (UK). 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 9th September 2011 as the General Manager Manufacturing Division and appointed as the Managing Director of the Corporation on 1st September 2015.

Mr. William Kimutai B. Keitany - Corporation Secretary

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

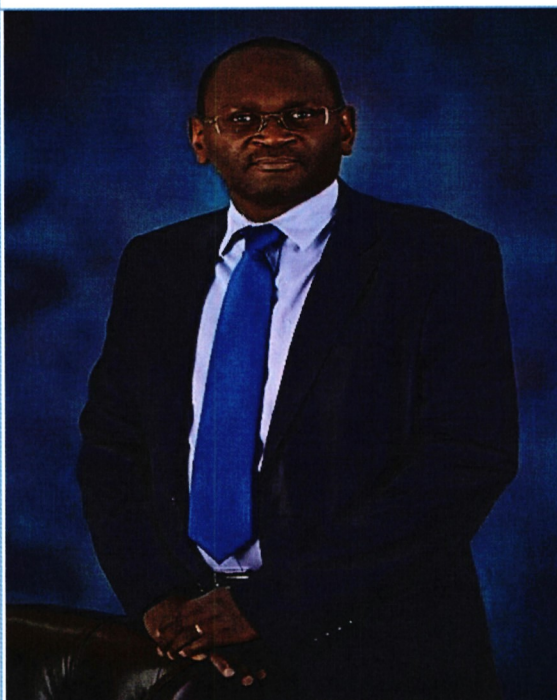
MANAGEMENT TEAM

Mr. Andrew Saisi - Managing Director



Mr. Andrew Saisi is the Managing Director for NHC. 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 9th September 2011 as the General Manager Manufacturing Division and appointed as the Managing Director of the Corporation on 1st September 2015.

Mr. Robert M. Ambuku - Ag. General Manager Technical Services



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

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

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

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

Mr. William Kimutai B. Keitany - Corporation Secretary

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

Ms. Moraa Ongeru - Ag. General Manager Business Development



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

Moraa has over 15 years experience in both Private and Public sector. She has worked at Moi Teaching and Referral Hospital in various capacities including Heading the Planning, Monitoring and Evaluation department. At United States International University Africa, she held the position of Monitoring and Evaluation Specialist for a period of four years for a two programs; one training program focusing on women in business funded by Goldman Sachs Foundation and another focusing on agribusiness entrepreneurs funded by Bill and Melinda Gates Foundation.

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

Ms. Zipporah Njoki Gichungu - Ag. General Manager Finance



Ms Zipporah Njoki Gichungu is a Certified Public Accountant and a holder of Masters degree in Business Administration (Finance Option) from Jomo Kenyatta University of Agriculture and Technology (JKUAT). She also holds a Bachelor of Commerce Degree from KCA University. Zipporah is a Certified Fraud Examiner (CFE) and a member of Association of Certified Fraud Examiners. She has 15 (fifteen) years accounting and auditing experience in the Public Sector having worked in various capacities in Government Ministries and Departments.

Zipporah is on Secondment from the National Treasury where she was serving in the capacity of an Assistant Accountant General.

She is currently coordinating activities in Finance Division as the Ag. General Manager Finance.

Mr. Thomas Ofwa - Ag. General Manager Manufacturing



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

CHAIRMAN'S STATEMENT



On behalf of the Board of Directors, I am pleased to present National Housing Corporation's annual report and financial statements for the year ended 30th June, 2020.

Real Estate sector overview

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

To achieve this objective, the Government is implementing policy and administrative reforms in line with AHP, restructuring housing delivery frameworks, availing land for the AHP programme, incorporating rapid building technologies and review of affordable mortgage services among others. The focus is to lower the cost of housing.

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

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

The Government is keen on delivering the housing units across the country by 2022. This will not only provide decent homes to Kenyans but will also create additional jobs, provide market for manufacturers and suppliers and raise the contributions to the economy of real estate and construction sector.

Challenges facing the real estate sector

The last quarter of the FY 2019/2020 was hard hit by the COVID-19 pandemic. Completion of projects was greatly affected by materials delays in the local as well as the global supply chain. Further, the sector suffered labour shortages due to health and safety concerns as well as travel restrictions. Delays in release of funds saw some projects stall or progress minimally.

Further, due to land registries closures, there was a reduction in the number of land transactions in the form of transfers and leases at the Ministry of Lands.

The sector is expected to experience a slow recovery post-COVID-19 as uptake will be subdued due to depressed income levels and changed priorities by prospective investors. Financial uncertainty is expected to dampen uptake of houses in the real estate sector in 2020. Given that real estate buying is often characterized by speculation, most investors are already counting losses as the COVID-19 pandemic impedes access to credit, lower inflows of revenue and payment defaulters.

NHC Strategic Focus

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

The Corporation through its business strategy strives to:

- Play a key role in the delivery of the Government affordable housing programmes
- Embrace and mainstream environmental sustainability in all business operations
- Focus on stakeholders to create and maintain synergistic relationships with key stakeholders in the housing industry
- Re-engineer internal business processes in line with best practice for improved and continued stakeholder satisfaction and efficient product delivery.

Overview of Financial Results

The National Housing Corporation recorded a pretax profit of Kshs. 261 million representing 13% decrease from the previous financial year. The Corporation's total turnover for the year was Kshs. 1.008 billion, compared to the last financial year turnover of Kshs 1.188 billion.

Dividends

The board proposes a dividend of Kshs. 8.6 million based on 5% of profits after tax.

Conclusion

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



Hon. Eng. Stephen Muriuki Ngare
CHAIRMAN

REPORT OF THE CHIEF EXECUTIVE OFFICER



Dear Shareholders,

On behalf of the Management of National Housing Corporation, it is my pleasure to present to you the Corporation's performance for the financial year FY 2019/2020 ended 30th June, 2020. This report highlights factors and challenges that influenced NHC's performance during the year and the strategic initiatives put in place to steer business growth.

The Corporation takes pride in playing a fundamental role in the delivery of affordable housing to Kenyans under President Uhuru Kenyatta's Big Four Agenda.

Operational Overview

Over the recent years, National Housing Corporation has been on the fore front in delivering decent and affordable housing to Kenyans. Despite the constraints in the building industry, demand for good quality affordable housing remains robust.

To catalyze the delivery process of the affordable housing program, the Corporation has completed various housing projects across the country some of which have since been occupied. Current ongoing housing projects include:

- NHC Langata Commercial Centre
- NHC Olympic View-Kibera
- NHC Nyeri Mixed Use Development
- NHC Stoni Athi Phase II
- Voi Infill

The Corporation continues to house Kenyans through the outright sale and tenant purchase modes of sale as well as through rentals and the provision of rural and peri-urban housing loans.

In August 2019, the Corporation attained ISO 9001:2015 certification. This certification is essential in streamlining the Corporation's productivity, service delivery and customer satisfaction.

Risk being inherent in business, NHC has in place a comprehensive risk mitigation and compliance framework at all operation levels. The framework identifies, assesses and manages risks in all Corporation business aspects.

Financial Overview

National Housing Corporation demonstrated resilience despite the difficult times, mainly characterized by inflationary pressures and the slowdown in private sector credit growth to report good results in the FY 2019/2020. However, revenues were below our expectations following the relatively challenging economic environment that the business was operating in.

Revenues in the year 2019/2020 were Kshs.1.008 Billion compared to Kshs.1.188 Billion in year ended 30th June, 2019. The Corporation's reported a reduction of 13% in its profits. The profits for the year were Kshs.261 million from a profit of Kshs. 300 million reported in the same period last year.

NHC has renewed its emphasis on cost and cash discipline and we are pleased to see our cash reserves for the year improve from Kshs. 37 million in the previous year to Kshs. 118 million. This therefore meant that as a Corporation we were able to meet our expectation of declaring dividend of Kshs. 8.6 million representing 5% of our pretax profit.

Way Forward

The Corporation looks forward to increased momentum on the delivery of affordable housing to Kenyans during the 2020/2021 FY. As an institution, we seek to leverage on:

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

**Conclusion**

As I conclude, I would like to thank the NHC Board of Directors for the immense support they have provided to the Management team as we continue to house the nation. I am confident that together we shall grow the Corporation to greater heights and deliver value to our stakeholders.

A handwritten signature in blue ink, appearing to read 'Andrew Saisi', is written over the printed name.

Andrew Saisi
MANAGING DIRECTOR

MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Performance

The National Housing Corporation (NHC) recorded good results in the year ended 30th June, 2020.

Financial Performance

The Corporation reported a pre-tax profit of Kshs. 261 million in the year under review. However, the performance was below the forecast due to:

1. The Covid 19 pandemic caused unexpected challenges that delayed commencement of some of our projects.
2. Slow market uptake of the EPS panels
3. Projects earmarked for borrowing didn't commence due to failure to obtain necessary approvals in time

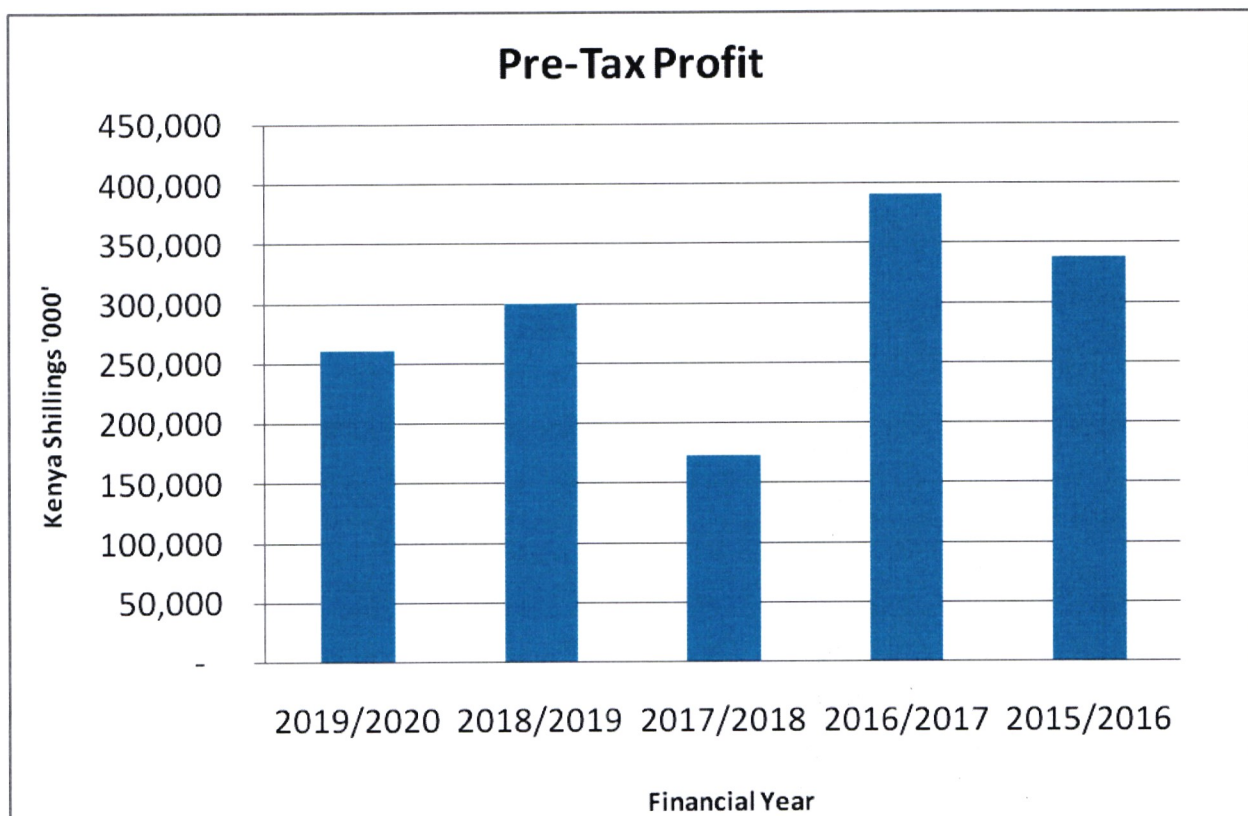


Figure 1 Analysis of Annual After Tax Profit

The Corporation continued to enjoy an extremely strong financial position with total assets of Kshs. 21.4 billion at the end of the year ended June 2020.

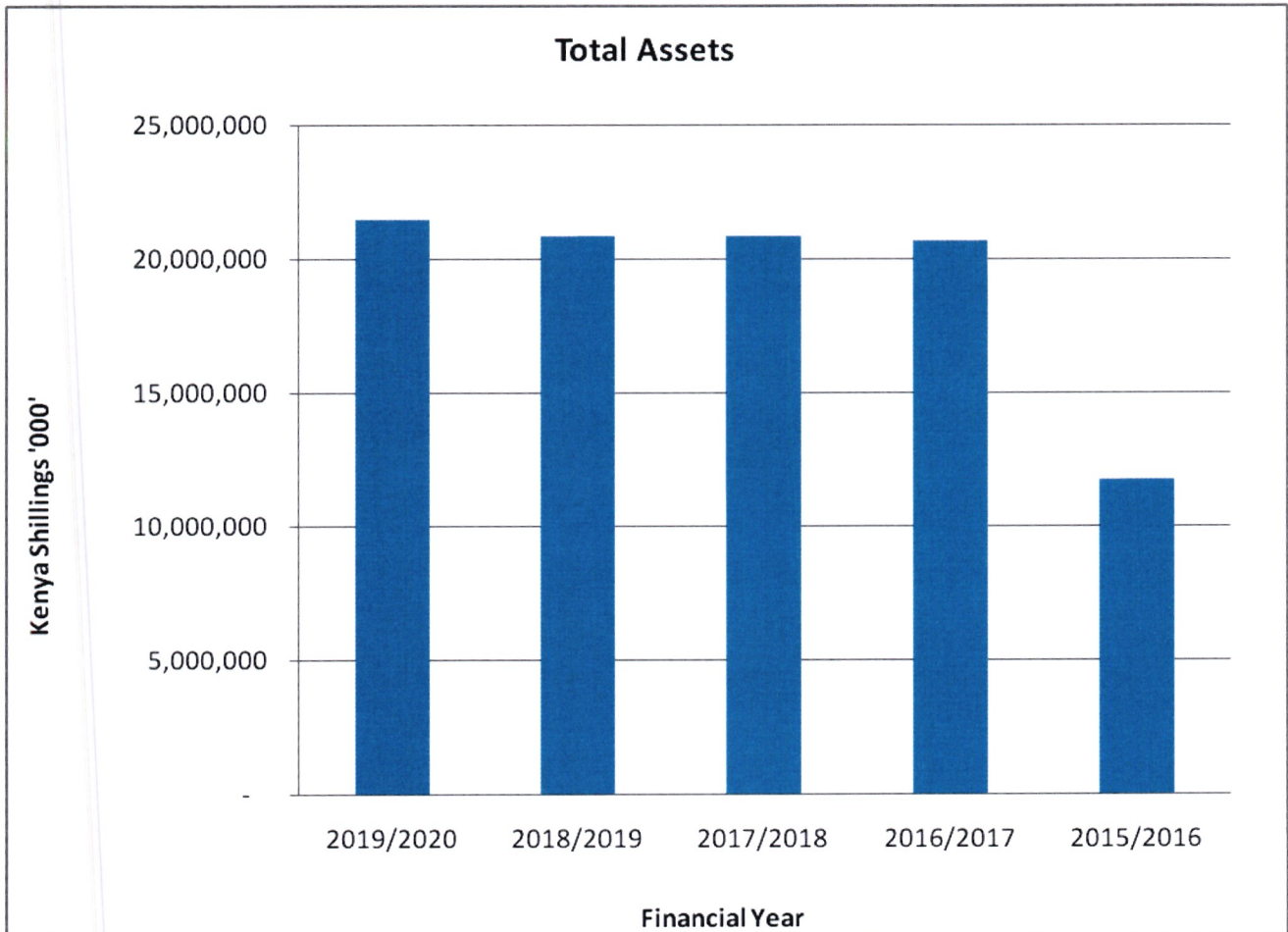


Figure 2 Analysis of Total Assets

Revenue

Interest Income is the highest source of revenue, accounting for 57% of total turnover. Rent income accounts for 24% of total revenue, EPS sales at 9% and gain on sale of houses, professional fees and other income at 5%, 2% and 3% respectively as indicated on the pie chart on revenue streams.

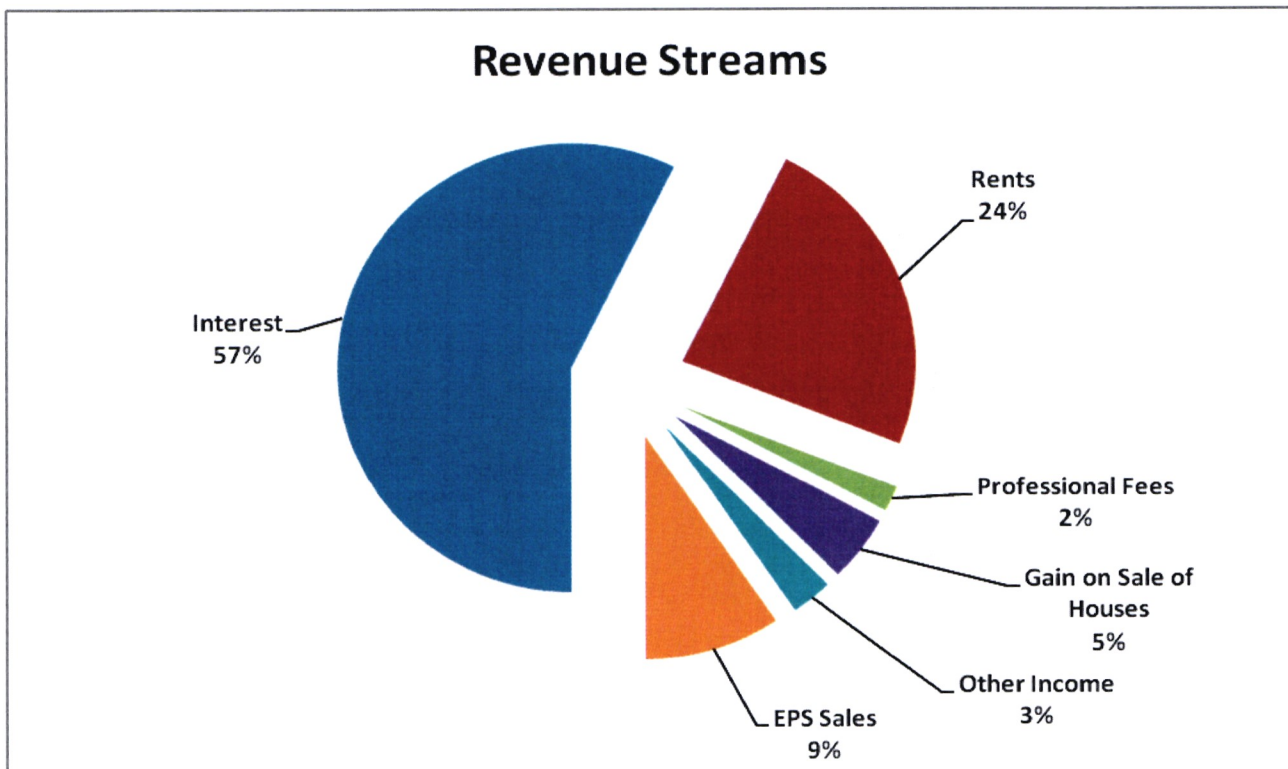


Figure 3 Analysis of Different Sources of Revenue

Opportunities

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

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

Challenges

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

1. **Inflation:** Inflation has affected the cost of construction which in turn affects the cost of the end product.
2. **Harsh economic times:** Have eroded the purchasing power of potential home buyers. This has adversely affected our project revenues.
3. **Building Technology:** Slow market uptake of the Corporation's Expanded Polystyrene Styrofoam (EPS).

NHC remains committed to fulfilling its mandate of Housing the Nation and growing its business.

Compliance with Statutory Requirements

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

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

Operational Developments

In the year ended June 2020, the Corporation continued to execute its mandate, of Housing the Nation.

The Corporation intends to commence more projects within the FY 2020/2021. This will be made possible through internally generated funds, borrowings as well as partnerships. The planned partnerships with County Governments will alleviate the prevalent housing shortage in the Country. Collaboration with other institutions through joint ventures will enhance our capacity to deliver houses. NHC will continue to grow sales and consumption of the EPS panels and Rural Housing Loans.

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

Risk Analysis

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

1. **Project Implementation:** NHC's projects bear considerable construction risks arising from delayed completion and commissioning. To mitigate against this the Corporation will continue to manage its projects in order to minimize factors that may result in project overruns and delays.
2. **Inflation:** There is the risk that overall rise in prices of goods and services will undermine the value of money, and probably adversely affect the uptake of houses. The increase in prices could also affect the cost of units which could make them expensive.
3. **Access to Capital Funds:** National Housing Corporation requires substantial capital in order to finance its projects. The Corporation therefore continues to explore ways of securing additional sources of funding through Public Private Partnerships (PPP) arrangements to supplement its internally generated funds.
4. **Credit Risk:** National Housing Corporation has continued to grow its lending base to Kenyans through its tenant purchase and rural housing products. There is therefore the risk that the current debtors may fail to meet their obligations in accordance with the agreed terms. The Corporation continues to mitigate this risk by carrying out comprehensive credit appraisal on all applicants.
5. **Liquidity Risk:** The Corporation continues to actively monitor and control its liquidity levels to ensure that it reduces any risk exposures on meeting its liabilities when they arise.

Material Arrears in Statutory/Financial Obligations

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

Corporation's Financial Probity and Serious Governance Issues

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

A handwritten signature in blue ink, appearing to read 'A. Saisi', is written over a horizontal line.

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, six other independent directors, and two other directors from the public sector, representing Ministry of Finance & Treasury and State Department for Housing & Urban Development (Ministry of Transport, Infrastructure & Urban Development).

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

Board Meetings - Information for Directors

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

by management to the Board. Board Committees and directors may seek briefing from management on specific matters as well as seek independent professional advice.

Oversight Role of the Board

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

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

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

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

Conflict of Interest

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

Committees of the Board

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

1. Audit, Risk and Compliance Committee

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

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

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

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

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

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

Name	15/10/19	3/03/20	26/06/20	30/06/20
Mr. Jackson Kimuri	√	√	√	√
Ms. Patricia Gathuri	√	√	√	√
Dr. Habil Olaka	√	x	x	x

Name	15/10/19	3/03/20	26/06/20	30/06/20
Ms. Jacqueline Muindi	√	√	√	√

2. Finance, Strategy and Business Development Committee

Finance, Strategy and Business Development 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 were:

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

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

Name	8/10/19	18/10/19	10/12/19	11/03/20	24/06/20
Dr. Habil Olaka	√	√	√	√	√
Mrs. Jane Mwangi	√	√	√	√	√
Ms. Gladys Mboya	x	√	√	√	x
Ms. Naomi Matheri	√	√	n/a	n/a	n/a
Mrs. Jacqueline Muindi	n/a	n/a	x	x	√
Mr. David Gichuhi (Inspectorate of State Corporations)	x	√	x	√	x
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, procurement and legal matters at the corporate level.

The members of the Human Resource and Administration Committee were:

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

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

Name	16/10/19	11/12/19	04/03/20	13/03/20	25/06/20
Ms. Caroline Armstrong	√	√	√	√	√
Mr. Jackson Kimuri	√	√	√	√	√
Ms. Patricia Gathuri	√	√	√	√	√
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 were:

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

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

Name	17/10/19	05/03/20	29/06/20
Arch. Jerry Magutu	√	√	√
Mrs. Jane Mwangi	x	√	√
Ms. Gladys Mboya	√	√	√
Mr. David Gichuhi (Inspectorate of State)	x	x	x
Managing Director	√	√	√

Attendance of the Board Meetings

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

Name	20/11/19	21/05/20
	206 th Meeting	207 th Meeting
Mr. Stephen Ngare	√	√
Ms. Gladys Mboya	√	√
Mr. Jackson Kimuri	√	√
Dr. Habil Olaka	√	√
Arch. Jerry Magutu	√	√
Ms. Caroline Armstrong	√	√
Ms. Patricia Gathuri	√	√
Mrs. Jane Mwangi	√	√

Name	20/11/19	21/05/20
	206 th Meeting	207 th Meeting
Mrs. Jacqueline Muindi	√	√
Mr. David Gichuhi (Inspectorate of State)	x	x
Managing Director	√	√

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

Name	26/09/19	11/10/19	05/11/19	16/12/19	13/01/20	30/01/20
Mr. Stephen Ngare	√	√	√	√	√	√
Ms. Gladys Mboya	x	√	x	x	x	x
Mr. Jackson Kimuri	√	√	√	√	√	√
Dr. Habil Olaka	√	√	√	√	√	√
Arch. Jerry Magutu	√	√	√	√	√	√
Ms. Caroline Armstrong	√	√	√	√	√	√
Ms. Patricia Gathuri	√	√	√	√	√	√
Mrs. Jane Mwangi	√	√	√	√	√	√
Ms. Naomi Matheri	√	x	√	x	n/a	n/a
Mrs. Jacqueline Muindi	n/a	n/a	n/a	n/a	√	√
Mr. David Gichuhi (Inspectorate of State)	√	√	x	x	x	x
Mr. Gerald Mwangi (Inspectorate State Corporation)	n/a	n/a	n/a	n/a	√	√
Managing Director	√	√	√	√	√	√

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Introduction

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

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

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



Delegates pose for a photo after attending the National Urban Forum in Kisumu, Kenya

During the FY 2019/2020, the Corporation participated in the National Urban Forum which took place in Kisumu, Kenya as well as the 10th World Urban Forum that was held in Abu Dhabi, UAE.

These forums play a key role in implementing the New Urban Agenda which lays out how cities should be planned and managed to best promote sustainable development. They further examine the impact of rapid urbanization and the implications on social, economic and environmental policies in communities, cities and towns.

Taking into account the Corporation's mandate, the Corporation's participation is in line with the success of the affordable housing programme which is part of the President's Big Four Agenda. As a way of giving back to the community, the Corporation committed to coming up with housing programmes that are sustainable and addressing the needs of the community. These forums provide a much needed

platform to learn from various industry players who exchange their views and experiences on sustainable urbanization.

The National Housing Corporation in partnership with National Oil Corporation of Kenya (NOCK) and CFAO Kenya Limited (a Toyota Tshusho Group Company) signed a Memorandum of Understanding to implement LPG (Liquid Petroleum Gas) reticulation for NHC residential units. The LPG reticulation system involves distribution of LPG to several housing units through strategic piping which sees multiple consumers served from one central storage tank. The pilot project is set to commence with NHC residential units located in Nairobi's South B (Sadi Road) estate.

The incorporation of LPG reticulation system is a key milestone in the delivery of affordable and decent housing for Kenyans.



MD NHC (second from left) after signing an MOU with CFAO and National Oil Corporation of Kenya, to facilitate the installation of LPG systems at NHC's housing projects

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year ended on 30th June, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the State Corporations Act, Cap 446. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of the Corporation's transactions during the financial year ended 30th June, 2020, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained by the Corporation, which have been relied upon in the preparation of the Corporation's financial statements as well as the adequacy of the systems of internal financial control.

Approval of the financial statements

The Corporation's financial statements were approved by the Board on 30th September 2020 and signed on its behalf by:

Chairman

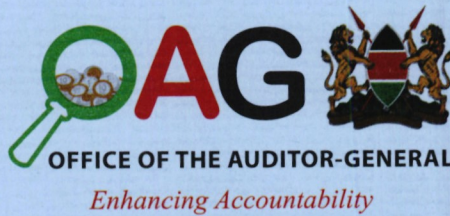


Managing Director



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REPORT OF THE AUDITOR-GENERAL ON NATIONAL HOUSING CORPORATION FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Housing Corporation set out on pages 41 to 89, which comprise of the statement of financial position as at 30 June, 2020, statement of profit or loss and other comprehensive income, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the National Housing Corporation as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards and comply with the Housing Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Land

As disclosed in Note 12 to the financial statements, the statement of financial position reflects land balance of Kshs.2,196,149,894. As previously reported, the balance excludes forty-three (43) parcels of land measuring approximately 92 Hectares of undetermined value but without title deeds. Some of these properties have developments on them. Further, the balance is net of Stoni-Athi land valued at Kshs.79,500,000 which was written off without supporting documents.

In addition, title deeds for five (5) parcels of land measuring approximately 5 Hectares located in Nairobi and Nakuru were not provided.

Consequently, the accuracy, validity, ownership and completeness of the land balance of Kshs.2,196,149,894 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

2. Unsupported Unquoted Investment

As disclosed in Note 16 to the financial statements, the statement of financial position reflects unquoted investment balance of Kshs.104,657,797 in Research and Development Limited. However, the investment in the Company, a wholly owned subsidiary, at a cost of Kshs.99,457,797 was unsupported by a certificate of registration and share certificates.

Consequently, the accuracy and validity of unquoted investment value of Kshs.104,657,797 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

3. Loan Amount Receivable

As disclosed in Note 18 to the financial statements, the statement of financial position reflects loan amount receivable balance of Kshs.2,975,078,853. The balance includes outright sales balances due totalling to Kshs.196,210,561. Though the sale agreement was for outright purchase, the buyers have not been able to pay the balances.

Further, the balance includes tenant purchase scheme balance of Kshs.475,907,430 and ex-staff loans balance of Kshs.26,714,558. However, the supporting schedules reflected an amount of Kshs.450,428,394 for the tenant purchase scheme and Kshs.24,474,737 for ex-staff loans, resulting to an unexplained variance of Kshs.25,479,036 and Kshs.2,239,821 respectively. Also, the balance included a balance of Kshs.1,634,008,904 owed by defunct local authorities. However, provision for doubtful debts was not made for these debts.

In addition, the balance includes Rural Housing Loans amounting to Kshs.779,576,829. However, the supporting schedule amounted to Kshs.735,038,860 resulting to an unreconciled variance of Kshs.44,537,969. Loans amounting to Kshs.693,651,482 have been outstanding for periods exceeding ninety (90) days and although the Management has made provisions amounting to Kshs.137,339,429, its adequacy is doubtful.

Consequently, the accuracy, completeness and validity of loan amount receivable balance of Kshs.2,975,078,853 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

4. Trade and Other Receivables

As disclosed under Note 20(a) to the financial statements, the statement of financial position reflects net trade and other receivables balance of Kshs.570,378,289. The balance includes rent in arrears amounting to Kshs.285,363,257 with a balance of Kshs.240,213,979 outstanding for over ninety (90) days. However, the provision for doubtful debts amounting to Kshs.81,543,901 was not supported by a detailed schedule.

Further, the balance includes an amount of sundry debtors amounting to Kshs.366,558,932 out of which an amount of Kshs.315,402,908 has been outstanding for over ninety (90) days casting doubts to its recoverability. Although, provision for

doubtful debts of Kshs.1,446,622 have been effected, its adequacy is in doubt. In addition, Housing Finance of Kenya and Ministry of Public Works (MoPW) owe an amount of Kshs.87,201,499 and Kshs.28,378,026 respectively, which has remained unpaid for the past one year.

In the circumstance, the accuracy, completeness and validity of trade and other receivables balance of Kshs.570,378,289 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

5. Long Term Loan Advanced

As disclosed in Note 15 to the financial statements, the statement of financial position reflects long term loan amounting to Kshs.2,788,167,858. The balance includes an amount of Kshs.30,857,179 due from the defunct local authorities. Its recoverability is doubtful and yet management has not made any provision for bad and doubtful debts.

Further, the balance includes rural housing loans balance of Kshs.383,578,977 that has been arrived at after netting off an unsupported amount of Kshs.114,330,876. In addition, the balance includes staff loans amounting to Kshs.479,663,971 whose supporting schedule amounted to Kshs.484,002,290 resulting to an unreconciled variance amounting to Kshs.4,338,319.

In the circumstances, the accuracy, completeness and validity of the long term loan advanced balance of Kshs.2,788,167,858 reflected in the statement of financial position as at 30 June, 2020.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Housing Corporation Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

1. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given satisfactory explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury and Planning Circular reference No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

2. Expanded Polystyrene Panels (EPS) Factory

Note 5 to the financial statements discloses trading loss of Kshs.37,459,969 (2019-Kshs.33,557,100) from the operations of the EPS factory. This is indicative of the continued deterioration in the financial performances of the subsidiary. No measures have been put in place to reverse this trend and the sustainability of the EPS factory is in doubt.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Delay in Construction of Langata Court Mall

The contract was awarded for the sum of Kshs.527,407,286 with a duration of fifty-two (52) weeks starting 25 February, 2015 and with expected completion date of 24 February, 2016. On 9 February, 2015 the Contractor issued a performance bond of Kshs.52,740,729 from an Insurance Company contrary to the contract terms which required a performance bond from a reputable banking institution.

Though the Contractor took possession of the site on 11 February, 2015, the work progress was too slow. After five (5) months of commencement of the works, the contractor was requested to submit a bank performance bond. The Contractor wrote back asking for release of the first bond for ease of replacement to which the Corporation accepted. After the release, the bond, the contractor abandoned the site. The amount of work done as of then was at 10% against 42.5% of time lapsed. Thereafter the Corporation terminated the contract on the grounds of submission of inappropriate performance bond and slow work progress and non-performance. The management has not provided evidence of action taken on the contractor for the breach of contract.

Further, the works were re-tendered and awarded at a contract sum of Kshs.468,255,940 to another contractor for a duration of fifty-two (52) weeks starting 6 March, 2017 to 6 March, 2018 and later extended to 17 January, 2019.

A site inspection on 18 January, 2021 revealed that the contractor was still on site with only 45% of works having been completed and nine (9) certificates of payments submitted amounting to Kshs.352,844,305 of which Kshs.280,180,277 had been paid representing 40% of the contract sum. The contract is significantly behind schedule despite the approved extension of time having elapsed.

Consequently, it has not been possible to confirm whether value for money will be realized from the incomplete project.

2. Delay in Boundary wall and Civil Works at Stoni Athi7

As reported in previously, the contract agreement for the boundary wall and civil works at Stoni Athi-NHC/Tech/Bwsa/002/2016-2017 was signed with the understanding of the performance security being provided within fourteen (14) days of contract award and before taking site possession or commencement of the works. However, the contractor was issued with a certificate of possession of site on 18 November, 2016 before complying with bond terms in the signed contract.

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

The project completion date was set for 19 May, 2017 and subsequently revised to 2 August, 2017. However, during physical verification on 31 March, 2021, the project remained incomplete and some sections of the wall had been washed away by floods and had not been repaired.

In the circumstances, it has not been possible to confirm if and when value for money will be realized from the incomplete project. Further the management is in breach of the law.

3. Trade and other Payables

The statement of financial position reflects trade and other payables balance of kshs.1,261,573,875 and as disclosed under Note 28 to the financial statements. Included in the balance are amounts due to contractors of Kshs.149,801,720 which have been outstanding for over one year. No explanations were provided for the delay in settling the contractors payments despite the risk of incurring avoidable interest and penalties associated with it.

In the circumstances, I am unable to confirm whether public resources were effectively managed.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

Responsibilities of Management and the Board of Directors

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

In preparing the financial statements, Management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Corporation or to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 (7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. 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 as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

11 February, 2022

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

	Notes	2019/2020 Kshs	Restated 2018/2019 Kshs
INCOME			
Turnover	3	884,403,613	948,325,810
Other Income	4	29,177,240	28,783,177
EPS Sales	5 (b)	95,222,713	211,314,424
		1,008,803,566	1,188,423,411
EXPENSES			
EPS Expenses	5 (c)	132,682,683	244,871,525
Staff Costs	6	303,401,492	331,582,748
Administration Costs	7 (a)	250,043,444	250,640,220
Board Expenses	7 (b)	13,638,433	10,240,701
Depreciation - Property Plant & Equipments Amortization -Intangible Assets	11 (b) 13	43,884,431 3,451,991	55,616,657 4,715,231
		747,102,474	897,667,082
OPERATING PROFIT		261,701,092	290,756,329
Finance Income	8	-	10,203,123
Profit Before Taxation		261,701,092	300,959,452
Provision for tax	9 (a)	89,291,501	106,972,242
Profit After Taxation		172,409,591	193,987,210
Proposed Dividends	10	8,620,480	6,874,701
Retained Profits		163,789,112	187,112,509
Profit attributable to Shareholders		163,789,112	187,112,509

STATEMENT OF FINANCIAL POSITION

	NOTES	2019/2020 Kshs	Restated 2018/2019 Kshs
ASSETS			
Non Current Assets			
Property, Plant & Equipment	11 (a)	1,201,009,005	1,250,920,166
Land	12	2,196,149,894	2,373,672,688
Intangible Asset	13	6,080,821	5,973,817
Investment Property	14	7,073,443,624	7,329,767,565
Long Term loan Advanced	15	2,788,167,858	3,118,120,867
Unquoted Investment	16	104,657,797	104,657,797
Total Non-Current Assets		13,369,508,999	14,183,112,900
Current Assets			
Schemes in Progress	17	1,731,388,692	2,441,521,856
Loan Amount Receivable	18	2,975,078,853	2,706,273,651
Inventories	19	2,663,062,249	963,028,014
Trade and other Receivables	20(a)	570,378,289	468,202,943
Tax Recoverable	9(b)	47,006,470	73,620,673
Cash and Bank balances	21	118,620,441	37,595,837
Total Current Assets		8,105,534,994	6,690,242,974
TOTAL ASSETS		21,475,043,993	20,873,355,874
EQUITY AND LIABILITIES			
Capital and Reserves			
Equity	22	6,936,000,000	6,936,000,000
Unrealised Gain on Sale of Houses	23	509,701,383	630,116,826
Retained Earnings	24	3,788,555,543	3,624,766,432
House Equalization	25	383,118,995	383,118,995
Revaluation Reserve	26	8,119,124,295	8,286,440,995
Total Capital and Reserves		19,736,500,216	19,860,443,248
Non Current Liabilities			
Long Term Loans	27	396,586,142	-
Deferred Tax Liability	9(c)	45,636,137	55,552,291
Total Non Current Liabilities		442,222,279	55,552,291
Current Liabilities			
Trade and other Payables	28	1,261,573,875	931,233,192
Dividend payable	10	34,747,623	26,127,143
Total Current Liabilities		1,296,321,498	957,360,335
TOTAL EQUITY AND LIABILITIES		21,475,043,993	20,873,355,874

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

Chairman:  Managing Director:  General Manager Finance: 

STATEMENT OF CHANGES IN EQUITY

	Kshs					TOTAL	
	EQUITY	UNREALISED GAIN ON SALE OF HOUSES	RETAINED PROFIT	HOUSE EQUALIZATION RESERVE	REVALUATION RESERVE	Kshs	Kshs
1ST JULY 2018	6,936,000,000	594,884,901	3,335,226,741	383,118,995	8,459,665,084	19,708,895,721	
Adjustments (Note 24)			102,427,182			102,427,182	
House Equalization Reserve (Note 25)							
Realised Gain (Note 23)		(38,475,027)				(38,475,027)	
Unrealised Gain (Note 23)		73,706,952				73,706,952	
Proposed dividends for year (Note 10)			(6,874,701)			(6,874,701)	
Profit for the year (Note 24)			193,987,210			193,987,210	
Revaluation reserve (Note 26)					(173,224,089)	(173,224,089)	
30TH JUNE 2019	6,936,000,000	630,116,826	3,624,766,432	383,118,995	8,286,440,995	19,860,443,248	
1ST JULY 2019	6,936,000,000	630,116,826	3,624,766,432	383,118,995	8,286,440,995	19,860,443,248	
House Equalization Reserve (Note 25)							
Unrealised Gain (Note 23)		24,828,140				24,828,140	
Realised Gain (Note 23)		(145,243,583)				(145,243,583)	
Proposed dividends for year (Note 10)			(8,620,480)			(8,620,480)	
Profit for the year (Note 24)			172,409,591			172,409,591	
Revaluation reserve (Note 26)					(167,316,700)	(167,316,700)	
30TH JUNE 2020	6,936,000,000	509,701,383	3,788,555,543	383,118,995	8,119,124,295	19,736,500,216	

STATEMENT OF CASH FLOWS

	Notes	2019/2020	2018/2019
		Kshs	Kshs
OPERATING ACTIVITIES			
Cash generated from operations	29	(558,883,656)	(100,139,347)
Taxation paid	9 (b)	(72,593,452)	(227,949,572)
Net cash generated from/(used in) operating activities		(631,477,108)	(328,088,919)
INVESTING ACTIVITIES			
Purchase of fixed assets			
- Land	12	(977,206)	78,453,514
- Property, Plant & Equipment	11	(5,524,592)	(4,719,489)
- Intangible Assets	13	(3,558,997)	-
- Investment Property	14	(3,976,639)	(127,266,685)
Loans advanced	30	(79,501,552)	(181,354,908)
Tenant purchase loans advanced	30	(44,556,833)	(244,240,245)
Redemption of loans	30	180,444,251	168,867,814
Redemption of TP Loans	30	273,567,138	302,864,002
Net cash generated from/(used in) investing activities		315,915,570	(7,395,997)
FINANCING ACTIVITIES			
Loan Received	27	396,586,142	-
Net cash generated from/(used) in financing activities		396,586,142	-
Increase / (Decrease) in cash and cash equivalents		81,024,604	(335,484,916)
Cash & Cash Equivalents at the beginning of the period		37,595,837	373,080,753
Cash & Cash Equivalents at the end of the period	21	118,620,441	37,595,837

STATEMENT OF BUDGET AND ACTUAL COMPARISON

	Actual	Final Budget	Variance	% Variance	Explanation of material variances (+/-10%)
	Kshs.	Kshs.	Kshs.	%	
Revenue					
Interest Earned	578,546,920	546,938,000	31,608,920	6%	
Rental Income	238,605,163	233,791,000	4,814,163	2%	
Professional fees	19,005,344	21,771,000	(2,765,656)	-13%	(a)
Gain/(Loss) on sale of houses	48,246,186	324,088,000	(275,841,814)	-85%	(b)
Eps Sales	95,222,713	210,841,000	(115,618,287)	-55%	(c)
Other Incomes	29,177,240	31,321,000	(2,143,760)	-7%	
Total Revenue	1,008,803,566	1,368,750,000	(359,946,434)		
Operating Expenses					
Salaries & Benefits	303,401,492	414,211,000	110,809,508	27%	(d)
Board Expenses	13,638,433	30,000,000	16,361,567	55%	(e)
Depreciation	47,336,422	220,366,000	173,029,578	79%	(f)
EPS Expenses	132,682,683	249,946,478	117,263,795	47%	(g)
Auditors Remuneration	1,200,000	1,200,000	-	0%	
Property & Estates	43,675,615	43,675,616	1	0%	
Motor Vehicle Expenses	4,933,157	5,821,000	887,843	15%	(h)
Repairs of Equipment	14,262,917	16,078,000	1,815,083	11%	(i)
Travelling General	10,118,533	10,118,533	(0)	0%	
Printing & Stationery	3,496,764	7,743,380	4,246,616	55%	(j)
Office rents	20,845,983	21,443,000	597,017	3%	
Postage & Telephones	4,043,288	4,043,289	1	0%	
Advertising	4,139,312	7,042,262	2,902,951	41%	(k)
Insurance	3,739,483	4,898,000	1,158,517	24%	(l)
Bank Charges	3,234,234	3,234,234	(0)	0%	
Library Expenses	1,730,620	1,730,620	0	0%	
Staff Uniforms	523,676	683,000	159,324	23%	(m)
Exhibition	1,847,205	1,847,205	0	0%	
Training	4,357,826	5,386,670	1,028,844	19%	(n)
Bad Debts Provision	12,730,642	12,145,000	(585,642)	-5%	
Post contract payments	2,930,599	2,930,600	1	0%	
Debt Collection Expenses	2,754,822	2,624,000	(130,822)	-5%	
Legal Charges	31,370,034	31,919,000	548,966	2%	
Staff Sports Club	299,450	331,578	32,128	10%	(o)
Consultancy General	24,971,116	24,971,116	0	0%	
Medical in Patient	48,243,942	50,021,000	1,777,059	4%	
Corporate Social Responsibility	-	292,000	292,000	100%	(p)
Entertainment	3,289,805	9,219,000	5,929,195	64%	(q)
Staff welfare	1,304,422	1,304,422	-	0%	
Total Expenses	747,102,474	1,185,226,003	438,123,529		
Profit	261,701,092	183,523,997	78,177,095		

EXPLANATION OF MATERIAL VARIANCES ON STATEMENT OF BUDGET AND ACTUAL COMPARISONS

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

- a. The total professional fees earned for the period was Kshs.19 million against a target of Kshs.22 million. This indicates an un-favourable variance of Kshs.3 million. The negative variance reported is a result of delay in implementing the Stoni Athi Economy Phase II Sector II project which was put on hold awaiting review of market reaction for the Stoni Athi Economy Phase II sector I project which was completed in May 2020.
- b. The gain on sale earned for the period was Kshs.48 million compared to a forecast of Kshs.324 million. This resulted in an unfavourable variance of Kshs.276 million due to delay in completing the Langata Commercial Center, Nyeri Commercial Center and The Stoni Athi Economy Phase II Sector I projects in the year. The Corporation also realized minimal sales in the Stoni Athi Phase I and the Kibera Commercial Center outright sale schemes

The delay in completing the projects was largely as a result of slow construction by contractors and the effects of the COVID-19 pandemic mitigation measures adopted by the GOK in the year.

- c. The EPS factory did not achieve its target because of
 1. Stiff competition from other players in the market offering the same product that is inferior but cheaper than NHC's.
 2. Slow market uptake of the technology.

3. The reduced activity in the target market due to restrictions imposed to contain the COVID-19 pandemic countrywide which led to halting of construction activity during the fourth quarter of 2019/2020.
 4. High costs of production ranging from the costs of raw materials, power, and maintenance of equipments.
- d. - f.** The favourable variance realized from the expenses is due to cost cutting measures adopted in line with prudent financial management and reduced activity due to the adoption of the COVID-19 mitigation measures prescribed by the GoK.
- g.** The favourable variance realized from the expenses is due to cost cutting measures adopted in line with prudent financial management and reduced EPS Factory production activity due to the adoption of the COVID-19 mitigation measures prescribed by the GoK in the Factory.
- h. - q.** The favourable variance realized from the expenses is due to cost cutting measures adopted in line with prudent financial management and reduced activity due to the adoption of the COVID-19 mitigation measures prescribed by the GoK.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Statement of Compliance and Basis of Preparation

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

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

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

B. Application of new and revised International Financial Reporting Standards

(i) New standards and amendments to published standards

IAS 1 Presentation of Financial Statements

Description

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

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

Effective Date

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and are to be applied retrospectively. Earlier application is permitted.

Effect

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

IAS 37 Provisions, Contingent Liabilities and Contingent Assets**Description**

IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable).

Effective Date

The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

IAS 8 Accounting Policies. Changes in accounting Estimates and Errors**Description**

IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" is applied in selecting and applying accounting policies, accounting for changes in estimates and reflecting corrections of prior period errors. The standard requires compliance with any specific IFRS applying to a transaction, event or condition, and provides guidance on developing accounting policies for other items that result in relevant and reliable information. Changes in accounting policies and corrections of errors are generally retrospectively accounted for, whereas changes in accounting estimates are generally accounted for on a prospective basis.

Effective Date

The amendment is effective for annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

The Corporation effected this amendment in the Financial Statements of 2018/2019

IFRS 16 Leases

Description

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained.

Effective Date

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at May 28, 2020.

IFRS 9: Financial Instruments

Description

The final version of IFRS 9 "Financial Instruments" issued in July 2014 is the IASB's replacement of IAS 39 "Financial Instruments: Recognition and Measurement". The Standard includes requirements for recognition and measurement, impairment, de-recognition and general hedge accounting.

Effective Date

The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

(ii) Early adoption of standards

The company did not early-adopt any new or amended standards in 2019/2020.

C. Revenue recognition

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

- a. Interest income is recognized as it accrues unless its collectability is in doubt.
- b. Rental income is recognized in the income statement as it accrues using the effective lease agreements.

- c. Professional fees refer to fees earned on projects by the Corporation's. The fees are recognized at 70% in the year of commencement of construction works and the remaining 30% over the period of the project.
- d. Finance income comprises interest receivable from bank deposits and investment in securities, and is recognized in profit or loss on a time proportion basis using the effective interest rate method.
- e. Gain/loss on sale of houses is recognized in the income statement depending on the mode of sale. Gain on sale of houses on outright sale schemes is recognized in the year of sale and for tenant purchase schemes the gain is amortized over the period of the loan.
- f. Revenue from the sale of Panels is recognized in the year in which the Corporation delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- g. Other income is recognized as it accrues.

D. Property, Plant and Equipment

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

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

E. Depreciation and Impairment of Property, Plant and Equipment

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

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

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

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

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

F. Financial Instruments

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

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

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

G. Intangible Assets

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

H. Amortization and Impairment of Intangible Assets

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

impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

I. Investment Property

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

J. Unquoted investments

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

K. Inventories

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

L. Trade and Other Receivables

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

M. Taxation

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

N. Cash and Cash Equivalents

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

O. Trade and other payables

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

P. Retirement Benefit Obligations

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

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

Q. Provision for staff leave pay

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

R. Exchange rate differences

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

S. Comparative Figures

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

T. Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30th June 2020.

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

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

a. Critical Accounting Estimates and Assumptions

(i) Income taxes

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

(ii) Deferred Tax

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. TURNOVER

The sources of income are as stipulated below:

	2019 /2020	Restated 2018 /2019
	Kshs	Kshs
Interest	578,546,920	599,563,193
Rents	238,605,163	233,959,432
Professional Fees	19,005,344	68,490,891
Gain on Sale of Houses	48,246,186	46,312,294
Total	884,403,613	948,325,810

4. OTHER INCOME

	2019 /2020	2018 /2019
	Kshs	Kshs
Interest on Staff Loans	20,327,450	22,411,450
Income from Partnerships		-
Gain on Disposal of Fixed Assets		-
Miscellaneous (Tender Documents, Application Forms)	8,849,790	6,371,726
Total	29,177,240	28,783,177

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

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

a) Manufacturing Account

	2019 /2020	2018 /2019
	Kshs	Kshs
Raw Materials	87,478,328	127,729,315
Direct Labour	22,157,211	24,593,357
Other Direct Overheads	10,594,548	19,635,034
Prime Costs	120,230,087	171,957,706
Production and Other Factory Overheads	5,968,587	6,255,569
Depreciation	25,276,021	24,419,335
Opening Cost of Work in Progress	20,229,229	74,366,860
Add: Purchases	-	-
Less: Closing Cost of Work in Progress	(23,980,819)	(20,229,229)
Production Costs of Goods Completed	147,723,105	256,770,241

5. MANUFACTURING, TRADING, PROFIT AND LOSS ACCOUNT (EPS FACTORY) Cont'd
b) Trading, Profit and Loss Account

	2019 /2020	Restated 2018 /2019
	Kshs	Kshs
Sales	95,222,713	211,314,424
Cost of Goods Sold		
Opening Stock of Finished Goods	27,145,102	1,833,614
Production Costs of Goods completed	147,723,105	256,770,241
Closing Stock of Finished panels(Cost)	(52,535,422)	(27,145,102)
Cost of Goods Sold	122,332,785	231,458,753
Gross Profit / (Loss)	(27,110,072)	(20,144,329)
Selling and Marketing Costs	1,538,653	1,727,413
Depreciation	1,153,732	3,255,965
Administration expenses	7,657,512	8,429,394
Total Adm Expenses	10,349,897	13,412,771
Trading Profit / (Loss)	(37,459,969)	(33,557,100)

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

c) EPS trading loss is arrived at after charging

	2019 /2020	2018 /2019
	Kshs	Kshs
Cost of Goods Sold	122,332,785	231,458,753
Selling and Marketing Costs	1,538,653	1,727,413
Depreciation	1,153,732	3,255,965
Administration expenses	7,657,513	8,429,394
Total	132,682,683	244,871,525

6. STAFF COSTS

Staff costs comprise the following:

	2019 /2020	2018 /2019
	Kshs	Kshs
Salaries and Allowances	243,097,431	270,720,789
Casuals	7,921,155	3,199,675
Interns Allowance	1,558,064	320,000
NSSF	2,316,600	2,576,880
Other pension contributions	30,546,807	34,931,636
Leave pay	13,834,124	15,599,286
Gratuity Provisions	4,127,311	4,234,482
Grand Totals	303,401,492	331,582,748

The number of persons employed by the Corporation as at 30th June 2020 was 187.

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

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

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 2019, there were no amounts owed to the Staff Retirement Benefits Scheme

7. PROFIT BEFORE TAX

Profit before tax is stated after charging:

a) Administration Costs

	2019 /2020	Restated 2018 /2019
	Kshs	Kshs
Auditors Remuneration	1,200,000	1,200,000
Property & Estates	43,675,615	29,757,310
Motor Vehicle Expenses	4,933,157	5,820,548
Repairs of Equipment	14,262,917	16,077,774
Travelling General	10,118,533	8,966,740
Printing & Stationery	3,496,764	8,328,362
Office rents	20,845,983	20,978,378
Postage & Telephones	4,043,288	3,879,191
Advertising	4,139,312	8,529,625
Insurance	3,739,483	4,898,342
Bank Charges	3,234,234	3,015,603
Library Expenses	1,730,620	1,145,501
Staff Uniforms	523,676	682,511
Exhibition	1,847,205	1,523,365
Training	4,357,826	5,643,768
Bad Debts Provision	12,730,642	12,145,323
Post contract payments	2,930,599	1,759,475
Debt Collection Expenses	2,754,822	2,623,994
Legal Charges	31,370,034	32,039,998
Staff Sports Club	299,450	324,880
Consultancy General	24,971,116	21,088,574
Medical in Patient	48,243,942	50,021,091
Corporate Social Responsibility	-	292,410
Entertainment	3,289,804	9,269,101
Staff welfare	1,304,422	628,356
Total Administration Costs	250,043,444	250,640,220

7. PROFIT BEFORE TAX (Continued)
b) Board Expenses

	2019/2020	2018 /2019
	Kshs	Kshs
Honoraria	960,000	912,000
Sitting Allowances	4,820,000	3,620,000
Travel and Accomodation	5,368,585	4,744,694
Other Expenses	2,489,848	964,007
Total	13,638,433	10,240,701

8. FINANCE INCOME

The interest income is made up of:

	2019/2020	2018 /2019
	Kshs	Kshs
Interest from current accounts with banks	-	10,203,123
Total	-	10,203,123

9. TAXATION

a) Reconciliation of expected tax based on profit before taxation

	2019/2020 Kshs	Restated 2018/2019 Kshs
Profit before taxation	261,701,902	300,959,452
Tax applicable rate of 30% of PBT	78,510,571	90,287,836
Tax effect of expenses not subject to tax	26,450,531	30,832,836
Wear & Tear allowance	(5,753,447)	(6,288,466)
Provision for tax	99,207,655	114,832,206
Deferred tax	(9,916,154)	(7,859,964)
Total taxation charge	89,291,501	106,972,242

b) Tax recoverable / Payable

	2019 /2020 Kshs	Restated 2018 /2019 Kshs
Balance Brought Forward	(73,620,673)	39,496,693
Provision for tax for the Year	99,207,655	114,832,206
Paid During the year	(72,593,452)	(227,949,572)
At end of the year	(47,006,470)	(73,620,673)

c) Deferred tax liability

	2019/2020	Restated 2018/2019
	Kshs	Kshs
Deferred Tax Liability b/f	55,552,291	63,412,255
Accelerated capital allowances	(6,064,811)	(4,973,239)
Deferred Tax Assets		-
Various provisions	(3,851,343)	(2,886,725)
Deferred tax	(9,916,154)	(7,859,964)
At end of the year	45,636,137	55,552,291

10. PROPOSED DIVIDENDS

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

	2019 /2020	2018 /2019
	Kshs	Kshs
At the beginning of the period	26,127,143	19,252,442
Provision for the Period	8,620,480	6,874,701
Paid during the Period		-
At the end of the period	34,747,623	26,127,143

11 (a) PROPERTY, PLANT AND EQUIPMENT SCHEDULE

	BUILDING		EPS PRODUCTION		PLANT & MACHINERY		PLANT & EQUIPMENT		MOTOR VEHICLES		FURNITURE & FITTINGS		COMPUTER SYSTEM		TOTAL	
	Kshs.		Kshs.		Kshs.		Kshs.		Kshs.		Kshs.		Kshs.		Kshs.	
Cost																
2018/2019																
Opening Balance	800,000,002		561,395,520		83,378,537		73,841,011		124,432,900				94,601,064			1,737,649,034
Additions			741,256		2,230,665				438,460				1,309,105			4,719,486
Disposals																-
Closing Balance	800,000,002		562,136,776		85,609,202		73,841,011		124,871,360				95,910,169			1,742,368,520
2019/2020																
Opening Balance	800,000,002		562,136,776		85,609,202		73,841,011		124,871,360				95,910,169			1,742,368,520
Additions					1,917,433				702,550				2,904,604			5,524,587
Disposals																-
Closing Balance	800,000,002		562,136,776		87,526,635		73,841,011		125,573,910				98,814,773			1,747,893,107
Depreciation																
2018/2019																
Opening Balance	21,438,669		121,394,226		58,360,278		35,962,431		108,643,613				74,251,451			420,050,668
Charge for the Year																-
- Depreciation charged to Statement of Comprehensive Income	6,092,521		20,646,616		4,520,857		8,617,163		13,056,631				5,274,102			58,207,890
- Depreciation charged to Revaluation Reserve	13,189,796															13,189,796
On Disposal/Adjustment					7,341								(7,341)			-
Closing Balance	40,720,986		142,040,842		62,888,476		44,579,594		121,700,244				79,518,212			491,448,353
2019/2020																
Opening Balance	40,720,986		142,040,842		62,888,476		44,579,594		121,700,244				79,518,212			491,448,353
Charge for the Year																-
- Depreciation charged to Statement of Comprehensive Income	6,064,770		19,633,481		3,818,702		6,656,553		1,882,109				4,639,057			42,694,669
- Depreciation charged to Revaluation Reserve	12,739,991															12,739,991
On Disposal/Adjustment																1,088
Closing Balance	59,526,835		161,674,323		66,707,178		51,236,147		123,582,352				84,157,269			546,884,101
Net Book Value																
As at 30th JUNE 2019	759,279,016		420,095,933		22,720,726		29,261,417		3,171,116				16,391,957			1,250,920,166
As at 30th JUNE 2020	740,473,167		400,462,452		20,819,457		22,604,864		1,991,558				14,657,504			1,201,009,005

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. (b) DEPRECIATION SCHEDULE

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

ASSET CLASS	2019/2020				Restated 2018/2019			
	NHC	EPS	Revaluation Reserve	TOTAL	NHC	EPS	Revaluation Reserve	TOTAL
	Kshs				Kshs			
Buildings		6,064,769	12,739,989.00	18,804,758		6,092,521	13,189,796	19,282,317
Investment Property	27,619,515	-	154,576,709	182,196,224	25,084,070		160,034,294	185,118,364
Motor Vehicles	6,086,631	569,920	-	6,656,551	7,879,380	737,782		8,617,163
Plant & Equipment	3,772,367	46,335	-	3,818,702	4,471,311	56,887		4,528,198
EPS Production Plant	-	19,633,481	-	19,633,481		20,646,616		20,646,616
Furniture & Fittings	1,766,861	115,248	-	1,882,109	12,915,135	141,495		13,056,630
Computer System	4,639,057	-	-	4,639,057	5,266,761			5,266,761
Sub-total	43,884,431	26,429,753	167,316,698	237,630,882	55,616,657	27,675,301	173,224,090	256,516,048

12. LAND

	2019 /2020	2018 /2019
	Kshs	Kshs
Cost		
At start	2,373,672,688	2,452,126,202
Additions	977,206	1,046,486
Adjustments	(178,500,000)	(79,500,000)
At end of year	2,196,149,894	2,373,672,688

The Corporation has 22 number parcels of land that do not have the required ownership documentation; efforts are underway to process the land ownership documentation for these parcels of land.

Adjustments

The adjustment of Kshs. 178.5 million is in respect to

1. Transfer of cost of Kibera land to the Kibera Commercial Project - Kes. 56 million
2. Transfer of cost of Langata land to the Langata Commercial Project - Kes. 114 million
3. Transfer of cost of the apportioned Stoni Athi land to the Stoni Athi Economy project - Kes. 8.5 million

13. INTANGIBLE ASSETS

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

	2019/2020	2018 /2019
Cost	Kshs.	Kshs.
At start of the year	35,177,246	35,177,246
Additions	3,558,995	-
At end of the year	38,736,241	35,177,246
Amortization		
At start of the year	29,203,429	24,488,198
Charge in the year	3,451,991	4,715,231
At end of the year	32,655,420	29,203,429
Net Book Value	6,080,821	5,973,817

14. INVESTMENT PROPERTY

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

	2019 /2020	2018 /2019
Cost	Kshs.	Kshs.
At start of the year	7,721,978,124	7,594,712,539
Additions	3,976,639	127,265,585
Revaluation	-	-
Disposals/ Adjustments	(78,104,357)	
At end of year	7,647,850,407	7,721,978,124
Depreciation		
At start of the year	392,210,559	207,093,299
Charge for the Year	27,619,515	25,084,068
On Revaluation	154,576,709	160,034,294
Adjustment		(1,102)
At end of year	574,406,783	392,210,559
Net book Value	7,073,443,624	7,329,767,565

15. LONG TERM LOANS ADVANCED

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

	2019/2020	Restated 2018 /2019
	Kshs	Kshs
Local Authorities	30,857,183	40,188,311
Rural Housing Loans	383,578,977	419,122,951
Staff Loans	479,663,971	535,731,572
Tenant Purchase	1,894,067,727	2,123,078,033
Total	2,788,167,858	3,118,120,867

16. UNQUOTED INVESTMENTS

These are investments held with;

	2019 /2020	2018 /2019
	Kshs	Kshs
Consolidated Bank		
4% Non-Cum Preference Shares of Sh.20.00 each	4,100,000	4,100,000
Ordinary Shares of Sh.20 each	1,100,000	1,100,000
Research & Development Ltd	99,457,797	99,457,797
Total	104,657,797	104,657,797

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

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

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

17. SCHEMES IN PROGRESS

These are valued at cost, and comprise:

	2019 /2020	2018 /2019
	Kshs.	Kshs.
Tenant Purchase	534,454,965	453,266,955
Outright sale	873,626,526	1,691,938,976
Other Projects	323,307,201	296,315,925
Total	1,731,388,692	2,441,521,856

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

18. LOAN AMOUNTS RECEIVABLE

	2019 /2020	Restated 2018 /2019
	Kshs.	Kshs.
Rural Housing Loans		
Amounts Due	779,576,829	720,231,822
Provision for Bad Debts	(137,339,429)	(127,645,034)
	642,237,400	592,586,787
Local Authorities	1,634,008,904	1,495,774,264
Staff Loans	26,714,558	24,533,616
Tenant Purchase	475,907,430	373,509,239
Outright sale Debtors	196,210,561	219,869,745
Total	2,975,078,853	2,706,273,651

Credit Risk Management

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

A provision for bad debts has also been provided for Rural Housing Loans at the rate of 20% and 5% on rent debtors. No provision has been provided for local authority, staff, tenant purchase loans and outright sale debtors, as the debts are secured on the properties.

19. INVENTORIES

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

	2019 /2020	2018 /2019
	Kshs.	Kshs.
Consumable Inventories-NHC	2,074,706	1,286,901
Stock of unsold houses-NHC	2,538,681,502	872,676,958
Consumable Inventories-EPS	9,355,400	9,243,040
EPS Work In Progress	23,980,824	20,229,229
EPS stock of Finished panels	52,535,422	27,145,102
EPS stock of Raw materials	36,434,395	32,446,784
Total	2,663,062,249	963,028,014

20. a) TRADE AND OTHER RECEIVABLES

	2019 /2020	Restated 2018 /2019
	Kshs.	Kshs.
Rent Arrears	285,363,257	250,952,601
Provision for bad debts on Rents	(81,543,901)	(78,507,654)
Sub-Total	203,819,356	172,444,947
Sundry Debtors	366,558,933	295,757,996
Total	570,378,289	468,202,943

b) Aging analysis (Rent)

AGING ANALYSIS	0 - 30 DAYS	1 - 30 DAYS	31 - 60 DAYS	61 - 90 DAYS	91 - 180 DAYS	OVER 180 DAYS	TOTAL
30.6.2020							
NAME OF SCHEME							
NHC HOUSE	3,734,503	5,939,155	3,789,620	7,523,310	7,632,797	31,473,272	60,092,657
WOODLEY	1,152	700,350	407,937	236,830	351,142	4,759,863	6,457,274
SADI ROAD	11,600	1,326,361	960,342	800,885	1,123,869	13,988,867	18,211,924
KIBERA KARANJA ROAD	-	291,000	217,000	131,991	188,000	2,133,456	2,961,447
NYARI HOUSE	-	275,000	275,000	275,000	550,000	874,000	2,249,000
STONIATHI	-	89,000	90,480	61,000	118,500	79,000	437,980
CHANGAMWE	75,245	4,865,010	4,150,958	3,569,772	5,897,788	104,951,589	123,510,362
JOMO KENYATTA MAKANDE	-	510,414	373,647	291,052	416,518	1,410,441	3,002,072
VOI RENTALS	-	76,000	68,000	61,000	117,000	1,952,000	2,274,000
LIKONI RENTALS	-	-	-	-	-	3,067,332	3,067,332
ELDORET RENTALS	6,000	576,344	437,061	361,443	546,703	1,807,082	3,734,634
ELGON VIEW ELDORET	-	550,000	450,000	408,500	585,000	1,224,710	3,218,210
NAKURU RENTAL ESTATES	-	72,046	70,205	69,205	133,102	1,836,961	2,181,519
TUNTU ESTATE	-	-	-	-	-	313,880	313,880
MUMBI ESTATE	-	72,000	59,306	54,990	82,000	273,500	541,796
MISCELLANEOUS ESTATES	-	341,214	161,049	281,299	376,886	51,948,723	53,109,171
GRAND TOTALS	3,828,500	15,683,894	11,510,605	14,126,277	18,119,305	222,094,676	285,363,257

b) Aging analysis (Sundry debtors)

Details	CURRENT	1 - 90 DAYS	91 - 180 DAYS	181 - 270 DAYS	271 - 360 DAYS	OVER 360 DAYS	TOTAL
Insurance Prepayments	13,091,221						13,091,221
Fuel Deposit Total Kenya						597,000	597,000
Deposit Ministry Of Works						765,741	765,741
Fuel Deposit- Mombasa						21,000	21,000
Deposit - Postmaster General						8,622	8,622
Toyota Kenya Repairs Deposit						200,000	200,000
Deposits With Nairobi Hospital						149,000	149,000
Deposits With Mater-Misericordiae						270,000	270,000
Deposits With Aga Khan Hospital						200,000	200,000
Deposits With Aga Khan Hospital -Mbs						50,000	50,000
Deposit Aga Khan Hospital Kisumu						100,000	100,000
Deposit With Gertrude G. Hospital						10,000	10,000
Deposits With Kenyatta N. Hospital						200,000	200,000
Deposits With Valley Hospital Nakuru						50,000	50,000
Deposit With Kp&Lc Kanyakwar Ph 1						500,000	500,000
Deposit-East Africa Courier Lt						30,000	30,000
Arbitration Deposit						100,000	100,000
Rent Deposit - Kenya Re Kisumu Office						214,261	214,261
Deposits K.P. & T. Comm.						30,000	30,000
Prepayment Various	3,425,212						3,425,212
Webuye Rental Advances						1,362,496	1,362,496
Deposit K.P. & T. Comm.						216,520	216,520
Service Charge Debtors	41,743,286						41,743,286
Due From Pile Investment						300,000	300,000
Housing Finance						82,991,078	82,991,078
Rdu Limited Debt						31,047,760	31,047,760
Imprest	1,989,807						1,989,807
Salary Advances	2,041,422						2,041,422
Madaraka Old Rent & Rates Due						34,185,201	34,185,201
Standing Imprest(Office Float)	302,013						302,013
National Oil Fuel Deposit	1,006,000						1,006,000
Eps Factory Debtors						71,637,898	71,637,898
NHC Debtors Various						14,517,617	14,517,617
VAT Refundable	2,114,906						2,114,906
National Land Commission				62,537,494			62,537,494
Provision For Bad Debts Sundry Debtors						(1,446,622)	(1,446,622)
Total Sundry Debtors	65,713,867			62,537,494		238,307,572	366,558,933

Credit Risk Management

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

21. CASH AND BANK BALANCES

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

	2019/2020	2018 /2019
	Kshs.	Kshs.
Mobile Money	5,555,374	4,948,116
Co-operative Bank	86,296,120	16,357,990
National Bank of Kenya	2,393,551	1,547,595
Kenya Commercial Bank	24,336,090	14,742,136
ABSA Bank	39,306	-
Total	118,620,441	37,595,837

22. EQUITY

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

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

22. EQUITY (Continued)

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

Equity Injection to NHC as at 30th June 2020		Kshs.
2007/2008		216,000,000
2008/2009		250,000,000
2009/2010		250,000,000
2010/2011		900,000,000
Total		1,616,000,000
Conversion of Total Debts owed to GOK by NHC	2002/2003	5,320,000,000
TOTAL EQUITY		6,936,000,000

There was no capital injection in the year under review.

23. UNREALIZED GAIN ON SALE OF HOUSES

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

	2019 /2020	2018 /2019
	Kshs.	Kshs.
Opening balance	630,116,826	594,884,901
Add: Unrealized gain recognized in the year	24,828,140	73,706,952
Less: Realized gain recognized in the year	(145,243,583)	(38,475,027)
Total Movement in the year	(120,415,443)	35,231,925
Closing Balance	509,701,383	630,116,826

24. RETAINED EARNINGS

This is made up as follows:

	2019/2020	Restated 2018 /2019
	Kshs.	Kshs.
Opening Balance	3,624,766,432	3,335,226,741
Adjustments (please refer to our explanations in note 33; retained	-	102,427,182
Proposed Dividends	(8,620,480)	(6,874,701)
Profit after tax for the Year	172,409,591	193,987,210
Closing balance	3,788,555,543	3,624,766,432

25. HOUSE EQUALIZATION

	2019 /2020	2018 /2019
	Kshs.	Kshs.
Opening Balance	383,118,995	383,118,995
Charge in the Year	-	-
Closing balance	383,118,995	383,118,995

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

26. REVALUATION RESERVE

	Land	Buildings	Investment Property	Total
	Kshs	Kshs	Kshs	Kshs
2018/2019				
Opening Balance	1,530,701,470	527,591,853	6,401,371,761	8,459,665,084
Charge in the Year	-	(13,189,796)	(160,034,294)	(173,224,090)
Closing Balance	1,530,701,470	514,402,057	6,241,337,467	8,286,440,994
2019/2020				
Opening Balance	1,530,701,470	514,402,057	6,241,337,467	8,286,440,994
Charge in the Year	-	(12,739,990)	(154,576,709)	(167,316,699)
Closing Balance	1,530,701,470	501,662,067	6,086,760,758	8,119,124,295

27. LONG TERM LOANS

	2019 /2020	2018 /2019
	Kshs.	Kshs.
Opening Balance	-	-
Amounts Borrowed in the Year	396,586,142	-
Closing balance	396,586,142	-

In the year 2019/2020 NHC was advanced Kshs. 396,586,142 by ABSA bank to finance the Nyeri Mixed Development and the Stoni Athi Economy projects.

28. TRADE AND OTHER PAYABLES

These comprise:

	2019 /2020	2018 /2019
	Kshs.	Kshs.
House Deposits	480,779,527	397,303,507
Ruai Police Housing Development Deposit	149,368,295	149,368,295
Deposits from Gov. Agencies	3,885,000	22,628,149
Service Charge	70,105,109	10,223,823
Due to Contractors	341,158,657	218,184,095
Sundry Creditors	159,438,997	128,807,587
Prepayments	56,838,290	4,717,736
Total	1,261,573,875	931,233,192

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

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

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

29. CASH GENERATED FROM OPERATING ACTIVITIES

	2019 /2020	2018 /2019
	Kshs.	Kshs.
CASHFLOW GENERATED FROM OPERATIONS		
Operating profit	261,701,092	300,959,452
Adjustments for items not involving movement of cash		
Depreciation		
-Property, Plant & Equipment (Note11)	43,884,431	58,207,890
- Intangible Assets (Note 13)	3,451,991	4,715,231
- Investment Property (Note 14)	27,619,515	25,084,066
Realised gain on Sale of TP Houses (Note 23)	(145,243,583)	(38,475,027)
Unrealised gain on Sale of Tenant Purchase Houses (Note 23)	24,828,140	73,706,952
Bad Debts Provisions (Note 7a)	12,730,642	12,145,323
Gain on disposal (Note 4)		-
Operating profit before working capital	228,972,228	436,343,887
Working capital adjustments:		
Decrease/(Increase) in debtors & prepayments	(114,905,988)	(60,072,160)
Decrease (Increase) in inventories	(1,700,034,235)	(497,445,284)
Increase in creditors	329,038,210	6,675,836
Housing schemes in progress	966,824,022	306,266,048
Decrease/ (Increase) in Loan amount receivable	(268,777,893)	(291,907,674)
Working capital changes	(787,855,884)	(536,483,234)
CASH GENERATED	(558,883,656)	(100,139,347)

30. REDEMPTION OF LONG TERM LOANS

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

	2019 /2020	2018 /2019
	Kshs.	Kshs.
Tenant Purchase		
Opening Balance	2,123,078,033	2,181,701,790
Advanced	44,556,833	244,240,245
Redemption	(273,567,138)	(302,864,002)
Closing Balance	1,894,067,728	2,123,078,033
Other Loans		
Opening Balance	995,042,834	982,555,740
Advanced	79,501,552	181,354,908
Redemption	(180,444,251)	(168,867,814)
Closing Balance	894,100,135	995,042,834
Total	2,788,167,863	3,118,120,867

30. CONTINGENT LIABILITIES

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

NHC ARBITRATION MATTERS AS AT 30TH JUNE 2020			
No.	PARTIES	CLAIM/DISPUTE	STATUS OF ARBITRATION
1	Mall of Africa -versus- NHC	60,457,218	Yet to be Determined
2	Custom General Construction Ltd -vs- NHC	229,381,524	Yet to be Determined
3	Tulsi Construction Limited - V- NHC	1,310,097,864	Yet to be Determined
	Total Claims	1,599,936,606	

31. RELATED PARTY TRANSACTIONS

(a) Principal loan balances for staff

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

	2019/2020	2018/2019
	Kshs	Kshs
Tenant purchase loans	185,991,236	215,199,650
Staff loan		
Car loan	30,031,359	35,259,732
Computer loan	2,266,686	2,437,146
House loan	401,948,198	451,130,506
Rural housing loan	45,417,728	46,904,187
Sub Total(staff loan)	479,663,971	535,731,572
Total loan amount advanced to staff	665,655,207	750,931,221

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

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

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

(b) Directors Expenses.

The directors' expenses were Kshs 13,638,433 (2018/2019 Kshs 10,240,701) as detailed in note 7b.

(c) Remuneration of key Management.

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

	2019/2020	2018/2019
	Kshs	Kshs
Managing Director	8,663,678	8,362,746
Corporation Secretary	4,599,921	4,664,438
General Manager Finance	3,276,591	4,200,959
General Manager Estates	4,424,438	4,424,438
General Manager Manufacturing	4,299,705	3,154,637
General Manager Technical Services	5,056,563	5,267,295
General Manager Business Development	2,463,121	4,411,075
Internal Audit Manager	3,065,743	3,083,067
Information Technology Manager	5,436,929	5,436,929
Total	41,286,689	43,005,584

32. FINANCIAL RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks. These include credit and liquidity risks and effects of changes in foreign currency. The

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

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

(i) Credit risk

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

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

A provision for bad debts has also been provided for Rural Housing Loans at the rate of 20% and 5% on rent debtors. No provision has been provided for local authority, staff, tenant purchase loans and outright sale debtors, as the debts are secured on the properties.

(ii) Liquidity risk management

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

(iii) Market risk

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

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while

optimizing the return. Overall responsibility for managing market risk rests with the Audit, Risk and Compliance Committee.

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

(iv) Foreign currency risk

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

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

(v) Interest rate risk

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



33. RESTATEMENT OF THE FINANCIAL STATEMENTS

We have restated our financial statements for the year 2018/2019. The following is a brief explanation on the reasons for restatement of the Statement of Financial Position and Statement of Comprehensive Income.

Statement of Financial Position					
	Account Details	Restated 2018/2019	Original 2018/2019	Variance	Remarks
1	Long Term Loan Advanced	3,118,120,867	3,118,127,832	(6,965)	The adjustment was in relation to the Local Authority Loans (Kisumu)
2	Loan Amounts Receivable	2,706,273,651	2,703,052,586	3,221,065	The adjustments arose from negotiations with Kisumu County Government. As a sign of goodwill NHC agreed to bear part of the costs incurred as rent in Kisumu office. NHC is currently managing estates belonging to Kisumu County in a bid recovery debts owed by the County. Costs incurred in managing the estates are borne by the County
3	Trade and Other Receivables	468,202,943	481,778,142	(13,575,199)	The adjustment relates to EPS debtors; rectifying omitted receipts from debtors and credit sales.
4	Tax Recoverable	73,620,673	17,356,915	56,263,758	The changes in profit required that we also change the tax charge for the period.
5	Retained Earnings	3,624,766,432	3,465,848,402	158,918,030	Please see our response on item number 2,3,4,6 and 7. These changes increased/ reduced the amounts posted to the retained earnings account.
6	Deferred Tax Liability	55,552,291	49,556,921	5,995,370	The changes in profit required that we also change the tax charge for the period.



Statement of Financial Position				
Account Details	Restated 2018/2019	Original 2018/2019	Variance	Remarks
7 Trade and other Payables	931,233,192	1,050,243,937	(119,010,745)	NHC manages the service charge schemes for all its tenant purchase (TP) units and earns management fee on the schemes. The fee was determined and recognized when the audits were finalized and it was certain that the amounts could be recovered from the T.P schemes.

Statement of Comprehensive Income				
Account Details	Restated 2018/2019	Original 2018/2019	Variance	Remarks
INCOME	Kes	Kes	Kes	
1 Turnover	948,325,810	948,330,378	(4,568)	Correction of an error
2 Other Income	28,783,177	28,701,621	81,556	Correction of an error
3 EPS Sales	211,314,424	210,871,495	442,929	The amounts relate to EPS credit sales that were posted to the wrong accounts
EXPENSES			-	
4 Administration Costs	250,640,222	256,505,424	(5,865,202)	The adjustments arose from negotiations with Kisumu County Government where as a sign of goodwill NHC agreed to bear part of the costs incurred as rent in Kisumu office. NHC is currently managing estates belonging to Kisumu County in a bid recovery debts owed by the County. Costs incurred in managing the estates are borne by the County
5 Depreciation - Property Plant & Equipments	55,616,655	55,615,555	1,100	Correction of errors



Account Details	Restated 2018/2019	Original 2018/2019	Variance	Remarks
6 Provision for tax	106,972,242	157,081,402	(50,109,160)	The changes in profit required that we also change the tax charge for the period.