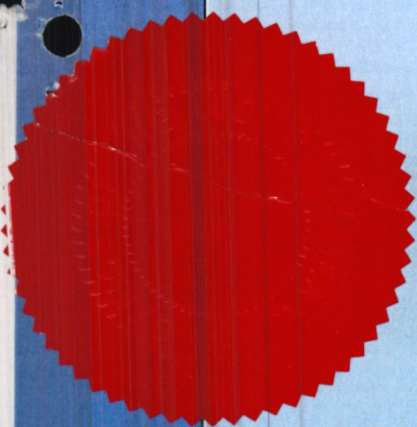


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



REPORT

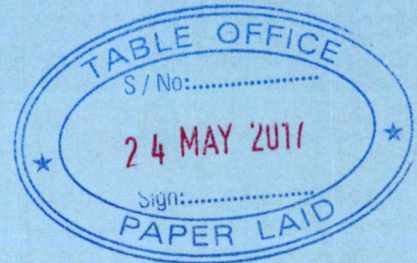
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ON



THE FINANCIAL STATEMENTS OF
NATIONAL CONSTRUCTION AUTHORITY

FOR THE YEAR
ENDED 30 JUNE 2016





**NATIONAL CONSTRUCTION
AUTHORITY**

FINANCIAL STATEMENTS AND

ANNUAL REPORT

FOR THE YEAR ENDED

30TH JUNE, 2016

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CORPORATE INFORMATION

Establishment

The National Construction Authority was established through the National Construction Authority (NCA) Act No. 41 of 2011. The object for which the Authority is established is to oversee the construction industry and coordinate its development.

Functions

The Authority Mandated is to:-

- Promote and stimulate the development, improvement and expansion of the construction industry ;
- Advise and make recommendations to the Cabinet Secretary on matters affecting or connected with the construction industry;
- Undertake or commission research into any matter relating to the construction industry;
- Prescribe the qualification or other attributes required for registration;
- Assist in the exportation of construction services connected to the construction industry;
- Provide consultancy and advisory services with respect to the construction industry;
- Encourage the standardization and improvement of construction techniques and materials;
- Promote and ensure quality assurance in the construction industry;
- Initiate and maintain a construction industry information system;
- Provide, promote, review and co-ordinate training programs organized by public and private accredited training centers for skilled construction workers and construction site supervisors;

Corporate Information (Cont'd)

- Accredite and register contractors and regulate their professional undertakings;
- Accredite and certify skilled construction workers and construction site supervisors;
- Develop and publish a code of conduct for the construction industry, and
- Do all other things that may be necessary for the better carrying out of its functions under the Act.

Vision

“A well-coordinated and developed construction industry”

Mission

“To regulate, streamline and build capacity in the construction industry for sustainable socio-economic development”

Core values

As a public sector institution, NCA is dedicated to excellence and provision of high quality professional service to its customers. The Authority’s core values are:

- Professionalism
- Ethics and Integrity
- Efficiency
- Innovation
- Environmental stewardship
- Team spirit

Corporate Information (Cont'd)

Registered Office

11th Floor, KCB Plaza,

Kenya Road

Tel: +254 20 2712096/98/99.

Email: info@nca.go.ke

Website: www.nca.go.ke

P.O Box 21046-00100

NAIROBI.

Regional Offices

In line with Article 6 (3) of the Constitution of Kenya, the Authority has endeavored to ensure reasonable access to its services in all parts of the Republic of Kenya by establishing regional and liaison offices across the country. The following table indicates the existing 11 regional offices.

Table 1: Regional Offices

No.	Region	Physical Location	Contacts
1.	Coast	Directorate of Public Works Mombasa	P. O. Box 80343-801000, Mombasa Tel. 0707 351398
2.	Lower Eastern	Directorate of Public Works Kitui	P. O. Box 375 – 90200 Kitui Tel. 0770 662469
3.	Upper Eastern	Directorate of Public Works Isiolo	P. O. Box 774 – 603000 Isiolo Tel. 0717 866955
4.	Central Nyanza	Directorate of Public Works Kisumu	P. O. Box 103-40100 Kisumu Tel. 0704 737878
5.	Central Rift	Directorate of Public Works Nakuru	P. O. Box 16786-20100 Nakuru Tel. 0708 768457
6.	North Rift	Directorate of Public Works Eldoret	P. O. Box 503-30100 Eldoret Tel. 0775 502503
7.	Mount Kenya	Directorate of Public Works Nyeri	P. O. Box 2542 – 10100 Nyeri Tel. 0703 749742
8.	Western	Directorate of Public Works Kakamega	P. O. Box 1798-50100 Kakamega Tel. 0720 342594
9.	North Eastern	Directorate of Public Works Garissa	P. O. Box 1015-70100 Garissa Tel. 0707 999455
10.	South Nyanza	Directorate of Public Works Kisii	P. O. Box 3303-40200 Kisii Tel. 0729 931866
11.	Nairobi	1 st Floor, Hill Plaza Ngong Road	P. O. Box 21046 – 00100 Nairobi Tel. 0700 021222

Corporate Information (Cont'd)

Bankers:

Kenya Commercial Bank Ltd,
Milimani Branch,
NSSF Building, Bishops Road,
P.O. Box 69695 – 00400

NAIROBI.

Equity Bank Ltd
Community Branch,
NHIF BUILDING,
P.O Box 8181-00100

NAIROBI.

Co-operative Bank Ltd
Upper Hill Branch,
KUSSCO Centre,
P.O Box 30415 - 0010

NAIROBI.

Commercial Bank of Africa,
Upper Hill Branch,
CBA Building, Mara and Ragati Roads,
P.O Box 30437-00100

NAIROBI.

National Bank of Kenya
Community Branch,
NHIF BUILDING,
P.O Box 45219 00100

NAIROBI.

Housing Finance Corporation of Kenya
Rehani House,
P.O Box 30088-00100

NAIROBI.

Corporate Information (Cont'd)

Auditors

The Auditor- General

Office of the Auditor-General

Anniversary Towers

P.O Box 30084-00100

NAIROBI.

Principal Legal Adviser

The Attorney General

State Law Office

P.O. Box 40112 – 00200

NAIROBI.

BOARD MEMBERS

The following members were appointed on 1st July 2015 with exception one Director appointed in January 2016 and served during the year;

Steve Oundo, OGW	Chairperson of the Board Nominated by Architectural Association of Kenya (AAK)
Dr. Loice Kipkiror	Vice Chairperson of the Board Representing Groups with Special Interests
Eng. Wallace Atim	Member Nominated by Road and Civil Engineering Contractors Association
Henry K. Rotich, EGH	Cabinet Secretary The National Treasury
Arch. Aidah Munano, HSC	The Principal Secretary State Department of Housing and Urban Development
Prof., Arch., Paul Maringa	The Principal Secretary State Department of Public Works
Eng. John Mosonik	The Principal Secretary State Department of Infrastructure
Qs. Jennifer Musyimi	Member Nominated by Institute Of Quantity Surveyors of Kenya (IQSK)
Eng. Josiah Maaga	Member Representing Groups With Special Interests
Eng. Arjan Shankla	Member Nominated by Kenya Association of Building and Civil Engineering Contractors
Hon. Qs. Moses Muihia	Member Nominated by Kenya Federation of Master Builders
Mrs. Anne M. Kiusya, Adv.	Member Nominated by the Law Society of Kenya

Eng. Henry Songole Amaje	Member Nominated by Institution of Engineers of Kenya
Ms. Susan Karanja	Member Alternate to the Cabinet Secretary, The National Treasury
Eng. Stephen K. Kogi	Member Alternate to the Principal Secretary, State Department of Infrastructure
Qs. Moses Nyakiongora	Member Alternate to the Principal Secretary, State Department of Public Works
Arch. Makenzi Kiilu	Member Alternate to the Principal Secretary, State Department of Housing and Urban Development. Appointed on 22 nd January 2016
Arch. Daniel O. Manduku	Executive Director/Secretary to the Board

SENIOR MANAGEMENT

The following were members of the senior management team during the year.

Arch. Daniel O. Manduku	Executive Director
Eng. Maurice Akech	GM – Research, Business Development and Capacity Building
Christine K. Kirimi	Ag. GM – Operations/Manager – Finance
Eng. Raymond Karani	Ag. GM – Registration and Compliance /Manager – Registration, Compliance and Training (Civil and Water Works)
James Kilonzi	Manager – Accounts
Paul G. Kariuki	Manager – Human Resource and Development
Daniel Kemei	Manager – Administration
Paul N. Gesora	Manager – Corporate Strategy
Vincensia Apopa	Manager – Supply Chain Management
Stephen Obare	Manager – Information Communication Technology
Qs. Susan Rutto	Manager – Registration, Compliance and Training (Building, Energy & Associated Works)
Antony Ochieng	Manager – Internal Audit
Wangui Gitei	Manager – Corporate Communications
Samson Lukoba	Manager – Legal and Corporation Secretary
Qs. David N. Mathu	Manager – Research and Business Development
Arch. Juliet Kabere	Manager – Training and Capacity Building
Arch. Stephen M. Mwilu	Manager – Regional Offices

CHAIRMAN'S COMMENTS

The construction industry is undoubtedly one of the fastest risers within the Kenyan economy, which instills both a sense of pride and greater responsibility in the Authority as the industry regulator. According to the Economic Survey 2016, the country's Gross Domestic Product grew by 5.6% while the construction industry recorded a growth of 13.6% in 2015; this sustained growth over the last four years continues to play a key role in the overall expansion of the country's economy.

We can expect that upward trend to endure for at least a few more years, a period which will see the implementation of major infrastructure projects. Infrastructure development has remained a top priority for both the national and county governments. In addition, with the increase in population, investment opportunities by the private sector will continue to present themselves in the construction of residential, commercial and industrial buildings, including prefabricated low-cost housing.

In this dynamic environment affecting all industry stakeholders, the Authority's mission remains the same: to regulate, streamline and build capacity in the construction industry. This informed the creation of the Annual Construction Research Conference and Exhibition, a forum that showcased key innovations in the research field, and demonstrated their impact on the local and international business scene. The inaugural event was celebrated across the country, and it has now earned its place as a permanent fixture on the events calendar.

The Authority was a key player in the National Building Audit, an inspectorate commissioned by President Uhuru Kenyatta to appraise all existing buildings nationwide to ensure that they were not only structurally sound but overall suitable

for habitation. Alongside our partners from the Ministry of Land, Housing and Urban Development and The Nairobi County Government, the team mapped out high-risk and medium-risk structures, where the former were immediately evacuated and marked for demolition. The Audit, whose work began in Nairobi County, will continue country-wide. The Authority strives to maintain mutually beneficial relationships with partners both in the public and private sectors towards the successful execution of its mandate.

I am proud of the strides we have made thus far, and I look forward to even more gains this coming year.

Thank you.

A handwritten signature in blue ink, appearing to read 'Steven Oundo', is written over a large, stylized blue scribble that forms a wide, horizontal loop.

Steven Oundo, OGW

Chairperson of the Board

EXECUTIVE DIRECTOR'S COMMENTS

The 2015/2016 financial year was very eventful for the Authority, as it was the first year of implementation for the Strategic Plan 2015-2020. The Plan contains five key result areas (KRAs) which inform the Authority's strategic direction, and which are aligned to Kenya's Vision 2030 and the economic transformation agenda.

To promote transparency and enhance professionalism, the Authority published the contractors' register in the Kenya Gazette and the Code of Conduct and Ethics for the Construction Industry in April 2016.

One of the key deliverables is the enhancement of the capacity of the local construction firms. The contractor's training program was revamped and re-launched in the second half of the financial year. A total of 23,734 construction firm directors and representatives have been trained on different aspects relating to construction since the inception of the program. Trainings have also been conducted for the construction workers and site supervisors across the country in partnership with County Governments and other stakeholders. The initiative is to equip the youth with skills and create employment because the labor-intensive nature of industry is means it is an almost assured source of employment. The training programmes will continue, as will research initiatives, all towards building capacity in the industry.

In collaboration with the industry players, the trades within the industry have been reviewed from 7 to 56, informed by the dynamic and evolving nature of construction, as well as to take advantage of new technology. This was paired with the development of a training curriculum to ensure there is adequate and skilled manpower within the industry. 85% of construction workers do not have any formal training but have acquired their experience through on-the-job training and apprenticeship programmes. To accredit them the Authority, there will be a review

of the accreditation requirements in order to recognize Competency Based Training. Already the Authority has accredited a total of 8,951 from a total population of 270,397 registered skilled workers and site supervisors.

The Authority's commitment to devolution of services has led to the opening of several regional and liaison offices, bringing the total to 11 regional and 13 liaison offices. Plans are underway to open more liaison offices to ensure the Authority is present in virtually all corners of the country.

To improve on service delivery, the Authority has implemented the Enterprise Resource Planning system and the Regulatory Construction Information System. This has enabled us to take customer to the next level by interlinking all departmental processes and functions, ensuring full synergy which will not only save time and money but eradicate redundancy and inefficiency. The Authority will continue to invest in information technology to leverage on its benefits towards optimal service delivery.

Consequently, given all the above plans, the Authority anticipates a very successful year ahead.

Thank you.

A handwritten signature in black ink, appearing to read 'Daniel O. Manduku', is written over a large, stylized 'X' mark that spans across the signature area.

Arch. Daniel O. Manduku

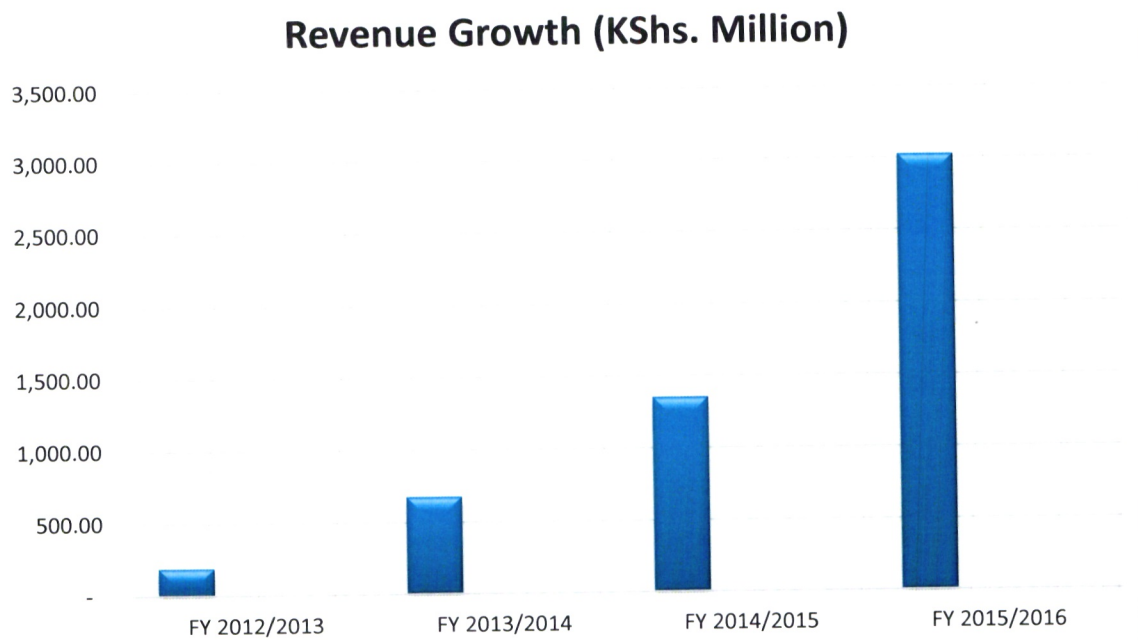
Executive Director/Registrar of Contractors

KEY HIGHLIGHTS AND ACHIEVEMENTS

The financial year 2015/2016 marks the fourth year of the Authority since its establishment. The Authority remains committed to its mandate of promoting the development of the construction industry for a sustained socio economic development. The programs under implementation have been designed through a consultative process and will greatly transform the construction sector landscape. The programmes are contained in the Authority’s strategic plan 2015-2020 which is aligned to the Vision 2030 and the Government’s transformative agenda. The key highlights of the Authority’s performance for the period are as outlined below.

i. Financial Performance

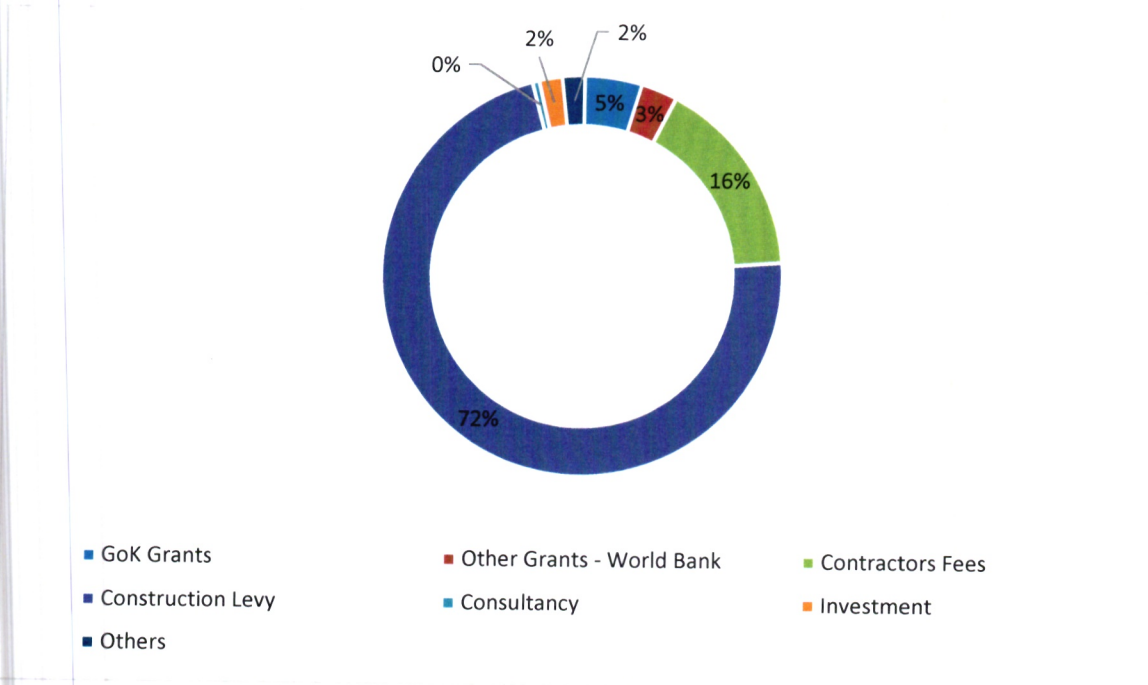
a. Financial performance in figures



The total revenue for the Authority has increased steadily over the years from KShs. 190 Million in the financial year 2012/2013 to KShs. 3.0 Billion in the financial year 2015/2016. The increase in the last two financial years is attributable to the collections from the construction levy. The levy is applicable to construction projects with a value above KShs. 5 Million.

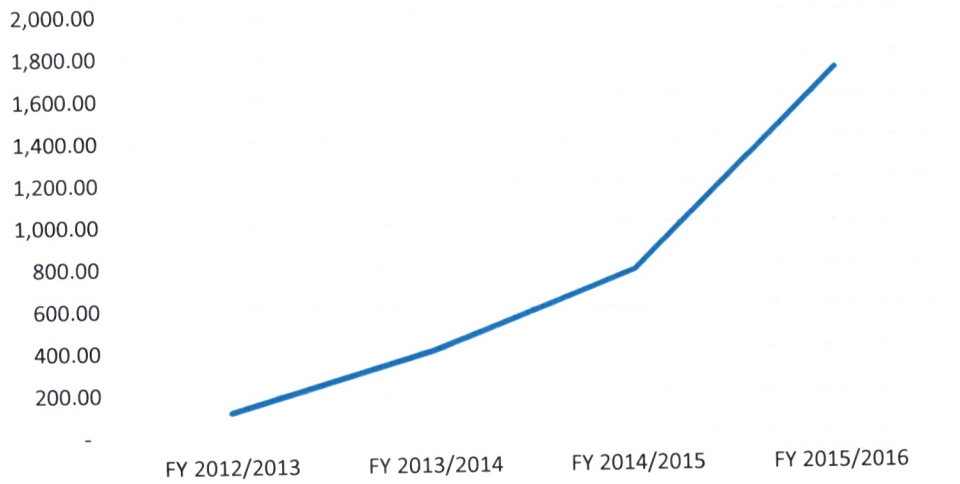
Key Highlights (Cont'd)

b. Revenue Sources



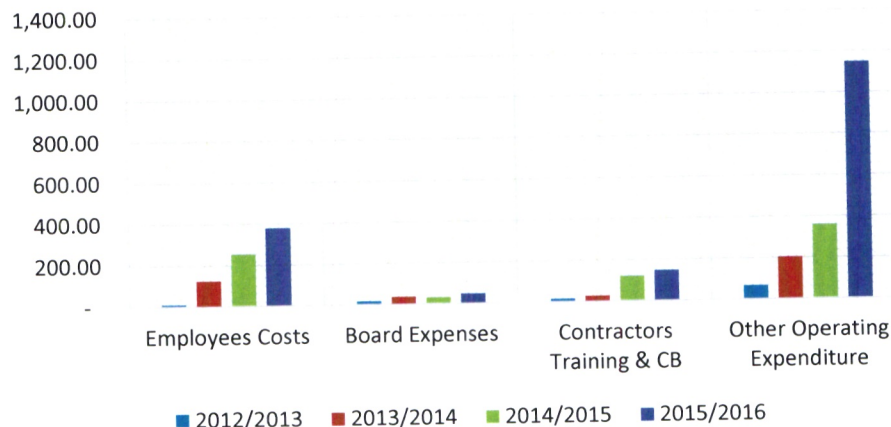
The construction levy is the major source of revenue contributing 71% of the total revenue for the Authority realized within the financial year. The income realized from the contractor's fees comprises of application fees for registration, registration fees and receipts from training workshops for contractors which accounted for 17% of the total revenue.

c. Expenditure Trends



The expenditure for the Authority has been growing over the years from KShs. 113 Million in the financial year 2012/2013 to KShs. 1.7 Billion in the financial year 2015/2016. The increase is attributable to increased operations of the Authority over the same period.

d. Expenditure by Vote



The Authority recruited majority of its staff in the financial year 2014/2015 and 2015/2016 hence the significant increase of employee costs in the two years as

compared with the previous two financial years. The total staff establishment of the Authority of the Authority is 304 with 235 staff being in post as at 30th June 2016. The recruitment of staff had a positive correlation with the other operating expenses because the Authority was able to roll out and implement its activities. This contributed to the huge increase in the other operating expenses for the last two financial years 2014/2015 and 2015/2016.

ii. Regulation

a. Registration of Contractors

The Authority has continued to improve on its system with a view of streamlining the registration of contractors which is one of its core mandate. As a statutory requirement the Authority is required to publish the contractors register. The first contractors register was published through a special issue of the Kenya Gazette on 15th April 2016 with a total of 27,284 contractors in different categories and classes of works.

Table 2: The Registered Contractors as at 31st December 2015

Categories	Classes					Total
	Roads	Water	Buildings	Electrical	Mechanical	
NCA1	128	80	195	104	61	568
NCA2	92	56	165	25	25	363
NCA3	211	129	265	51	22	678
NCA4	830	518	879	231	92	2550
NCA5	831	457	1009	231	77	2605
NCA6	1926	817	2312	425	124	5604
NCA7	3672	1168	3645	394	122	9001
NAC8	2269	976	2470	114	86	5915
Total	9,959	4,201	10,940	1,575	609	27,284

b. Registration of Skilled Workers

The Authority has an ambitious plan in its strategic plan 2015-2020 to accredit and register 1.5 Million and 0.5 Million construction workers and site supervisors respectively. This is geared towards ensuring that the industry has qualified and competent manpower with the right mix of skills. The Authority carried out a registration drive in February to May 2016 across the country which managed to register over 160,000 workers and supervisors bringing the total identified construction workers to 270,000.

The Authority initiated and coordinated a sector wide review of the trades within the industry. This resulted in the recognition of additional trades within the industry from 7 trades to 59 trades which are in line with the industry requirements and international industry best practices. In collaboration with other industry stakeholders and training institutions, the development of the training curriculum has commenced.

c. Code of Conduct

The NCA Act requires the Authority to develop and publish a code of conduct for the industry. To fulfill its mandate, the Authority in collaboration with the industry players developed the code of conduct to provide for the self-regulation of the contractors among other industry issues. The code of conduct was published in April 2016 together with the contractors register through a special issue of the Kenya Gazette. The implementation/enforcement of the code of conduct has been rolled out and it is expected to provide a level playing field for all the industry stakeholders.

iii. **Training and Capacity Building**

a. Construction Workers

The Authority is mandated to accredit skilled workers in the industry. The Authority has initiated the process of accrediting all the skilled workers and supervisors to ensure that contractors engage qualified and skilled manpower. The data collected indicated that over 80% of the construction workers do not have formal training but they have learnt on the job. The target is to have 1.5 million trained and accredited skilled workers and 0.5 Million site supervisors by the year 2020.

In addition the Authority has been carrying out pilot capacity building initiatives for the constructions workers – seven trainings have already been conducted. These initiatives are geared towards developing the skills available in the entire industry as well as improve the living standards of the workers.

b. Contractors Training and Capacity Building

The training function of the Authority is geared towards building the capacity of the contractors and the skilled workers. The Regional Training for contractors have been held in a total of 40 counties with seminars conducted in 11 counties in 2014/2015 and in 29 counties in 2015/2016. In the financial year 2015/2016, the Authority was able to train 4,263 technical directors of contractor firms to bring the total number trained since the start of the program to 23,734.

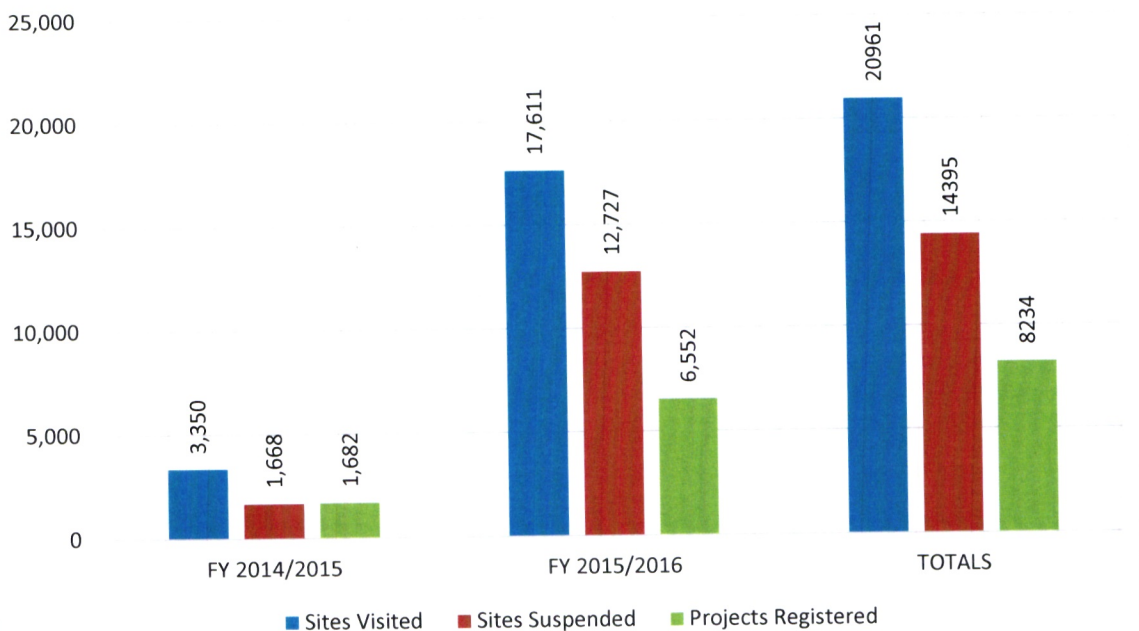
The trainings for contractors build their capacity around the six M's of construction i.e. Manpower, Machines, Money, Materials, Markets and Methods. The training content is informed by the feedback received during and after the training to ensure its effectiveness. To incorporate practical knowledge and

exposure for the contractors, field excursions were included as part of the training. The sites visited included: The Standard Gauge Railway (SGR) Syokimau site, Thika (Ndakaini) Dam, EPS Plant in Mlolongo and Konza power substation project in Machakos County.

iv. Quality Assurance and Compliance

This is one of the key mandates of the Authority. During the financial year the Authority carried site inspections across the country to ensure that the constructions going on comply with the set standards. The sites that were found not to be compliant were issued with closure notices and closed until they comply with the requirements. The table below indicates the sites inspected within the financial year.

Figure: Registered Projects



The projects registered comply with all the regulations regarding construction while the ones suspended did not comply with one or more of the regulations. The suspension notice issued to non-compliant sites is lifted once they comply with all statutory requirements as per the NCA Regulations 2014. The Authority focusses on

seven attributes while carrying out the project compliance inspections. The highest percentage (61%) of the projects visited were found to be non-compliant with the major issues being site healthy and safety and presence of professionals.

v. Service Delivery

a. Human Resource

The Authority has continued to build its human capital by recruiting additional staff critical for service delivery. The Authority recruited 87 and 44 additional officers during the financial year on permanent and two year contract respectively. This brought the Authority's total staff establishment to 235 against an approved establishment of 304. The staff have the right mix of skills, competencies and experience necessary for the effective delivery of services both at the head office and regional offices.

b. Regional Offices

The Authority has continued to expand its regional presence across the country in line with its national mandate and constitutional requirements. During the financial year the Authority opened up the Nairobi Region to serve Nairobi, Kajiado and Kiambu Counties bringing the total number of regional offices to 11. In addition, 12 liaison offices were established to ensure that the Authority has presence in the counties for service delivery.

c. Information Communication Technology (ICT)

The implementation of the Authority's Five Year ICT strategy is on course and this will greatly transform service delivery and improve on efficiencies'. The Authority implemented an enterprise wide information system comprising of the Enterprise Resource Planning (ERP) system for the back end operations and the Regulatory Construction Information System (RCIS) for the front end operations.

The RCIS automates all aspects of contractor's registration and regulation, quality assurance and research and development. The two systems provide the base systems that the Authority will scale up for automation of all of its processes. The system development has been finalized and is expected to be launched and rolled out in the next financial year, the trial runs and tests having been conducted in the period under review.

CORPORATE GOVERNANCE

Corporate Governance Statement

Corporate governance is the manner in which the power over and the power of an organization is exercised in the stewardship of its total portfolio of assets and resources with the primary objective of increasing and sustaining shareholders value while satisfying the needs of the other stakeholders in the context of the vision and mission of the organization. The Authority is committed to the ideals espoused on this statement and as a result all the Members of the Board and the top management have been trained and certified on corporate governance.

The affairs of the Authority are managed by an independent Board comprising of independent Members appointed from the private sector and representatives of the Government. The Board is keen on reviewing the overall framework of the internal controls and the assessment of management process and the adoption of the appropriate policies, regulations and codes of ethics. It is also responsible for ensuring that the Authority complies with the law and highest standards of the corporate and business ethics.

The chairperson of the Board is an independent member. The powers of the Chairman and those of the Executive Director are clearly stipulated and there is no conflict of interest or roles and responsibilities. The Executive Director is in charge of the day-to-day operations of the Authority while the Board provides the strategic and policy direction of the Authority.

Board and Committee Meetings

The affairs of the Board are conducted in line with the National Construction Authority Act Sec. 9 and other guiding government regulations. The Board meets at most six times in every financial year but the Authority's business may warrant the

convening of special meetings from time to time. To facilitate effective planning, attendance and participation in Board meetings an annual calendar is prepared for a financial year and circulated in advance. The Board Committee meetings are scheduled before the Full Board meeting to ensure that all matters are adequately addressed at the committee level before presentation to the Board for adoption or approval.

Board Committees

In order to discharge its mandates and responsibilities effectively, the Board has delegated certain tasks to its Committees with a specific mandate. This has been done in line with the principles of corporate governance and the second Schedule of the National Construction Authority.

The Board Committee were constituted in the first meeting of the board after its appointment in July 2015 and subsequent inauguration in August 2015. The Board considered the professional qualifications, skills and competence and the mandates of the different committee in selection of the committee members. The provisions of the Mwongozo code of governance for state corporations was also taken into account in the composition and number of committees. The code provides for a maximum of four committees hence the consolidation of the previous Research, Training and Capacity Building and Registration and Compliance Committees into one committee – Technical Committee.

The Board held a total of six full board meetings and various committee meeting within the year.

Table 3: Board and Committee Attendance

S/N	NAME	Full Board		HRC		TC		BARGC		FAD	
		Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
1	Adv. Anne Kiusya	6	6	10	10	7	7	-	-	-	-
2	Eng. Arjan Shankla	6	5	10	7	7	6	-	-	-	-
3	Eng. Henry Amaje	6	6	-	-	-	-	5	5	5	5
4	Qs. Jeniffer Musyimi	6	4	-	-	-	-	5	5	5	5
5	Eng. Josiah Maaga	6	6	10	7	-	-	-	-	5	4
6	Dr. Loice Kipkorir	6	6	10	10	-	-	5	4	-	-
7	Hon. Qs. Moses Muhia	6	5	-	-	7	7	-	-	5	4
8	Qs. Moses Nyakiongora	6	6	-	-	7	5	5	5	-	-
9	Eng. Stephen K Kogi	6	6	10	8	7	5	-	-	-	-
10	Arch. Steven Oundo	6	6	-	-	-	-	-	-	-	-
11	Ms. Susan Karanja	6	4	-	-	-	-	5	4	5	4
12	Eng. Wallace Atim	6	5	-	-	7	7	-	-	5	5
13	Arch. Makenzi Kiilu	2	2	1	1	-	-	1	1	-	-

During the period under review, the following Committees were in place.

Finance, Administration & Development (FAD)

The FAD committee is responsible for recommending financial policies, goals, and budgets that support the mission, values, and strategic goals of the Authority. The committee also reviews the Authority's financial performance against its goals and proposes major transactions and development programs for the Authority. The committee is mandated to review strategies relating to the Authority's corporate strategy, corporate communications, information technology and communication and legal.

Members

1. Qs. Jeniffer Musyimi – Chair
2. Hon. QS. Moses Muhia – Member
3. Eng. Wallace Atim – Member
4. Susan Karanja – Member
5. Eng. Josiah Maaga – Member
6. Eng. Henry Amaje - Member

Technical Committee

This committee is responsible for recommending training, research and capacity building policies, goals, and budgets that support the mission, values, and strategic goals of the Authority. The committee also reviews the Authority's training, research and capacity building performance against its goals and proposes major transactions and development programs.

The registration and compliance committee is charged with the mandate of ensuring that the mandate of the Authority in relation to registration of contractor and construction workers is carried out effectively and efficiently. In addition the committee ensure that adequate policies are put in place for compliance of all statutory requirements by all the industry stakeholders.

Members

1. Eng. Wallace Atim – Chair
2. Eng. Arjan Shankla – Member
3. Ann Kiusya – Member
4. Eng. Stephen Kogi - Member
5. Qs. Moses Nyakiongora – Member
6. Hon. Qs. Moses Muhia – Member

Human Resource Committee

This is the committee of the Board responsible for guidance on human resource management of the National Construction Authority. Its primary responsibility includes reviewing, monitoring, and making recommendations and policies regarding human resource management of the National Construction Authority.

Members

1. Ann Kiusya – Chair
2. Dr. Loice Jepkorir – Member
3. Eng. Arjan Shankla – Member
4. Eng. Stephen Kogi – Member
5. Eng. Josiah Maaga – Member
6. Arch. Makenzi Kiilu - Member

Board Audit, Risk & Governance Committee

The committee assists the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the Authority's process for monitoring compliance with laws and regulations and the code of conduct. The risk management role of the Board is also implemented through this committee through the review of the risk policy and making recommendations on risk mitigation measures.

Members

1. Eng. Henry Amaje – Chair
2. Dr. Loice Jepkorir – Member
3. Qs. Jeniffer Musyimi – Member
4. Arch. Makenzi Kiilu – Member
5. Susan Karanja – Member
6. Qs. Moses Nyakiongora – Member

RISK MANAGEMENT

The Authority has identified risk management as a priority area. This is premised on the effect the risks have on the achievement of the strategic objectives of the Authority and the industry at large. The Board Audit Committee is charged with the mandate to oversee the Authority's risk procedures, review and approval of key risk policies, risk authorities and risk tolerances. The implementation of the risk policies is spearheaded by the Manager Internal Audit and Risk management.

The implementation of the Enterprise Risks Management (ERM) framework will ensure the Authority develops a common platform for risk identification, measurement and management. The ERM framework under development includes a component on governance which provides for the guidelines on responsibilities for taking, managing, monitoring and reporting risks. In addition, to address the inherent operational risks, the Authority has formulated comprehensive policies and procedures which are constantly under review to address any emerging risks. Some of the measures instituted to mitigate against operational risks includes: effective segregation of duties,

- i. annual risk reviews;
- ii. staff education and sensitization;
- iii. authorization levels; and
- iv. entrenching risks management culture.

REPORT OF THE BOARD MEMBERS

The Board Members submit their report together with the financial statements for the year ended June 30th, 2016 which show the state of the National Construction Authority affairs.

Principal Activities

The principal activity of the Authority is to oversee the construction industry and coordinate its development.

Results

The results of the National Construction Authority for the year ended June 30th, 2015 are set out on page 1 to 25.

Board Members

The members of the Board who served during the year are shown on page vii to viii.

Auditors

The Auditor General is responsible for the statutory audit of the National Construction Authority in accordance with the Section 68(2) (k) of the Public Finance Management (PFM) Act, 2012.

By Order of the Board

Arch. Daniel O. Manduku

Executive Director/Secretary to the Board

Nairobi.

Date: 28th September 2016.

STATEMENT OF THE BOARD MEMBERS' RESPONSIBILITIES

The Public Finance Management Act 2012 Sec. 81, the National Construction Authority Act Sec. 35 and the State Corporations Act Cap 446 Sec. 14, require the Board to prepare annual financial reports in respect of National Construction Authority, which give a true and fair view of the state of affairs of the Authority at the end of the financial year and its operating results for that year. The Board is also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Board is also responsible for safeguarding the assets of the Authority.

The Board is responsible for the preparation and presentation of the Authority financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on June 30, 2016. 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 Authority;
- (v) selecting and applying appropriate accounting policies; and
- (vi) making accounting estimates that are reasonable in the circumstances.

Statement of Board Members' Responsibility (Cont'd)

The Board accepts responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sectors Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Board is of the opinion that the Authority's financial statements give a true and fair view of the state of the Authority's transactions during the financial year ended June 30th, 2016, and of the its financial position as at that date. The Board further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Board to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

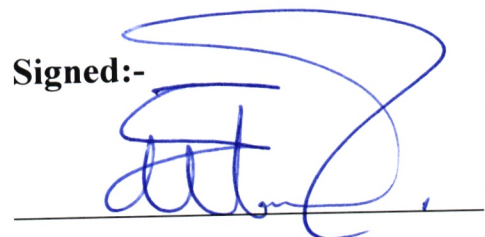
The Authority's financial statements were approved by the Board on 28th September 2016 and signed on its behalf by:

Signed: -



Arch. Daniel O. Manduku
Executive Director/Secretary to the Board

Signed:-



Steven Oundo, OGW
Chairperson of the Board

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NATIONAL CONSTRUCTION AUTHORITY FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of National Construction Authority set out on pages 1 to 26, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all information and explanations which, to the best of my knowledge and belief were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The 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.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in accordance with Article 229 (7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or

Report of the Auditor-General on the Financial Statements of National Construction Authority for the year ended 30 June 2016

error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

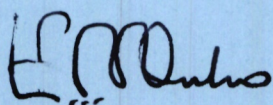
Receivables

Included in the statement of financial position as at 30 June 2016 is receivables amounting to Kshs.1,644,891,596. The balance increased by more than 300% during the year from Kshs.404,902,060 in 2014/2015 to Kshs1,644,891,596 as at 30 June 2016 with government institutions owing the largest portion. Management has not provided a plan for audit review on how it intends to recover the same.

In the circumstance, the recoverability of these receivables totalling Kshs.1,644,891,596 reflected in the statement of financial position as at 30 June, 2016 remains doubtful.

Qualified Opinion

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of National Construction Authority as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the National Construction Authority Act, 2011 of the Laws of Kenya.



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

Nairobi

03 April 2017

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30TH JUNE, 2016

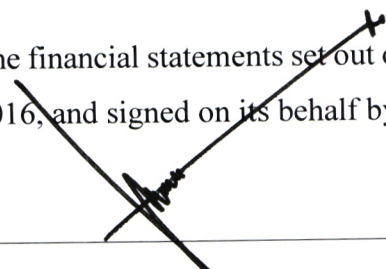
	<u>Note</u>	<u>2015/16</u> <u>KShs.</u>	<u>2014/15</u> <u>KShs.</u>
<u>INCOME</u>			
GoK Recurrent Grants	3 (i)	138,260,752	38,608,602
Grants revenue	3 (ii)	88,895,562	43,526,000
Contractors Application	3 (iii)	42,956,821	35,217,840
Contractors Registration	3 (iv)	449,228,820	313,976,238
Construction Levy	3 (v)	2,176,743,365	812,341,798
Conferences and Workshops	3 (vi)	31,599,678	31,511,750
Registration of Workers	3 (vii)	15,411,910	4,736,700
Consultancy	4 (i)	16,885,000	13,915,000
Investment Income	4 (ii)	55,994,987	26,588,781
Miscellaneous revenue	5	8,590,888	31,665,421
Total Income		<u>3,024,567,784</u>	<u>1,352,088,131</u>
<u>RECURRENT EXPENDITURE</u>			
Employee Costs	6	379,524,747	255,938,574
Board Expenses	7	48,220,622	32,802,428
Communication	8	20,966,079	11,908,274
Travelling and Accommodation	9	145,183,504	107,459,138
Advertising and Public Relations	10	86,117,833	51,881,957
Insurance Costs	11	23,630,684	16,060,001
Other Operating Expenses	12	914,390,950	244,421,446
Depreciation	18	100,894,541	49,354,445
Taxes	13	6,913,219	3,906,990
Total Expenditure		<u>1,725,842,179</u>	<u>773,733,253</u>
Surplus/(Deficit) for the period		<u>1,298,725,606</u>	<u>578,354,878</u>

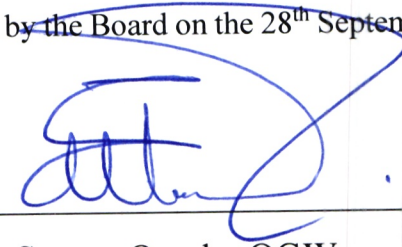
STATEMENT OF FINANCIAL POSITION

AS AT 30TH JUNE, 2016

	Note	2015/16 <u>KShs.</u>	2014/15 <u>KShs.</u>
<u>ASSETS</u>			
Current Assets			
Receivables	15	1,644,891,596	404,902,060
Investments	16	454,054,201	314,886,519
Cash & Cash Equivalents	17	537,891,527	185,145,042
		2,636,837,325	904,933,621
Non-Current Assets			
Property, Plant & Equipment	18	282,432,968	128,648,105
Intangible Assets		58,222,502	431,710
		340,655,471	129,079,815
TOTAL ASSETS		2,977,492,795	1,034,013,436
LIABILITIES			
Current Liabilities			
Trade Payables & Accruals	19	724,582,335	100,278,175
Total Current Liabilities		724,582,335	100,278,175
NET ASSETS		2,252,910,460	933,735,261
<u>RESERVES</u>			
Reserve		20,000,000	-
Accumulated Surplus		2,232,910,460	933,735,260
TOTAL RESERVES		2,252,910,460	933,735,260

The financial statements set out on pages 1 to 5 were approved by the Board on the 28th September 2016, and signed on its behalf by;


Arch. Daniel O. Manduku
Executive Director


Steven Oundo, OGW
Chairperson of the Board

**STATEMENT OF CHANGES IN NET ASSETS
FOR YEAR ENDED 30TH JUNE, 2016**

	Note	Accumulated Surplus KShs	Revenue Reserves KShs	Totals KShs
As at 1st July, 2014		355,380,383	-	355,380,383
Surplus for the year		578,354,878	-	578,354,878
Capital Grants				-
As at 30th June, 2015		933,735,260	-	933,735,260
As Restated				
Income overstatement	21	449,594		449,594
Salaries overstatement				-
As Restated		934,184,855	-	934,184,855
As at 1st July, 2015		934,184,855	-	934,184,855
Surplus/(Deficit) for the year		1,298,725,606		1,298,725,606
Capital Grants			20,000,000	20,000,000
As at 30th June, 2016		2,232,910,460	20,000,000	2,252,910,460

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30TH JUNE, 2016

	Note	2015/16 <u>KShs.</u>	2014/15 <u>KShs.</u>
OPERATING ACTIVITIES			
Surplus/ (Deficit) generated from operating activities		1,298,725,606	578,354,878
Adjustments:-			
Interest Income	4(i)	(55,994,987)	(26,588,781)
Depreciation	18	100,894,541	49,354,445
Operating income before working capital changes		<u>1,343,625,159</u>	<u>601,120,542</u>
Movements in Working Capital			
Decrease/ (Increase) in Debtors.	15	(1,236,566,970)	(393,773,085)
Increase/(Decrease) in Trade & Other Payables	19	624,304,160	67,894,597
Net Change in working Capital		<u>(612,262,811)</u>	<u>(325,878,488)</u>
Net Cash(used by)/from operating activities		<u>731,362,348</u>	<u>275,242,054</u>
INVESTING ACTIVITIES			
Purchase of other Non-Current Assets	18	(312,470,194)	(116,903,953)
Proceeds from Investments		314,886,517	204,499,178
Investments	16	(454,054,201)	(314,886,519)
Interest Income Received	20	52,572,422	27,564,270
Net Cash used in Investing activities		<u>(399,065,457)</u>	<u>(199,727,024)</u>
FINANCING ACTIVITIES			
Prior Year Adjustments	21	449,594	(880,097)
Development Grants		20,000,000	
Net Cash From Financing Activities		<u>20,449,594</u>	<u>(880,097)</u>
Net (Decrease) / Increase in Cash and Cash Equivalents		352,746,485	74,634,934
<i>Cash and Cash Equivalents at the beginning of the year</i>		185,145,042	110,510,108
Cash and Cash Equivalents at the end of the year	17	<u><u>537,891,527</u></u>	<u><u>185,145,042</u></u>

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	BUDGET	ACTUAL	VARIANCE
GoK Recurrent Grants	208,261	138,261	(70,000)
Grants revenue	50,000	88,896	(41,104)
Contractors Application	50,000	42,957	(7,043)
Contractors Registration	347,182	453,354	61,104
Construction Levy	1,862,500	2,176,743	314,243
Conferences and Workshops	35,000	31,600	21,600
Registration of Workers	350,000	15,412	(44,588)
Consultancy	3,000	16,885	13,885
Investment Income	23,000	55,995	32,995
Miscellaneous revenue	5,250	4,466	(10,774)
Total Income	2,934,193	3,024,568	270,317
RECURRENT EXPENDITURE			
Salaries and wages	899,498	283,435	(616,064)
Training Expenses	134,000	72,810	(61,190)
Employer Payroll Contribution	99,872	23,280	(76,593)
Board Expenses	50,410	48,221	(2,189)
Contracted Services	16,800	8,179	(8,621)
Utilities Supplies & Services	20,240	2,970	(17,270)
Communication, Supply, Services	53,760	20,966	(32,794)
Domestic Travel & Subsistence	112,700	102,973	(9,727)
Foreign Travel & Substs Costs	56,000	42,210	(13,790)
Public Relations and Advertising	322,900	86,118	(236,782)
Rental Of Produced Assets	51,000	42,269	(8,731)
Staff Welfare & Hospitality	42,000	13,856	(28,144)
Insurance Costs	60,500	23,631	(36,869)
Contractor Training & Cap. Building	353,700	148,625	(205,075)
Office & Gen. Supply & Services	86,090	52,728	(33,362)
Motor Vehicle Expenses	28,500	16,620	(11,880)
Professional Fees	84,500	15,259	(69,241)
Other Operating Expenses	38,770	7,589	(31,181)
Repairs and Maintenance	17,000	6,018	(10,982)
Depreciation	116,274	100,895	(15,380)
Taxes		6,913	6,913
Miscellaneous		-	-
Provision for Bad debts		600,280	600,280
Total Expenditure	2,644,515	1,725,842	(918,673)
			-
Surplus/(Deficit)	289,678	1,298,726	1,188,990

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2016

1. Statement of compliance and basis of preparation – IPSAS 1

The Authority's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the National Construction Authority. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

2. Summary of Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied, unless otherwise stated.

a) Revenue recognition

i. Revenue from non-exchange transactions – IPSAS 23

Levies, Application fees, and Registration Fees

The Authority recognizes revenues from levies, application and registration of contractors and skilled workers when the contractors submit their applications and register. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2016 (Cont'd)

Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Authority and the fair value of the asset can be measured reliably.

Transfers/Grants from Government and other Entities

Revenues from non-exchange transactions with the government and other entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

ii. *Revenue from exchange transactions – IPSAS 9*

Rendering of services

The Authority recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Interest income

The Authority invests funds that are not in immediate use in Fixed Deposit Receipt accounts with Government approved financial institutions and other Government approved investments that do not expose the Authority to any financial risks. The interest income is accrued using the effective yield method. The method applies this yield to the principal outstanding to determine interest income each period.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2016 (Cont'd)**b) Budget Information – IPSAS 24**

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

c) Cash and Cash Equivalents

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

d) Property, Plant and Equipment – IPSAS 17

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2016 (Cont'd)

Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

e) Intangible Assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is assessed as either finite or indefinite.

f) Depreciation Policy

Depreciation is calculated on straight line basis at annual rates estimated to write off the cost of the asset over expected useful lives.

The annual depreciation rates in use are:-

i. Computer Equipment & Accessories	33.3%
ii. Motor Vehicles	25%
iii. Communication and Office Equipment	12.5 %
iv. Furniture and Fittings	12.5%

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2016 (Cont'd)**g) Provisions – IPSAS 19**

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Authority does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

The Authority does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2016 (Cont'd)

h) Foreign currency transactions – IPSAS 4

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

i) Comparatives

Where necessary comparative figures for the previous financial year 2013/2014 have been amended or reconfigured to conform to the required changes in presentation.

3. Revenue from Non- Exchange Transactions

The Authority's major sources of income are from non-exchange transactions comprising of levies and fees charged for registration of contractors, registration of projects and skilled workers and site supervisors.

i. GoK Recurrent Grants

The Authority receives budgetary support from the Government in the form of recurrent grants.

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Grants from GoK	138,260,752	38,608,602
	<u>138,260,752</u>	<u>38,608,602</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2016 (Cont'd)
ii. Other Recurrent Grants

In the financial year 2015/16 the Authority received grants amounting to KShs. 88 Million from the World Bank under the Kenya Transport Sector Support Project (KTSSP). The grants were applied in the supply and installation of an information system (Enterprise Resource Planning System and the Regulatory Construction Information System) to enhance the Authority's service delivery.

	<u>KShs.</u>	<u>KShs.</u>
Grants from World Bank	88,895,562	43,526,000
	<u>88,895,562</u>	<u>43,526,000</u>

iii. Contractors Application Fee

The Authority is mandated to register and regulate the conduct of all contractors both foreign and local. The contractors are required to make an application to the Authority in the prescribed form and pay KShs. 5,000.00 for local contractors and US \$ 500.00 for foreign contractors as application fees. The application is subjected to an evaluation and rated based on the provided criteria to inform the category and class of registration.

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Contractors Application	42,956,821	35,217,840
	<u>42,956,821</u>	<u>35,217,840</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2016 (Cont'd)
iv. Contractors Registration Fees

The Authority registers contractors in different classes and categories depending on their qualifications and experiences. The categories of registration ranges from NCA 1 being the highest to NCA 8 being the lowest with the registration fees ranging from KShs 100,000.00 to KShs 5,000.00. The registration certificate issued is valid for a period of 3 years and renewable every year.

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Contractors Registration	449,228,820	313,976,238
	<u>449,228,820</u>	<u>313,976,238</u>

v. Construction Levy

It is a statutory obligation for all developers to register their projects with the Authority in line with the NCA Act and the regulations. The Authority charges 0.5% of the projects contract sum as construction levy which is payable before issuance of the a construction project compliance certificate. The Authority started charging the levy for projects commenced on 1st July 2014 with the approval of the NCA Regulations in September 2014.

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Construction Levy	2,176,743,365	812,341,798
	<u>2,176,743,365</u>	<u>812,341,798</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2016 (Cont'd)
vi. Conferences Workshops and Seminars

The Authority carries out training and capacity building workshops and seminars for the contractors and construction workers. The contractor's pays for the training while the Authority subsidizes the training cost using other internally generated revenues.

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Conferences & Workshops	31,599,678	31,511,750
	<u>31,599,678</u>	<u>31,511,750</u>

vii. Registration of Workers

The Authority is mandated to register all construction workers and site supervisors. The skilled workers and site supervisors are required to make the application in the prescribed form and make a payment of KShs. 1,000.00 and KShs 2,000.00 respectively.

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Registration of Workers	15,411,910	4,736,700
	<u>15,411,910</u>	<u>4,736,700</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2016 (Cont'd)
4. Revenue from Exchange Transactions
i. Consultancy

In line with its strategic plan on resource mobilization, the Authority identified specialized consultancy as one of the areas for diversification for revenue generation.

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Consultancy	16,885,000	13,915,000
	<u>16,885,000</u>	<u>13,915,000</u>

ii. Investment Income

During the year funds not in immediate use were invested in fixed deposits with varying dates of maturity. The interest rates applied on the principal invested varied depending on the market rate.

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Interest from FDR	55,994,987	26,588,781
	<u>55,994,987</u>	<u>26,588,781</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2016 (Cont'd)
5. Miscellaneous Revenue

The miscellaneous revenue consists of the following items

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Tender	42,000	2,507,406
Sponsorship	3,622,500	150,000
Appeals	4,125,350	1,283,500
Miscellaneous revenue	801,038	27,724,515
	<u>8,590,888</u>	<u>31,665,421</u>

6. Employee Costs

The employees costs comprises of the following

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Salaries & Wages	283,434,852	187,328,379
Employer Pensions	14,549,355	15,370,508
Training and Capacity Building	72,810,321	47,979,606
Provision for Gratuity (Note 14)	8,730,220	5,260,080
	<u>379,524,747</u>	<u>255,938,574</u>

7. Board Expenses

The Board expenses for the year were as stated below

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Allowances and Honoraria	17,789,081	11,176,250
Travel & Accommodation	19,318,829	12,772,558
Training Expenses	2,998,378	1,594,608
Executive Remuneration	7,490,000	6,950,000
Medical expenses	624,334	309,011
	<u>48,220,622</u>	<u>32,802,428</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2016 (Cont'd)
8. Communication

Communication expenses relates to telephone, courier and internet connections services

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Telephone & Mobile	15,972,881	7,032,842
Internet Connections	4,229,749	4,115,761
Courier and Postage	763,449	759,671
	<u>20,966,079</u>	<u>11,908,274</u>

9. Travelling and Accommodation

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Domestic Travel & Subsistence	102,973,388	56,369,309
Foreign Travel & Subsistence	42,210,117	51,089,829
	<u>145,183,504</u>	<u>107,459,138</u>

10. Advertising, Publishing and Printing

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Publishing & printing	31,981,527	15,583,284
Advertising, Awareness & Pub.	47,110,437	29,381,080
Trade Shows and Exhibitions	5,234,869	4,002,783
Corporate Social Responsibility	100,000	191,200
Donations and Sponsorship	1,691,000	2,723,610
	<u>86,117,833</u>	<u>51,881,957</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2016 (Cont'd)
11. Insurance Costs

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Group Personal Insurance-Life	1,264,094	994,030
Fire and other perils	622,511	159,525
Motor vehicle insurance	3,286,422	2,652,428
Medical Insurance	18,012,522	12,254,019
GPA & WIBA	445,135	
	<u>23,630,684</u>	<u>16,060,001</u>

12. Other Operating Expenses

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Contracted Services	8,178,586	2,462,595
Utilities Supplies & Services	2,969,720	93,170
Rent	42,269,173	9,861,362
Staff Welfare & Hospitality	13,855,779	14,831,379
Contractors Training and Cap. Building	148,625,007	123,640,558
Office & Gen. Supply & Services	52,727,590	23,362,106
Motor Vehicle Expenses	16,620,336	8,176,133
Professional Fees	15,259,013	11,011,591
Other Operating Expenses	7,588,530	8,597,329
Repairs and Maintenance	6,017,590	3,762,652
Provision for Bad Debts	600,279,625	38,622,570
	<u>914,390,950</u>	<u>244,421,446</u>

13. Taxes

The taxes paid out by the Authority relates to the 15% withholding tax on interest income earned from the investments.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2016 (Cont'd)
14. Provisions

The provisions made during the year for operating expenses are as per the schedule below

	Gratuity	Audit Fees	Bad Debts	Totals
	KShs	KShs		KShs
As at 1st July 2015	9,409,120	464,000	38,622,560	48,495,680
Provision for the year	5,203,660		600,279,625	605,483,285
Adjustments				-
<u>Payments/Transfers</u>				
Payments during the year	(5,882,560)			(5,882,560)
As at 30th June 2016	8,730,220	464,000	638,902,185	648,096,405

The Authority has various members of staff on contract basis, this number include the executive Director and the General Manager – research, Business development and capacity Building. The employees on contract are entitled to gratuity payment at the rate of 31% of the basic pay on successful completion of their terms.

The policy of the Authority is make a general provision for bad and doubtful debts at the rate of 9% of the trade receivables. The receivable within the period increased hence the increase in the provision. In addition to the provision in line with the policy the management has made additional provision of KShs. 500 Million. This is attributable to the effects of the policy statement by the Cabinet Secretary in charge of National Treasury on the imposition of the construction levy among other levies during the budget speech for the Financial Year 2016/2017.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2016 (Cont'd)
15.Receivables

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Deposits	705,000	705,000
Debtors	1,537,817,160	390,516,997
Salary Advance	1,709,374	856,494
Outstanding Imprests	6,084,040	2,477,086
Prepayments	2,831,909	1,534,574
	<u>1,549,147,482</u>	<u>396,090,151</u>
 (ii) Accrued Income		
	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Interest from FDR	12,234,475	8,811,909
Grants from GoK	54,130,376	-
	<u>66,364,851</u>	<u>8,811,909</u>
 (ii) Staff Schemes		
Mortgages	29,379,263	
Car Loan	-	
	<u>29,379,263</u>	<u>-</u>
	<u>1,644,891,596</u>	<u>404,902,060</u>

16.Investments

The Authority invested funds not in immediate use in Fixed Deposit Receipt Accounts in Commercial Bank of Africa. The investments as at 30th June 2016 were as follows

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Fixed Deposit Receipt Account (KShs)	444,190,261	305,022,579
Fixed Deposit Receipt Account (USD)	9,863,940	9,863,940
	<u>454,054,201</u>	<u>314,886,519</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2016 (Cont'd)
17. Cash and Cash Equivalents

Cash and cash equivalents as at the close of the year were;

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
KCB - Operations	70,908,868	27,738,581
KCB - Staff Mortgage Scheme	172,524,102	-
CBA - Operations	41,387,832	6,318,015
CBA - Levy	105,020,323	52,925,864
CBA - USD	22,370,156	4,458,684
CBA - Call Account	2,800,000	1,118,000
Equity Bank Ltd	2,651,000	933,157
Co-operative Bank	65,598,167	32,174,221
Housing Finance	32,657,469	23,021,221
National Bank	21,779,511	36,410,528
Cash at hand	194,099	46,770
	<u>537,891,527</u>	<u>185,145,042</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2016 (Cont'd)

18. Property, Plant and Equipment
Year ended 30 June 2016

	Software	Office Equipment	Computer Equipment & Access	Furniture & Fittings	Motor Vehicles	Total
<i>Rate</i>	30%	13%	33%	12.50%	25%	-
	KShs	KShs	KShs	KShs	KShs	KShs
Cost						
<i>As At 01.07.2014</i>	838,000	19,633,067	49,310,855	24,842,570	108,391,692	203,016,184
<i>Additions</i>	58,067,332	-	76,734,499	144,411,476	33,256,887	312,470,194
<i>Disposals</i>	-	-	-	-	-	-
<i>As At 30.06.2016</i>	58,905,332	19,633,067	126,045,354	170,450,746	141,648,579	516,683,079
Depreciation						
<i>As At 01.07.2015</i>	406,290	4,851,215	27,546,830	5,240,374	35,891,661	73,936,370
<i>Period Charge</i>	276,540	2,454,133	41,594,967	21,156,756	35,412,143	100,894,539
<i>Disposal</i>	-	-	-	-	-	-
<i>As At 30.06.2016</i>	682,830	7,305,348	69,141,797	26,397,130	71,303,804	174,830,908
Net Book Value						
<i>As At 30.06.2016</i>	58,222,502	12,327,719	56,903,557	142,856,916	70,344,776	340,655,471
<i>As At 30.06.2015</i>	431,710	14,781,852	21,764,025	19,602,196	72,500,032	129,079,815

Year ended 30th June 2015

	Software	Office Equipment	Computer Equipment & Access	Furniture & Fittings	Motor Vehicles	Total
<i>Rate</i>		13%	33%	12.50%	25%	-
	KShs	KShs	KShs	KShs	KShs	KShs
Cost						
<i>As At 01.07.2014</i>	838,000	19,127,527	31,720,954	16,655,421	17,770,329	86,112,231
<i>Adjustment</i>	-	-	-	-	-	-
<i>Additions</i>	-	505,540	17,589,901	8,187,149	90,621,363	116,903,953
<i>Disposals</i>	-	-	-	-	-	-
<i>As At 30.06.2015</i>	838,000	19,633,067	49,310,855	24,842,570	108,391,692	203,016,184
Depreciation						
<i>As At 01.07.2014</i>	129,750	2,397,081	11,126,301	2,135,053	8,793,739	24,581,924
<i>Period Charge</i>	276,540	2,454,133	16,420,529	3,105,321	27,097,922	49,354,445
<i>Write off</i>	-	-	-	-	-	-
<i>Disposal</i>	-	-	-	-	-	-
<i>As At 30.06.2015</i>	406,290	4,851,215	27,546,830	5,240,374	35,891,661	73,936,370
Net Book Value						
<i>As At 30.06.2015</i>	431,710	14,781,852	21,764,025	19,602,196	72,500,032	129,079,815
<i>As At 30.06.2014</i>	708,250	16,730,446	20,594,653	14,520,368	8,976,590	61,530,307

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2016 (Cont'd)
19. Trade Payables and Accruals

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Accounts Payables	27,584,464	67,031,624
Provisions and Accruals	648,096,405	9,873,120
Prepaid Levy	27,264,896	18,922,385
Sundry Creditors	21,636,570	4,451,046
	<u>724,582,335</u>	<u>100,278,175</u>

20. Investment Income Received

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Accrued Income B/f (Note 14)	8,811,909	9,787,398
Investment income	55,994,987	26,588,781
Accrued Income C/f (Note 14)	(12,234,475)	(8,811,909)
Withholding Tax	-	-
	<u>52,572,422</u>	<u>27,564,270</u>

21. Restatement of Accounts

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Retained Earnings	-	933,735,260
Investment income overstatement	-	449,594
	<u>-</u>	<u>934,184,855</u>

22. Related Party Transactions

The control of the Authority is exercised through the Board appointed by the Cabinet Secretary in line with the Act. The day-to-day operations of the Authority are managed by the Executive Director and the Senior Management. The total remuneration for the top management during the year was KShs. 66.2 Million which is included in the employee costs excluding the executive director's remuneration which is reported under Board expenses.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2016 (Cont'd)

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Executive Director	7,490	6,950
General Managers	7,510	15,018
Managers	51,273	46,801
	<u>66,273</u>	<u>68,769</u>

23. Staff Schemes

The Authority implemented staff mortgage scheme to enable staff acquire houses by providing a cash backed staff mortgage scheme. The scheme is administered by the Kenya Commercial Bank to the credit risk at a fee of 3.5% with the Authority earning an interest of 1% on the loans disbursed. This is in line with the Authority's HR Policy and Public Service policies on attracting and retaining qualified and competent manpower.

	2015/16	2014/15
	<u>KShs.</u>	<u>KShs.</u>
Balance as at 1st July 2015	-	-
Payments into the Scheme - Mortgage	200,000,000	-
Car Loan	-	-
Total Cash Available for Disbursement	<u>200,000,000</u>	<u>-</u>
Disbursements	(29,547,000)	-
Interest Earned on the Scheme	1,903,365	-
Repayments	167,737	-
Balance as at 30 th June 2016	<u>172,524,102</u>	<u>-</u>

24. Budget Comparison
i. Budget Approval

The Authority's original budget was approved in line with the PFM Act in January 2015 and revised in January 2016. The revision was meant to ensure that the Authority operates within the overall approved expenditure levels taking into account any new developments and meet its operational mandates. The revised budgets were subsequently approved for implementation by the Board.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2016 (Cont'd)*ii. Budget Utilization*

The Authority utilized 65% of its recurrent budget after adjustment of provision for bad debts and depreciation and 52% of its capital budget. The only item that recorded over 100% expenditure was board expenses which is attributable to increased Board activities in the last half of the financial year. The activities carried out were necessary for the proper functioning of the Authority and the costs were not projected as at the time of the revising the budget in January 2016. The extra activities the Board were involved in includes recruitment of the additional staff and the contractors training program.

25. Contingencies

The Authority did not have any contingent liabilities or assets for the period under review but the following issues may affect its performance in the long run.

i. Pending Constitutional Petition

The petition was made by the Law Society of Kenya in 2014 challenging the implementation of the National Construction Authority Regulations 2014. Their contention is primarily on the grounds that there was no public or stakeholder consultation before gazettment of the regulations by the Cabinet Secretary. The petitioner (LSK) has obtained conservatory orders stopping the Authority from collecting levy from a project that they intend to undertake. The Nairobi County Government has been enjoined to the suit as an interested party. The case has not been determined but the parties have made representations before the Constitutional Department of the High Court and the court proceedings are still ongoing.

ii. Construction Levy

The Cabinet Secretary of The National Treasury in the Budget Policy Statement for the Fiscal Year 2016/2017 made a proposal for the removal of the construction levy. The levy accounts for over 70% of the Authority's revenue hence its removal will greatly affect its operations and implementation of the strategic plan.