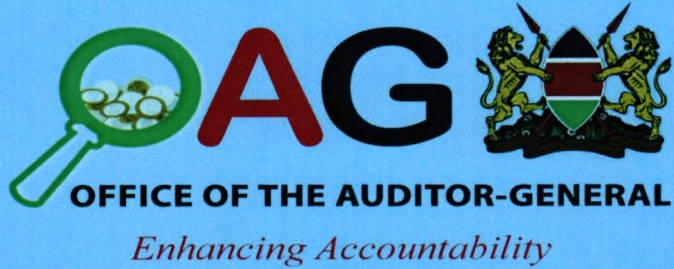


REPUBLIC OF KENYA



THE NATIONAL ASSEMBLY
REPORT PAPERS LAID

DATE: 11 MAY 2021

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THE AUDITOR-GENERAL

ON

CIVIL SERVANTS HOUSING SCHEME

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

**STATE DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT**



**MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING, URBAN DEVELOPMENT
AND PUBLIC WORKS**

STATE DEPARTMENT FOR HOUSING AN URBAN DEVELOPMENT

CIVIL SERVANTS HOUSING SCHEME FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2020

Prepared in accordance with the Accrual Basis of Accounting Method under the International
Public Sector Accounting Standards (IPSAS)

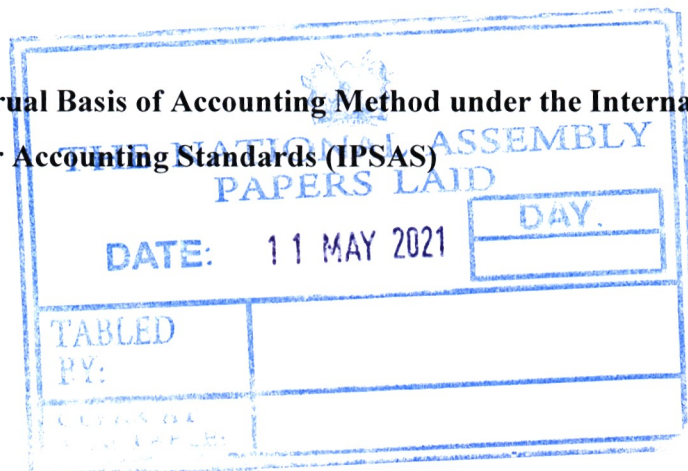


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I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The Civil Servants Housing Scheme Fund (CSHSF) was established when The Civil Servants Housing Scheme Fund Regulation, 2004 were gazetted through legal notice no. 98 dated 15th September 2004 under the housing act Cap 117. This was after the cabinet approved the establishment of the Fund. Further on the Civil Servants (Housing Scheme Fund) (Amendment) Regulation, 2015 were gazetted as legal notice No. 231 of 7th December 2015.

The establishment of the fund is in line with the National Housing Policy for Kenya 2004 (Sessional Paper No. 3). The policy among other things called for facilitation of employers to assist their employees to acquire housing. At the heart of Employer Assisted Housing is the idea that employees should be able to afford to live in the communities or neighbourhoods in which they work, and that there are multiple benefits to being able to do so.

The Cabinet Secretary in charge for the housing function is responsible for the general policy and strategic direction of the CSHSF whereas the principal secretary is the administrator of the Fund. The day to day activities of the CSHSF are handled through a secretariat.

(b) Principal Activities

The Constitution under section 42 and 43 accords every person the right to a clean and healthy environment, and the right to accessible and adequate housing, and to reasonable standards of sanitation. The main objective of the Civil Servants Housing Scheme Fund is to facilitate access of housing to Civil Servants. The specific objectives for which the Fund was introduced as provided by legal notice No 98 on Civil Servants (Housing Scheme Fund) regulations include: -

- a) Providing housing loan facilities to civil servants for the purpose of either purchasing or constructing a residential house.
- b) Developing housing units for sale and for rental by civil servants and,
- c) Mobilizing funds for the implementation of the above.

KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

Mandate

Facilitates civil servants access affordable housing through provision of mortgage and loan facilities for housing purchase or construction; development of housing for sale and rental; mobilization of financial resources for housing delivery to civil servants; and estate management of fund houses.

Vision of the Department:

Excellent, Adequate, Affordable housing for Civil Servants.

Mission of the Department:

To facilitate and empower Civil Servants to own affordable housing in secure environments through loan facilities for development or purchase of houses.

(c) Fiduciary Management

During the financial year under focus CSHSF operations were undertaken by the Fund Secretariat and administered by “the Officer Administering the Fund – the Principal Secretary, State Department for Housing and Urban Development, Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works. The Officer administering the Fund therefore hereby submits the report of the Fund and the financial statements for the year ended 30 June 2020 which show the state of the Fund affairs. The key management personnel who held office during the financial year ended 30th June 2020 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Principal Secretary	Charles M. Hinga
2.	Secretary of Administration	Ibrahim Hussein
3.	Ag. Director CSHSF	Simon Opondo

KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

(d) Fiduciary Oversight Arrangements

The overall oversight role of the Fund lies with the Parliamentary Public Accounts Committee. Pursuant to section 18 of the Government Financial Management Act, 2004 and section 9 (e) of the legal notice no. 168 (Legislative Supplement No. 51) of 22nd December 2006, the Fund Auditors remains the Auditor General of the Government of Kenya. Internal audit for the Scheme is carried by the audit section within the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works

(e) Entity Headquarters

ARDHI House, Ground Floor, Ngong Road
P.O. Box 30119-00100
NAIROBI

(f) Entity Contacts

Telephone: (254) 2718050
E-mail: cshd@housingandurban.go.ke
Website: www.housingandurban.go.ke

(g) Entity Bankers

Kenya Commercial Bank Ltd,
Milimani Branch
A/C No. 1108696325
P O Box 69695 - 00100
NAIROBI




(h) Independent Auditors

Auditor General
Office of Auditor General
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya




(i) Principal Legal Adviser

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





II. SCHEME MANAGEMENT COMMITTEE (SMC) MEMBERS OF THE CIVIL SERVANTS HOUSING SCHEME FUND (CSHSF)

NAME	MEMBERSHIP DESCRIPTION.	KEY ACADEMIC AND PROFESSIONAL QUALIFICATION.
 Charles M. Hinga ,CBS	Principal Secretary for Housing and Urban Development and Officer Administering the Fund	<p>Charles is a Chartered Accountant (CA) and holds Bachelor of Commerce (Accounting) degree from Kenyatta University and a Bachelor of Account Science (Honors) from University of South Africa. His core competencies include project and structured finance, deal structuring and business development.</p> <p>Until the time of his appointment as the Principal Secretary of Housing, Urban Development, he was the Group Chairman of an advisory boutique with presence in South Africa and Kenya.</p>
 Margaret W. Muiru, OGW	Representing the Principal Secretary, National Treasury.	<p>Margaret W. Muiru is an Administrative Officer at The National Treasury. She holds a Bachelor of Arts- Political Science and Sociology and Advanced Public Administration. She has 35 years' experience in the civil service.</p>
 Geoffrey Apollo Omondi	Representing the Principal Secretary, Labour	<p>Geoffrey Omondi was born in 1959. He is a Deputy Labour Commissioner in the Ministry of Education, African Community, Labour, Social Protection. He previously worked as a Lecturer in Industrial Relations at Kenya Institute of Personnel Management and Railway Training Institute.</p> <p>He holds a Master of Arts in Labour and Development Studies and Bachelor of Arts (Honors).</p>

		in Political Science and Sociology.
 <p>Allan Ng'ang'a Mwaura</p>	<p>Representing the Principal Secretary, Public Service and Youth Affairs</p>	<p>Mr. Allan Ng'ang'a Mwaura is a Deputy Director in the State Department of Public Service and Youth. He holds a Bachelor of Education (Arts) and Masters of Education Administration. He has attended professional development courses locally, regionally and internationally. Has served in the Education sector under the Teachers Service Commission as Secondary School teacher, head of Languages Department, KNEC examiner and Deputy Principal. He has attended Strategic Leadership Development Programme. He holds a Certificate in Human Resource Management and Educational Administration. Mr. Mwaura is an associate member of Kenya Institute Management</p>
 <p>John W. Gitu</p>	<p>Representing the Principal Secretary, Infrastructure</p>	<p>John W. Gitu is the Director, Human Resource and Development in the State Department Infrastructure. He holds Masters of Science (MSc) in Human Resource Management, Bachelor of Arts Degree, Post Graduate Diploma in Human Resource Management. He is a registered member of the Institute of Human Resource Management. He is a Human Resource Practitioner with over 15 years' experience.</p>

 <p>Christine K. Ileli</p>	<p>Representing the Attorney General</p>	<p>Christine is an advocate of the High Court of Kenya with a Bachelor of Laws (LL. degree and Master Laws (LL.M) from the University of Nairobi, a Post Graduate Diploma in Legal Studies from the Kenya School of Law and a member of the Law Society Kenya. She is a Principal State Counsel at the Office of the Attorney General and Department of Justice, currently under the Government Transactions Division with experience in international Commercial Law, International Labour and Land Laws.</p>
 <p>Patrick Mwenda Bucha, MBS</p>	<p>Secretary, Housing</p>	<p>Patrick Bucha was born in 1964. He is Secretary of Housing in the State Department for Housing and Urban Development.</p> <p>He holds a Master of Arts in Building Management and Bachelor of Arts in Building Economics and is currently undertaking PhD in Leadership and Governance.</p> <p>He is a registered Quantity Surveyor with Board of Registration for Architects and Quantity Surveyors. He has 29 years of experience.</p>
 <p>Mr. Simon O. Opondo</p>	<p>Ag Director CSHSF and Secretary of the SMC</p>	<p>Simon Odhiambo Opondo was born in 1960. He is the Ag Director, Civil Servants Housing Scheme Fund. He boasts of over 31 years' experience in Civil as an Architect and ten years as the Project Manager in the Civil Servants Housing Scheme Fund.</p> <p>He holds a Master's of Science degree in Architecture and a member of the Architectural Association of Kenya. He is a registered Architect with BORAQS.</p>

III. PROFILES OF SECRETARIAT MEMBERS OF THE CIVIL SERVANTS HOUSING SCHEME FUND (CSHSF)

NAME	AREA OF RESPONSIBILITY	KEY ACADEMIC AND PROFESSIONAL QUALIFICATION.
 Mr. Simon O. Opondo	Mr. Simon O. Opondo is the Ag Director CSHSF	<ul style="list-style-type: none"> • MSc Architecture, MAAK • Registered Architect
 Mr. Julius G. Wairagu	Project Manager	Bachelor of Architecture Registered Architect
 Mr. Boniface M. Ngochi	Estate Manager	<ul style="list-style-type: none"> • BA(Hons)Land Economics • Member of the Institution of Surveyors of Kenya (MISK)
 Fredrick K Karuen	Scheme Accountant	<ul style="list-style-type: none"> • MBA(Finance) • BA (Finance and Accounting) • CPA(K) • Member Institute of Certified Public Accountants

IV. CABINET SECRETARY'S STATEMENT

The Cabinet Secretary's Report

To ensure adequate and affordable access to housing to civil servants, the civil servants housing scheme regulations were reviewed through the civil Servants Housing Scheme fund Amendment Regulations 2015. Key amendments were:-

- i. The Loan repayment period was prolonged from 18 years to 20 years to facilitate low monthly loan repayments by beneficiaries.
- ii. Maximum loan facilitation under the Scheme was raised from Kshs 5,000,000 to between Kshs 4,000,000 and 20,000,000 depending on one's job group.
- iii. Introduction of provisions for engagement of partners in construction projects to take advantage of private sector resources through Public Private Partnerships (PPP).
- iv. Down payment for construction loans was lowered from 30% to 10% to ensure high initial costs don't deter civil servants from accessing housing loans.
- v. The Scheme was limited to employees working in a Ministry within National Government

V. REPORT OF THE PRINCIPAL SECRETARY

Administrator of Fund Report

The Management of the Fund is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Fund and of its operating results. The management of the Fund further accepts the responsibility for the maintenance of accounting records, which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

VI. MANAGEMENT DISCUSSION AND ANALYSIS

The Fund had at 30th June 2020 accomplished the following: -

a. Houses directly financed by the Fund

- A total of 32 civil servants were financed by the CSHSF to purchase housing units sold by the National Housing Corporation (NHC) in Madaraka estate and National Social Security Fund (NSSF) in Embakasi and Langata estates.

b. Constructed houses for Sale

i. Nairobi

A total of 747 housing units have been constructed through the Fund and sold on outright and tenant purchase basis in Nairobi. The constructed and sold houses are 559 in Ngara, 50 in Kilimani, 40, 22 and 26 in Kileleshwa, Nyeri Road, Makueni Road and Gichugu Road respectively and 50 in Jogoo Road.

A total of 548 housing units in Park Road were advertised for sale to civil servants and evaluation of applications is on-going.

ii. Kisumu

A total of 250 housing units have been constructed through the Fund out of which 210 are for sale and 40 for rental. Of the 210 units for sale, 98 units have been sold on outright purchase and tenant purchase scheme terms. The rental units are all occupied.

iii. Others-Kiambu, Machakos and Embu

A total of 193 housing units in Kiambu; 220 housing units in Embu and 200 housing units in Machakos have been advertised for sale and successful applicants have been issued with allocation letters. The unsold houses will be re-advertised.

c. Construction of houses for sale

The Scheme has recently completed the construction of 250 houses in Shauri Moyo, Kisumu. 210 houses have been offered for sale out of which 82 houses have been purchased on either outright or tenant purchase terms while the balance of 40 houses are rental.

- The construction of other houses is ongoing in Embu, Kiambu, and Machakos. There are 220 housing units under construction in Embu, 193 houses and a pre-primary school in Kiambu and 200 houses in Machakos. The Machakos housing project is 98% complete and preparations for handing over will soon commence. The Embu housing project will be completed in two phases I and II. The project is 80 % complete and will be completed by December 2020. Kiambu housing project is 65% complete and is projected to end in financial 2020/21. The houses were offered for sale to civil servants and the closing date of the sale was 29th May 2020

Park Road, Nairobi housing project is being developed by the State Department for Housing and Urban Development under the Affordable Housing Programme (AHP). The project consists of construction of 1,370 No. one, two and three bedroom units, commercial facilities nursery school and related infrastructural facilities. 548 (40%) of the housing units have been reserved for civil servants in the National Government and National Police Service officers. The Fund will facilitate the officers to acquire the 548 housing units to the tune of KShs. 1,672,100,000 distributed as 30 No. one bedroom units of 30 sqm, 112 No. two bedroom units of 40 sqm, 166 No. two bedroom units of 60 sqm, 90 No. three bedroom units of 60 sqm and 150 No. three bedroom units of 80 sqm.

The procurement of investors for housing development in Starehe and Shauri Moyo, Nairobi is at an advanced stage and the construction of the projects is expected to commence in the year 2020.

Other housing projects proposed for development soon are in the five counties of Nakuru, Nyeri, Kisii, Meru and Eldoret. Expression of Interest (EOI) have been advertised.

d) Granting of Mortgage Loans to Civil Servants

The Fund had as at 30th June, 2020 facilitated 1224 civil servants with mortgage loans for construction and purchase amounting to about Kshs. 5.69 billion through Kenya Commercial Bank (KCB) and Housing Finance (HF) Group as shown in the table below. The loans issued to civil servants within the fourth quarter of FY 2019/2020 amounted to about KShs. 95 Million.

The loans issued to civil servants within the entire FY 2019/2020 amounted to about KShs. 546.85 Million facilitating 81 no. civil servants.

S/No	Financial Institutions	Number of Civil Servants	Amount (Kshs.)
1	Kenya Commercial Bank	786	3,801,685,432.85
2	Housing Finance	438	1,887,671,777.62
	Total	1,224	5,689,357,210.47

e) Houses Constructed and Rented to Civil Servants

Out of the houses developed through the Fund a total of 451 housing units have been reserved for rental to civil servants. The rented flats are 96 No. in Ngara estate; 140 No. in Shauri Moyo estate; 175 No. in Jogoo Road estate and 40 No. in Kisumu Shauri Moyo estate.

f) Commercial Premises

Development of Ngara housing project comprised the housing units and;

- a) Shopping Centre comprising of ten shopping spaces
- b) Nursery School complex

The facilities are let out to rent paying tenants.

During the financial period, the Fund achieved the following:

- i. Allocated 98 no. houses for sale on either outright or tenant purchase scheme and 40 no. rental houses to Civil servants in Kisumu, Shauri Moyo.
- ii. The department issued loans to Civil Servants amounting to KShs. 546,854,953 for purchase or construction of residential houses.
- iii. Funds raised for the period amounted to Kshs810,798,432= broken into; Government grant through National Treasury amounting to Kshs 750,000,000/= and Revenue reserve at the end of financial period Kshs. 60,798,432

The performance of the department in the financial year 2019 – 2020 was good. However, there is room for improvement. There is a need to make use of Public Private Partnerships (PPP) to ensure more houses are constructed. There is also need to use cheaper and faster construction technologies in order to achieve adequate housing for Civil Servants.

Challenges

The above achievements were realized amidst various challenges that hindered the fast realization of the funds objectives:

- i. Allocation of government land earmarked for construction projects to private individuals or developers
- ii. Delayed remittance of CSHSF monies by Government Ministries, Departments, Agencies and County Governments.
- iii. Remittance of CSHSF monies to wrong accounts by Government Ministries, Departments, Agencies and County Governments.
- iv. Inadequate capacity despite enlargement of the Fund's portfolio.
- v. Delay in completion of construction projects which defers realization of funds for use in other projects.
- vi. Lengthy procedure in procurement of projects under Public Private Partnership arrangements.
- vii. Unforeseen impacts of COVID-19 pandemic which have adversely affected the income from the Ngara shopping centre and school complex.

There is need for the department to liaise with the National Land Commission to establish the status of government land reserved for housing purposes. Where government land identified for development has been irregularly allocated the titles should be cancelled. Land banks should be set aside for future housing development.

A going concern

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

VII. CORPORATE GOVERNANCE STATEMENT

The Members of the Scheme Management Committee are listed in page 6 to 8 above. the functions of the Committee is to; determine and regulate interest payable by loanees; approve all housing development and financing proposals; develop criteria for the beneficiaries of the Fund; establish management guidelines and engage such staff as may be necessary to assist the Committee and the officer administering the Fund among others

The SMC approved purchase 30% of units developed under the AHP and sale of the units to civil servants. That will improve access of housing to Civil Servants.

The management is fully committed to protect Government interest in the Fund by ensuring housing is accessible and affordable to civil servants and Public Funds are protected. This will ultimately transform the CSHSF into a Revolving Fund

The management of the Fund is of the opinion that the financial statements give are true and fair view of the state of the financial affairs of the Fund and of its operating results. The management of the Fund further accepts the responsibility for the maintenance of accounting records, which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

VIII. REPORT OF THE SCHEME COMMITTEE

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of the Civil Servants Housing Scheme Fund's affairs.

Principal activities

The key strategic priorities for the year were

- i. Facilitation of at least 120 civil servants with loans to buy or construct residential houses.
- ii. Sale of Kisumu Shauri Moyo Housing project to comprising 250 one, two and three bedrooms houses at a cost of Kshs 764 million
- iii. Complete construction of 200 unit in Machakos, 200 units in Kiambu and 220 units in Embu
- iv. Initiation of Public Private partnership process for construction of Park Road and Starehe Estate
- v. Raise funds for the fund activities and prudent management of the finances.

Results

The results of the entity for the year ended June 30, 2019 are set out on page 17 to 47.

Directors

The members of the scheme committee who served during the year are shown on page 9.

Auditors

The Auditor General is responsible for the statutory audit of the Civil Servants Housing Scheme Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015

By Order of the Board



Principal Secretary

State Department of Housing and Urban Development

Date: _____

IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 require the Directors to prepare financial statements in respect of that Civil Servants Housing Scheme Fund, which give a true and fair view of the state of affairs of the Civil Servants Housing Scheme Fund at the end of the financial year and the operating results of the Civil Servants Housing Scheme Fund for that year. The Directors are also required to ensure that they keeps proper accounting records which disclose with reasonable accuracy the financial position of the Civil Servants Housing Scheme Fund. The Directors are also responsible for safeguarding the assets of the Civil Servants Housing Scheme Fund.

The Directors are responsible for the preparation and presentation of the Civil Servants Housing Scheme Fund's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 2019. 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 Civil Servants Housing Scheme Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Civil Servants Housing Scheme Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012. The Directors are of the opinion that the Civil Servants Housing Scheme Fund financial statements give a true and fair view of the state of Civil Servants Housing Scheme Fund's transactions during the financial year ended June 30, 2018, and of the Civil Servants Housing Scheme Fund's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Civil Servants Housing Scheme Fund, which have been relied upon in the preparation of the Civil Servants Housing Scheme Fund's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Civil Servants Housing Scheme Fund will not remain a going concern for at least the next twelve months from the date of this statement.

Civil Servants Housing Scheme Fund
Annual Reports and Financial Statements
For the year ended June 30, 2020

Approval of the financial statements

The Civil Servants Housing Scheme Fund's financial statements were approved by the Board on _____ 2020 and signed on its behalf by:



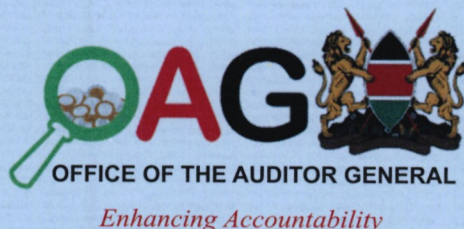
Charles M. Hinga, CBS
Principal Secretary



Simon Odhiambo Opondo
Ag. Director/CSHSF

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON CIVIL SERVANTS HOUSING SCHEME FUND FOR THE YEAR ENDED 30 JUNE, 2020 – STATE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Civil Servants Housing Scheme Fund set out on pages 20 to 53, which comprise the statement of financial position as at 30 June, 2020, statement of financial performance, 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 matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Civil Servants Housing Scheme Fund as at 30 June, 2020, 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

Cash and Cash Equivalents

As previously reported, and as disclosed in Note 14 to the financial statements, the statement of financial position reflects a balance of Kshs.2,848,427,463 under cash and cash equivalents. However, there were unbanked receipts amounting to Kshs.263,875,422, out of which receipts amounting to Kshs.37,454,290 were for more than one (1) year. In addition, payments in the bank statement not in the cash book amounted to Kshs.13,373,209 while payments in the cash book not in the bank statement amounted to Kshs.33,092,751 of which Kshs.16,911,231 related to the period earlier than 30 June, 2019.

Further, the cash and bank balance of Kshs.2,848,427,463 reflected in the statement of financial position is as per the bank balance and not as per the cash book balance. This is contrary to basic accounting principles.

In the circumstances, it has not been possible to confirm the accuracy and completeness of the reported cash and cash equivalents balance of Kshs.2,848,427,463 as at 30 June, 2020.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Civil Servants Housing Scheme Fund 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.

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 Completion of Machakos Housing Project

As reported in the previous year, the contract for the project was awarded on 25 August, 2017 at a sum of Kshs.706,500,000 for a duration of ninety-six (96) weeks ending on 21 June 2019. An extension of time was subsequently granted to 20 November, 2020. As at 12 July, 2020, the value of work done and certified amounted to Kshs.687,415,007 representing 97% completion status. This is indicative of the project being behind schedule and the likelihood of cost escalation is high. The Fund has not rendered satisfactory explanation for the delays and the measures being put in place to ensure completion within the revised timelines.

Further, payments amounting to Kshs.10,639,982 was paid out from the contract without adequate supporting documents contrary to Section 99(3) of the Public Finance Management (National Government) Regulations, 2015.

2. Delay in Completion of Embu Housing Project

The contract for the project was awarded at a sum of Kshs.843,932,665 for a duration of ninety-six (96) weeks ending on 31 May, 2018. As at August 2020 the value of work done and certified amounted to Kshs.714,176,978 representing 84% completion status. This is indicative of the project being behind schedule and the likelihood of cost escalation is high. The Fund has not rendered satisfactory explanation for the delays and the measures being put in place to ensure completion within the revised timelines.

3. Delay in Completion of Kiambu Housing Project

The contract for the project was awarded at a contract sum of Kshs.684,859,645 for a duration of ninety-six (96) weeks ending on 21 June, 2019. As at 12 July, 2020, the value of work done and certified amounted to Kshs.415,912,245 representing 65% completion status. This is indicative of the project being behind schedule and the likelihood of cost escalation is high. The Fund Management has not rendered satisfactory explanation for the delays and the measures being put in place to ensure completion within the revised timelines.

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 as to whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, RISK MANAGEMENT SYSTEMS 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 requires that I plan and perform the audit so as to obtain assurance as to whether effective processes and systems of internal control, risk management and overall governance was maintained 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 those Charged with Governance

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 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 Fund's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless Management is aware of the intention to terminate the Fund 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.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Fund 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 applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Fund 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.


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

16 April, 2021

XI. STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2020

	Note	2019-2020	2018-2019
Revenue from exchange transactions		Kshs	Kshs
Mortgage Interest	6	140,755,265	202,079,918
Finance income - external investments	7	82,269,609	93,216,157
Rental revenue from facilities and equipment	8	21,664,730	57,832,441
Other income	9	61,954,236	37,028,171
Total revenue		306,643,840	390,156,687
Expenses			
Board expenses	10	5,843,890	2,039,405
General expenses	11	38,318,160	37,735,391
Repairs and maintenance	12	47,725,822	385,000
Depreciation expense	13	23,194,887	23,561,676
Total expenses		115,082,759	63,721,471
Surplus for the period		191,561,081	326,435,216

The notes set out on pages 29 to 48 forms an integral part of the Financial Statements

Charles M. Hinga, CBS

Principal Secretary/

Officer Administering the Fund

State Department of Housing &

Urban Development

Signature.....

Date.....

Simon Odhiambo Opondo CPA Fredrick Karuen

Ag Director/CSHSF Assistant Accountant General

ICPAK Member 7660

Signature.....

Date.....

Signature.....

Date.....

XII. STATEMENT OF FINANCIAL POSITION AS AT THE YEAR ENDED 30 JUNE 2020

	Note	2019-2020	2018-2019
		Kshs	Kshs
Assets			
Current assets			
Cash and cash equivalents	14	2,848,427,463.20	3,580,219,336
Current portion of long-term receivables from exchange transactions	15(a)	352,029,009	40,054,823
Trade receivable	15(b)	231,000	
Work in Progress	15(c)	2,951,074,753	2,227,089,741
Total Current Assets		6,151,762,225.20	5,847,363,900
Non-current assets			
Property, plant and equipment	16	7,311,667	7,786,093
Investments(Land and building unallocated)	15(c)	2,467,334	2,467,334
Investment property	17	814,983,417	835,880,428
Long term receivables from exchange transactions	15(e)	5,122,540,965	5,381,130,573
		5,947,303,383	6,227,264,427
Total assets		12,099,065,608.20	12,074,628,327
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	18	208,505,362	185,251,147
Total liabilities		208,505,362	185,251,147
Net assets		11,890,560,247.00	11,889,377,180
Revenue Reserves		2,886,357,608	2,694,796,527
Accumulated surplus (capital reserves)		9,004,202,640	9,194,580,653
Total net assets and liabilities		11,890,560,248	11,889,377,180

Civil Servants Housing Scheme Fund
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The financial statements were approved and signed on behalf of the Scheme management committee

By;

Charles M. Hinga, CBS

Simon Odhiambo Opondo CPA Fredrick Karuen

Principal Secretary/

Ag Director/CSHSF

Assistant Accountant General

Officer Administering the Fund
State Department of Housing &
Urban Development

ICPAK Member 7660

Signature.....

Signature.....

Signature.....

Date.....

Date.....

Date.....

**XIII. STATEMENT OF CHANGES IN NET
ASSETS**

FOR THE YEAR ENDED 30 JUNE 2020

	Revenue reserve	Capital Reserve	Total
	Kshs	Kshs	Kshs
Balance as at 30 June 2018	2,368,361,311	7,605,680,579	9,974,041,890
Government contribution capital injection movement	326,435,216	-	326,435,216
Property validation and rental collections reserves	-	750,000,000	750,000,000
Accounts payable 10% deposits reserves	-	808,139,835	808,139,835
Reserves on Sale of Houses	-	30,760,239	30,760,239
Surplus/(deficit) for the period	-	-	-
Balance as at 30 June 2019	2,694,796,527	9,194,580,653	11,889,377,180
Surplus for the period	191,561,081	-	191,561,081
Government contribution capital injection movement	-	750,000,000	750,000,000
Property validation and rental collections reserves movement	-	-791,333,014	-791,333,014
Accounts payable 10% deposits reserves movement	-	-149,044,998	-149,044,998
Balance as at 30 June 2020	2,886,357,608	9,004,202,640	11,890,560,248

XIV. STATEMENT OF CASHFLOW FOR THE YEAR ENDED 30 JUNE

2020

		Kshs	Kshs
		2019-2020	2018-2019
Cash flows from operating activities			
Surplus For the Year		191,561,081	326,435,216
Add: Depreciation		23,194,887	23,561,676
Operating surplus before working capital changes		214,755,967	349,996,892
Working Capital Changes			
Debtors/ Accounts receivable		(8,396,945)	(40,054,823)
Creditors/ Accruals		22,163,740.97	(1,338,287)
Work In Progress		(723,985,012)	(728,484,061)
		(710,218,216)	(729,822,348)
Net Cash flows generated by operating activities		(495,462,249)	(378,487,169)
		-	-
Cash Flows from Investing Activities			
Acquisition of Fixed assets		(963,988)	(2,152,500)
Acquisition of other non current:			
Land and Building			
Mortgage Recoverable SCHEME		92,325,914.20	110,139,405.20

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Mortgage Recoverable S&L		(415,640,539.00)	(182,136,558)
Mortgage Recoverable HFCK		279,921,362.32	78,011,393.59
Group Insurance Recoverable		(1,594,362)	(3,504,164)
Net cash flows used in Investing activities		(45,951,612)	357,577
Cashflow From Financing			
Government Capital Injection		750,000,000	750,000,000
Deposits		(791,333,014)	808,139,835
Accounts Payable (10% Deposits)		(149,044,998)	30,760,239
Net cash flows used in Financing activities		(190,378,012)	1,588,900,074
Net increase/(decrease)in cash and cash equivalent s		(731,791,873.00)	1,171,587,001.16
Cash and cash equivalent 1 July 2019		3,580,219,336	2,408,632,335
Cash and cash equivalent 30 June 2020		2,848,427,463	3,580,219,336

**Civil Servants Housing Scheme Fund
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**XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE
PERIOD ENDED 30 JUNE 2020**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2019-2020	2019-2020	2019-2020	2019-2020	2019-2020
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs
Balance in the Bank	2,092,392,199	-	2,092,392,199	726,368,138	1,366,024,061
Funds on short call from the Bank	500,000,000	-	500,000,000	1,792,384,00	1,292,384,00
Expected collection From Mortgage & Rent	400,000,000	-	400,000,000	380,338,425	19,661,575
Budgeted Allocation For the Year	1,500,000,000	-	1,500,000,000	750,000,000	750,000,000
	4,092,392,199	-	4,092,392,199	3,649,090,53	
Expenses					
Boards and Committees	10,000,000	-	10,000,000	5,843,890	4,156,110
Conferences and Seminars	6,000,000	-	6,000,000	1,512,108	4,487,892
Official Entertainment	1,500,000	-	1,500,000	1,469,610	30,390
Travel & Sundry Items	4,500,000	-	4,500,000	4,149,003	350,997
Accommodation	15,000,000	-	15,000,000	9,990,969	5,009,031
Advertisement	35,000,000	-	35,000,000	5,773,450	29,226,550

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Awareness					
Publishing and Printing Services	1,000,000	-	1,000,000	435,000	565,000.00
General Office Supplies	5,000,000	-	5,000,000	4,632,068	367,932.00
Group Insurance for Mortgage Protection	30,000,000	-	30,000,000	4,701,000	25,299,000.00
Purchase of plant and equipment	3,000,000	-	3,000,000	211,805	2,788,195.00
Purchase of office Furniture and fittings	2,500,000	-	2,500,000	0	2,500,000
Telephone & Mobile services	1,500,000	-	1,500,000	1,396,200	103,800
Courier and postal services	200,000	-	200,000	0	200,000
Library services	500,000	-	500,000	211,805	288,195
Training Expenses	5,000,000	-	5,000,000	1,811,064	3,188,936
Purchase of software programme	30,000,000	-	30,000,000		30,000,000
Supplies of accessories for computer & printers	1,500,000	-	1,500,000	1,409,307	90,693
Maintenance of equipment	650,000	-	650,000	127,853	522,147
Maintenance of offices	500,000	-	500,000	4,000	496,000
Bank charges	400,000	-	400,000	149,895	250,105
Refurbishment of office	1,500,000		1,500,000	30,000	1,470,000
Contracted guards and cleaning services	10,000,000	-	10,000,000	6,419,981	3,580,019

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Membership Fees, Dues and subscriptions	400,000	-	400,000	115,600	284,400
Repairs and Maintenance of Land and Building	80,000,000	-	80,000,000	47,563,969-	32,436,031
Surveying of scheme properties	25,000,000	-	25,000,000	894,100	24,105,900
Total Expenditure Operations	270,650,000	-	270,650,000	115,082,759	155,567,241
Development Budget					
Proposed Fees for Building Consultancy Services	180,000,000	-	180,000,000	0	180,000,000
Building Construction	1,800,000,000	-	1,800,000,000	638,394,831	1,161,605,19
Statutory Fees and other charges	14,600,,000	-	14,600,,000	0	14,600,000
Loans to civil servants	1,100,000,000	-	1,100,000,000	850,000,000	250,000,000
Securing of land for Re-development	50,000,000	-	50,000,000	0	50,000,000
Purchase of Houses for sale to Civil Servants	1,000,000,000		1,000,000,000	0	1,000,000,00
Facilitation of affordable Housing Programme	50,000,000		50,000,000	22,048,300	27,951,700
Total expenditure Development	4,194,600,000		4,194,600,000		4,194,600,00

XVI. NOTES TO THE FINANCIAL STATEMENT

1. GENERAL INFORMATION

Civil Servants Housing Scheme Fund is established by and derives its authority and accountability from housing Act. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is

- a) Providing housing loan facilities to civil servants for the purpose of either purchasing or constructing a residential house.
- b) Developing housing units for sale and for rental by civil servants and,
- c) Mobilizing funds for the implementation of the above.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Civil Servant Housing Scheme Fund's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Civil Servant Housing Scheme Fund.

The financial statements have been prepared in accordance with the PFM Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

Standard	Impact
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019 The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3(applicable to acquisitions only). Business combinations and combinations arising from non-exchange transactions are covered purely under Public Sector combinations as amalgamations.

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	Applicable: 1st January 2022: The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by: <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;

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Standard	Effective date and impact:
	<ul style="list-style-type: none"> • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity’s risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.
<p>IPSAS 42: Social Benefits</p>	<p>Applicable: 1st January 2022</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p> <ul style="list-style-type: none"> (a) The nature of such social benefits provided by the entity; (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the entity’s financial performance, financial position and cash flows.

iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2019.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i) Revenue from exchange transactions

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

b) Budget information

The original budget for FY 2018-2019 was approved by the National Assembly on July, 2018. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A

**Civil Servants Housing Scheme Fund
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comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

c) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

d) Property, plant and equipment

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. 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.

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e) Financial instruments**

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or an entity of financial assets is impaired. A financial asset or an entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or an entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization

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- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Entity determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

f) Provisions

Provisions are recognized when the Entity 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.

Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

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

Contingent liabilities

The Entity 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.

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Contingent assets

The Entity 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 Entity 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.

g) Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements. These includes Government contribution capital (grant from the parent ministry), property validation (sale of non-strategic houses), rental collection reserves (rent from houses owned by the scheme), accounts payables 10% deposits (deposits from clients awaiting allocation of houses) and reserves on sale of houses (profit from sale of houses developed). The policy of the scheme is to plough them back to grow the fund.

h) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

i) Related parties

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

j) 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 the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

k) Comparative figures

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

l) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2019.

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. State all judgements, estimates and assumptions made: e.g.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

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NOTES TO THE FINANCIAL STATEMENTS (continued)

Revenue from Exchange Transactions	2019-2020	2018-2019
	Kshs	Kshs
6. Mortgage Interest		
Mortgage interest	42,295,481	45,920,188
Mortgage interest S&L	65,424,872	59,034,996
Mortgage interest HFCK	33,034,912	97,124,734
Total	140,755,265	202,079,918

7. Finance Income-External Investments	2019-2020	2018-2019
	Kshs	Kshs
Finance Income External Investments	82,269,609	93,216,157
Total	82,269,609	93,216,157

8. Rental Revenue from facilities and Equipment	2019-2020	2018-2019
	Kshs	Kshs
Rental Revenue from Facilities and Equipment	21,664,730	57,832,441
Total	21,664,730	57,832,441

9. Other Income	2019-2020	2018-2019
	Kshs	Kshs
Bank interest	60,308,236	36,697,891
Sale of Forms	1,646,000	215,000
Other income, rentals and agency fees	-	115,280
Total	61,954,236	37,028,171

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10. Board Expenses		2019-2020	2018-2019
		Kshs	Kshs
Secretariat / Board & committee		5,843,890	2,039,405
Total		5,843,890	2,039,405

11. General Expenses		2019-2020	2018-2019
		Kshs	Kshs
Conference & Seminars		1,512,108	5,389,418
Membership Fees		115,600	176,313
Official Entertainment		1,469,610	1,309,046
Travel & Sundry Items (e.g. Taxi)		4,149,003	3,335,162
Accommodation		9,990,969	10,468,603
Advertisement Awareness		3,721,450	3,088,486
Publishing and Printing Services		435,000	-
General Office Supplies		4,632,068	3,245,307
Telephone & Mobile Services		1,396,200	800,000
Courier & Postal Services		0	-
Library Services		211,805	251,850
Training Expenses		1,811,064	3,928,916
Guards and Cleaning Services		6,419,981	792,000
Surveying of Scheme properties		894,100	3,755,280
Bank Charges		149,895	190,010
Supplies & accessories of computer		1,409,307	1,005,000
Total		38,318,160	37,735,391

Civil Servants Housing Scheme Fund
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12. Repair and maintenance		2019-2020	2018-2019
		Kshs	Kshs
Maintenance of Equipment		127,853	385,000
Refurbishment of Residential Building		47,563,969	-
Office Maintenance		4,000	-
Office Refurbishment		30,000	-
Total		47,725,822	385,000

13. Depreciation and amortization expense		2019-2020	2018-2019
		Kshs	Kshs
Depreciation expenses		23,194,887	23,561,676
Total		23,194,887	23,561,676

14. Cash and cash equivalents		2019-2020	2018-2019
		Kshs	Kshs
Cash-books balances		1,601,273,233.80	3,080,219,336
Short-term deposits		1,247,154,229	500,000,000
Total cash and cash equivalents		2,848,427,463.20	3,580,219,336

Civil Servants Housing Scheme Fund
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NOTES TO THE FINANCIAL STATEMENTS (continued)

14 (b) Detailed analysis of Cash and cash equivalents		2019-2020	2018-2019
		Kshs	Kshs
Financial institution			
National Bank of Kenya		-	-
Housing Finance of Kenya(Interest Account) - 2000068358		231,496,395.50	500,000,000
Housing Finance of Kenya(Back Up Account)- 2000071141		1,015,657,833.90	
Central Bank of Kenya		1,292,384,000	
KCB Deposit Account-1108696325		308,731,761	3,080,219,336
KCB Operation Account-1108696872		157,472.80	
Total cash and cash equivalents		2,848,427,463.20	3,580,219,336

15. Receivables from exchange transactions		2019-2020	2018-2019
		Kshs	Kshs
a) Current portion of long- term receivables from exchange transactions			
Debtors/Accounts receivables			
Debtors (P/s Lands & Lands)		109,647,558	109,647,558
Rent and service charge arrears		195,243,487	196,621,356
Service charge arrears		47,137,964	37,363,141
Total current receivables		352,029,000	343,632,055

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15. Receivables from exchange transactions		2019-2020	2018-2019
		Kshs	Kshs
b) Trade and other receivables			
Trade and other receivables			
Trade Receivables		231,000	-
Total current receivables		231,000	-

15. (c) Work in Progress		2019-2020	2018-2019
		Kshs	Kshs
Work in progress			
Construction		2,688,479,905	2,050,085,074
Consultant		169,922,275	169,922,275
Statutory fees & other charges		7,082,392	7,082,392
Retentions		63,541,881.27	-
Facilitation of Affordable Housing		22,084,300	-
Total Work in Progress		2,951,074,753	2,227,089,741

15 (d) Investment		2019-2020	2018-2019
		Kshs	Kshs
Land and buildings unallocated			
Land and buildings unallocated		2,467,334	2,467,334
Total investment		2,467,334	2,467,334

**Civil Servants Housing Scheme Fund
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NOTES TO THE FINANCIAL STATEMENTS (continued)

15 (c) Long term receivables from exchange transactions	2019-2020	2018-2019
	Kshs	Kshs
Mortgage recoverable from the scheme	1,131,199,340.8	1,223,525,255
Mortgage recoverable from HFCK	947,468,828.68	1,227,390,191
Mortgage recoverable from KCB (S & L)	2,992,497,859	2,576,857,320
Group insurance	51,374,937	49,780,575
Debtors (P/S Lands and Lands		109,647,558
Rent and Service Charge Arrears		162,039,664
Service Charge Arrears		31,890,010
Total	5,122,540,965.48	5,381,130,573

**Civil Servants Housing Scheme Fund
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NOTES TO THE FINANCIAL STATEMENTS (continued)					
16. Property, plant and equipment					
	Computers & other Equipment	Motor-vehicles	Furniture and Fittings	Land and Buildings	Total
Cost	Kshs	Kshs	Kshs	Kshs	Kshs
At 1 July 2019	45,506,947	4,016,157	11,268,523	1,002,379,368	1,062,390,643
Additions	853,740	-	110,248	-	963,988
At 30 June 2020	46,360,687	4,016,157	11,378,771	1,002,379,368	1,063,354,631
Depreciation and impairment					
At 1 July 2019	(41,966,316)	(3,944,597)	(6,314,268)	(166,498,940)	(218,724,121)
Depreciation	(1,578,127)	(17,890)	(622,750)	(20,897,011)	(23,194,886)
At 30 June 2020	(43,544,442)	(3,962,487)	(6,314,268)	(187,395,951)	(241,919,007)
Netbook values					
At 30 June 2019	3,540,631	71,560	4,173,903	835,880,428	865,075,697
At 30 June 2020	2,816,245	53,670	4,441,752	814,983,417	822,295,084

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. Investment property	2019-2020	2018-2019
	Kshs	Kshs
Shauri Moyo /Jogoo 315 Units(Conversion Cost)	572,739,443	572,739,443
Ngara Desai Road Rental 96 Units 2&3 Bedroom (Conversion Cost)	429,639,926	429,639,926
Accumulative Depreciation	(187,395,951)	(166,498,940)
Total	814,983,417	835,880,428

18. Trade and other payables from exchange transactions	2019-2020	2018-2019
	Kshs	Kshs
10% Retention	195,075,064	172,911,323
Service Charge	7,678,052	7,977,371
Rent Security Deposits	2,115,887	2,115,887
Bank Loan Repayment	3,636,359	2,246,566
Total	208,505,362	185,251,147

19. Financial Risk Management

The entity's activities expose it to a variety of financial risks including credit and liquidity risks. The funds overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

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

(i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)**

(i) Credit risk (Continued)

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment. The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Total amount	Fully performing
	Kshs	Kshs
At 30 June 2020		
Receivables from exchange transactions	4,302,872,762	4,302,872,762
Bank balances	2,848,427,463	2,518,752,138
Total	7,151,300,225	6,821,624,900
At 30 June 2019		
Receivables from exchange transactions	2,570,721,795	2,570,721,795
Bank balances	3,580,219,336	3,580,219,336
Total	6,150,941,131	6,150,941,131

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognized in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The scheme's committee sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

**Civil Servants Housing Scheme Fund
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NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FINANCIAL RISK MANAGEMENT (Continued)

(ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's committee, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

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

	Over 5 months	Total
	Kshs	Kshs
At 30 June 2020		
Trade payables	195,049,860	195,049,860
Provisions	13,455,502	13,455,502
Total	208,505,362	208,505,362
At 30 June 2019		
Trade payables	172,911,323	172,911,323
Provisions	12,339,824	12,339,824
Total	185,251,147	185,251,147

**Civil Servants Housing Scheme Fund
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(iii) Market risk**

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

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

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

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) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. 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.

Management of interest rate risk:

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favorable interest rates.

Sensitivity analysis

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of Kshs 326,435,216 (2018: Kshs 375,436,004). A rate increase/decrease of 2% would result in a decrease/increase in profit before tax of Kshs 6,528,704(2018: 7,508,720).

**Civil Servants Housing Scheme Fund
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NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FINANCIAL RISK MANAGEMENT (Continued)

(v) Capital Risk Management

The objective of the entity's capital risk management is to safeguard the scheme committee's ability to continue as a going concern. The entity capital structure comprises of the following funds:

	2019-2020	2018-2019
	Kshs	Kshs
Retained earnings	2,886,357,608	2,694,796,527
Capital reserve	9,004,202,640	9,194,580,653
Total funds	11,890,560,248	11,889,377,180
Total borrowings	-	-
Less: cash and bank balances	(2,518,752,138)	(3,580,219,336)
Net debt/(excess cash and cash equivalents)	9,371,808,110	8,309,157,844
Gearing	79%	70%

20. RELATED PARTY BALANCES

a) Nature of related party relationships

Entities and other parties related to the entity include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

The entity is related to

- i) The National Government;
- ii) The Parent Ministry;

a) Related party transactions	2019-2020	2018-2019
	Kshs	Kshs
Transfers from related parties		
State Department of Housing	750,000,000	750,000,000
Total	750,000,000	750,000,000

**Civil Servants Housing Scheme Fund
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NOTES TO THE FINANCIAL STATEMENTS (Continued)**

21. EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

22. ULTIMATE AND HOLDING ENTITY

The entity is a State Corporation/ or a Semi- Autonomous Government Agency under the Ministry of State department of Housing. Its ultimate parent is the Government of Kenya.

23. CURRENCY

The financial statements are presented in Kenya Shillings (Kshs).

24. MOVEMENTS OF THE RESERVES.

- Government capital injection of KShs. 750,000,000
- Property validation and rental collections reserves movement of kshs. 791,333,014
- Accounts payables 10% deposits reserves movement of kshs. 149,044,998

**Civil Servants Housing Scheme Fund
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APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.1	Un-reconciled cash and bank items	Bank reconciliation work in progress	Director, Civil Servants Housing Scheme Fund	Not Resolved	2019-2020

Ag. Director / CSHSF

Date Havell

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Appendix I INTER-ENTITY TRANSFERS**

ENTITY NAME:				
Break down of Transfers from the State Department of Housing				
FY 2018/2019				
a.	Development Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	State Department of Housing	31/10/2019	750,000,000	2019/2020
		Total	750,000,000	

The above amounts have been communicated to and reconciled with the parent Ministry

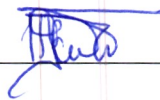
Assistant Accountant General

Head of Accounting Unit

Civil Servants Housing Scheme Fund

State Department of Housing

Sign



Sign