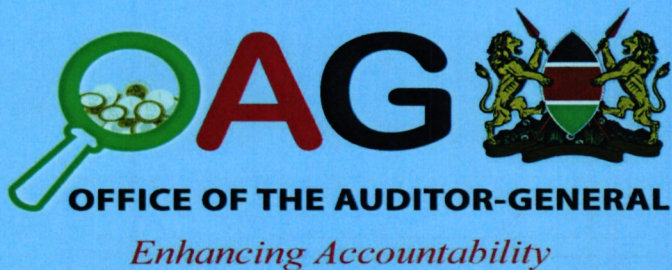


REPUBLIC OF KENYA



**REPORT**

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**THE AUDITOR-GENERAL**

**ON**

**NATIONAL HOUSING CORPORATION**

**FOR THE YEAR  
ENDED 30 JUNE, 2019**





OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30184 - 00100, NAIROBI  
REGISTRY

10 FEB 2021

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# NATIONAL HOUSING CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30<sup>TH</sup> JUNE 2019

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

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## **BACKGROUND INFORMATION**

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

## **OUR VISION**

Sustainable and decent housing for Kenyans

## **OUR MISSION**

To efficiently provide and facilitate access to innovative housing solutions

## **OUR CORPORATE VALUES**

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

## PRINCIPAL ACTIVITIES

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

The principal roles of NHC are:

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

## DIRECTORS

The Directors who served the Corporation during the period 2018/2019 were as follows:

1.	Eng. Stephen Ngare	Board Chairman
2.	Henry Rotich	Cabinet Secretary, The National Treasury
3.	Charles Hinga Mwaura	Principal Secretary, State Department of Housing and Urban Development
4.	Wainaina Kenyanjui	Director
5.	Gladys Mboya	Director
6.	Jackson Kimuri	Director
7.	Phillip Wachira	Alternate Director State Department for Infrastructure
8.	Jane Mwangi	Alternate Director State Department for Housing & Urban Development
9.	Naomi Matheri	Alternate to the Cabinet Secretary, The National Treasury
10.	Prof. Arch. Jerry Magutu	Director
11.	Dr. Habil Olaka	Director
12.	Patricia Nyambura Gathuri	Director
13.	Caroline Armstrong-Ogwapit	Director
14.	Andrew Saisi	Managing Director
15.	William K. B. Keitany	Ag. Corporation Secretary



**Ag. Corporation Secretary**

William K. B. Keitany

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



## CORPORATE INFORMATION

**Corporation Headquarters:**

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

**Corporation Contacts:**

Telephone: +254 3312149/7  
E-mail: [info@nhckkenya.co.ke](mailto:info@nhckkenya.co.ke)  
Website: [www.nhckkenya.co.ke](http://www.nhckkenya.co.ke)

**Corporation Bankers:**

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

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

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

**Independent Auditors:**

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

**Principal Legal Advisers:**

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

## THE BOARD OF DIRECTORS

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



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

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

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

**Mr. Henry Rotich**

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

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

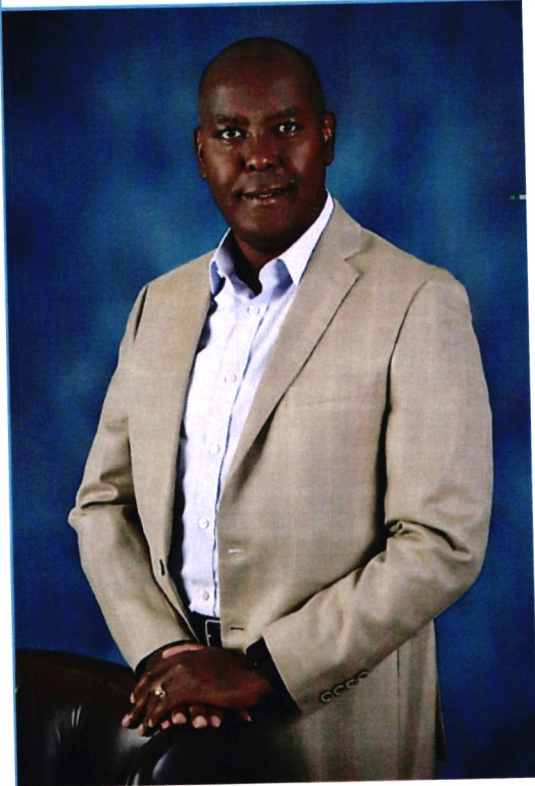
Prior to joining the Ministry of Finance, Mr. Rotich worked in the Research Department of the Central Bank of Kenya from 1994. Between 2001 and 2004, he was attached to the International Monetary Fund (IMF) local office in Nairobi as an economist. He was also a director in several boards of State Corporations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

**Mr. Charles Hinga Mwaura**

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

His core competencies include project and structured finance, deal structuring and business development. He has successfully led a number of landmark advisory mandates including the R1.5 billion City Of Johannesburg Broadband Network Project, PRASA restructuring and recapitalization plan, Phase 1B of Rea Vaya Rapid Bus Transportation System and Integrated Rapid Transport Network Project , just to mention a few.

Until the time of his appointment as the Principal Secretary State Department for Housing and Urban Development, he was the Group Chairman of an advisory boutique with presence in South Africa and Kenya.

**Mr. Wainaina Kenyanjui**

Mr. Wainaina Kenyanjui is a senior executive with over twenty (20) years' experience in leadership, management and entrepreneurial practice. He is the founder and Chairman of Africa REIT and has directed and successfully led high level fundraising efforts and completed residential and commercial property developments.

Mr. Kenyanjui also sits on the Board of the largest insurance company in South Sudan and Sunbird Group (UK), the leading Africa wide services and virtual offices company. Previously, he also served on the Board of the Privatization Commission (Kenya) during the divestiture of Government ownership in public assets and was part of the team that presided over the sale of the Government's 25% stake in Safaricom Kenya Ltd.

### Ms. Gladys Mboya



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

**Ms. Naomi Matheri**



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

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

**Mrs. Jane Mwangi**

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

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

**Mr. Philip Wachira**

Mr. Philip Wachira is the alternate Director representing the Principal Secretary State Department for Infrastructure. He holds a Bachelor's degree in Administration and a Master's degree in Business Administration (MBA) from the University of Nairobi.

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

**Mr. Jackson Kimuri**

Mr. Jackson Kimuri is a senior management executive with over thirty five (35) years' experience in Strategic management, Leadership and Finance. He previously worked for Barclays Bank of Kenya Ltd as Deputy Director, Business Banking.

Prior to being elevated to Deputy Director position, Mr. Kimuri held Senior Management positions in Barclays Bank of Kenya Ltd ranging from Head of Regional Corporate, Area Manager, Senior Risk Manager and Senior Corporate Manager. In the aforesaid positions, he led and managed large teams in audit engagements, corporate lending, project finance and branch network operations. He also has proven record in risk management, syndication implementation and in providing strategic leadership.

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

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

**Ms. Patricia Nyambura Gathuri**

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

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

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

**Prof. Arch. Gerald Jerry Magutu**

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

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

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

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

### Ms. Caroline Armstrong-Ogwapit



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

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

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

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

**Dr. Habil Olaka**

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

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

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

**Mr. Andrew Saisi - Managing Director**

Mr. Andrew Saisi is the Managing Director for National Housing Corporation. He holds a Masters degree in Business Administration from the Oxford Brookes University (UK). He is a qualified Civil Engineer and an Accountant registered with the Institute of Association of Chartered Certified Accountants (ACCA). He has a wide experience spanning over twenty years in Management, Engineering and Manufacturing. He was employed on 9th September 2011 as the General Manager Manufacturing Division and appointed as the Managing Director of the Corporation on 1st September 2015.

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

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

## MANAGEMENT TEAM

### Mr. Andrew Saisi - Managing Director



Mr. Andrew Saisi is the Managing Director for NHC. He holds a Masters degree in Business Administration from the Oxford Brookes University. He is a qualified Civil Engineer and an Accountant registered with the Institute of Association of Chartered Certified Accountants (ACCA). He has a wide experience spanning over twenty years in Management, Engineering and Manufacturing. He was employed on 9th September 2011 as the General Manager Manufacturing Division and appointed as the Managing Director of the Corporation on 1st September 2015.

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

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

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

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

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

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

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

**Mr. Jackson M. Mwaura - Ag. General Manager Business Development**


Mr. Jackson Mwaura is the acting General manager - Business Development Division. He holds a Master of Business Administration (Entrepreneurship) degree of Kenyatta University, a Bachelor of Arts (Economics) degree from the University of Nairobi and a Post Graduate Diploma in Housing from Erasmus University (IHS, Rotterdam). He is a registered Environmental Impact Assessment/ Environmental Audit Lead Expert and a member of Environmental Institute of Kenya. He is also a registered (KEBs) ISO Quality Management System Auditor.

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

**Ms. Nancy Ocheo - Ag. General Manager Finance**



Ms. Nancy Ocheo is the acting General Manager - Finance Division. She is a registered Certified Public Accountant CPA (K) and a holder of Bachelor of Science in Accounting from Oxford Brookes University (UK), Master of Business Administration from the Strathmore University Business School. She is a member of the Institute of Certified Public Accountants of Kenya, an Affiliate member of Association of Chartered Certified Accountants (ACCA) and a member of Certified Institute of Auditors (CIA).

Ms. Nancy has over 13 years' experience in Accounting and Finance.

### Mr. Kepher Manani - Ag. General Manager Manufacturing



Mr. Kepher Manani is the acting General Manager - Manufacturing Division. He is a registered Architect and holds a Bachelor of Architecture (Honors) degree from the University of Nairobi. He has over 20 years experience in the construction industry with special interest in low cost housing development. He is well versed with the industry including specialist training and knowledge in roofing solutions, light gauge steel and EPS construction systems.

Prior to joining NHC, he worked as a Construction Manager in a large property development firm with special interest in housing, hospitality and goods manufacturing entities and ancillary facilities in Kenya and abroad. He has also worked in training and marketing management for a leading producer of roofing materials in the country.

## CHAIRMAN'S STATEMENT



### Introduction

On behalf of the Board of Directors of National Housing Corporation, I have the pleasure to present to you the Annual Report and Financial Statements for the year ended 30th June 2019.

### Housing Sector overview

Delivery of affordable housing is one of the four critical pillars of the National Government's Big Four Development Agenda. In this regard, the National Government has been working on a comprehensive National Housing delivery framework aimed at directly developing and facilitating private sector participation in the development of approximately 500,000 affordable housing units within the

next four years (i.e. 2019 to 2022).

It is important to note that the other three pillars under the big four agenda that is, manufacturing, universal health and food security are inextricably correlated with the housing pillar. The workforce supporting implementation of these programmes will invariably require decent and affordable housing in order to effectively perform their roles.

The Government is making every effort to ensure that the housing and urban development initiatives being conceived and implemented are in tandem with Kenya Vision 2030 and other global initiatives such as the New Urban Agenda (NUA) 2016 popularly referred to as Habitat III and the Sustainable Development Goals (SDGs) 2015.

Successful implementation of the affordable housing agenda will require among other things restructuring the national housing delivery framework, addressing housing finance from both the supply and demand sides, availing land and offsite infrastructure to support the Affordable Housing Programme and incorporating rapid building technologies.

### **Government Interventions towards affordable housing**

The National Government has rolled out a number of policy and legislative initiatives geared towards supporting the affordable housing agenda. Key among these include the following:

1. The reduction of corporate tax from 30% to 15% for developers delivering a minimum of 100 low cost residential units annually.
2. The proposed revision of the Employment Act of 2012 to have employees to contribute 0.5% of their gross salary to the proposed National Housing Development Fund (NHDF), with employers matching the employee's contribution.
3. The creation of The Kenya Mortgage Refinancing Company (KMRC) which is expected to enhance mortgage affordability in Kenya by creating liquidity for primary mortgage lenders.
4. The waiver of stamp duty and a 15% tax relief for first time home buyers under the Affordable Housing Scheme.

### **NHC Strategic Focus**

National Housing Corporation (NHC) as the principal implementer of the National Government's housing policies and programmes is poised to play a key role in delivery of the Affordable Housing Programme. The Corporation's business strategy is anchored on four core strategic themes. First is the Economic Perspective to be achieved through growing the Corporation's business and playing a key role in the delivery of the Government of Kenya's Affordable Housing Programme. Second is to embrace and mainstream environmental Sustainability in all our business operations. Thirdly, stakeholder focus to ensure we create and maintain synergistic relationships with key stakeholders in the housing delivery chain. Fourth, is to re-engineer our internal business processes in line with best practice to ensure improved and continued stakeholder satisfaction and efficient product delivery. Finally, to ensure

continual learning and institutional capacity building by the Corporation to deliver on its mandate more efficiently.

### **Overview of Financial Results**

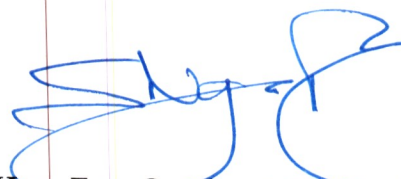
The National Housing Corporation recorded a pretax profit of Kshs. 294 million representing a 13% decrease from the previous financial year. The Corporation's total turnover for the year was Kshs. 1.18 billion, compared to the last financial year turnover of Kshs 1.14 billion.

### **Dividends**

The board proposes a dividend of Kshs. 6,874,701 based on 5% of profits after tax.

### **Conclusion**

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

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

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

## REPORT OF THE CHIEF EXECUTIVE OFFICER



Dear Stakeholders,

It is indeed a privilege to present to you the FY 2018/2019 report and financial statements for the year ended 30<sup>th</sup> June 2019. The Corporation reported a pre-tax profit of Kshs. 294 million in the year under review. I am confident that the Corporation will continue to report good results in the coming years.

The Corporation is proud to play a leading role the Affordable Housing Pillar of the “Big 4 Agenda” and is working closely with other institutions to deliver the Affordable houses by the year 2022.

### Operational Performance

The following housing projects were successfully completed in the year ended

30<sup>th</sup> June 2019:

- Stoni Athi Economy Block (60 No. flats)
- Stoni Athi Phase One (120 No. maisonettes)
- Kibera Mixed Use Development (100 No. flats plus commercial facilities)

Despite the challenging macro-economic environment, the Corporation registered the following projects milestones:

- Langata Mixed Use Development (90 No. flats plus commercial facilities) at 95% completion.
- Changamwe Infill (84 No. flats) at 60% completion.
- Voi Infill (80 No. flats) at 30% completion.

- Nyeri Mixed Use Development (80 No. flats plus commercial facilities) at 50% completion.
- Stoni Athi Economy Block Phase II (100 flats) at 70% completion.

During the 2018/19 FY the Corporation undertook to commence the construction of 1 No. projects targeting the middle and low income segment of the population totaling 100 housing units. Construction is nearing completion on 5 No. projects comprising 434 units. Another 19 No. projects totaling 2,278 units are undergoing design and internal due diligence stages (i.e. feasibility studies, environmental impact assessment, design, costing, business case evaluation and risk assessment) and will be ready for implementation in 2019/20 FY. During the period under review, NHC advanced to members of the public Kshs. 132 million under the Rural/Peri-urban construction loan facility.

NHC obtained ISO 9001:2008 re-certifications in June 2018 and is currently in the process of transitioning to the ISO 9001:2015 standards in an effort to enhance efficiencies in its internal business process and improve customer satisfaction. The Corporation also has a robust risk and compliance framework and has institutionalized risk management in all facets of its operations. Risks are continuously identified, measured and managed within the Corporation's housing delivery value chain.

### **Financial Performance**

National Housing Corporation demonstrated resilience despite the difficult times, mainly characterized by inflationary pressures and the slowdown in private sector credit growth to report good results in the FY 2018/2019. However, revenues were below our expectations following the relatively challenging trading environment that the business was operating in.

Revenues in the year were Kshs.1.187 Billion compared to Kshs.1.149 Billion in year ended 30<sup>th</sup> June, 2018. The Corporation's operating profit decreased to Kshs.294 million from a profit of Kshs. 338 million reported in the same period last year. The slow and lengthy approval process for bank borrowings to undertake housing projects has curtailed the Corporation's resource mobilization programmes and by

extension its ability to commence projects as planned hence the lower than expected performance.

### **Way Forward**

The Corporation intends to complete the projects commenced in 2018/2019 and commence construction of up to 8,100 units under the affordable housing programme in the next four years. The housing units will be distributed over 23 counties in a bid to ensure that we continue to play a leading role in the achievement of the Housing pillar of the Government of Kenya's "Big 4" Agenda.



**ANDREW SAISI**  
**MANAGING DIRECTOR**

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operational and Financial Performance

The National Housing Corporation (NHC) recorded good results in the year ended 30<sup>th</sup> June, 2019.

#### Financial Performance

The Corporation reported a pre-tax profit of Kshs. 294 million in the year under review. However, the performance was below the forecast due to:

1. Challenges experienced in commencing some of the projects.
2. Slow market uptake of the EPS panels
3. Projects earmarked for borrowing didn't commence due to failure to obtain necessary approvals in time

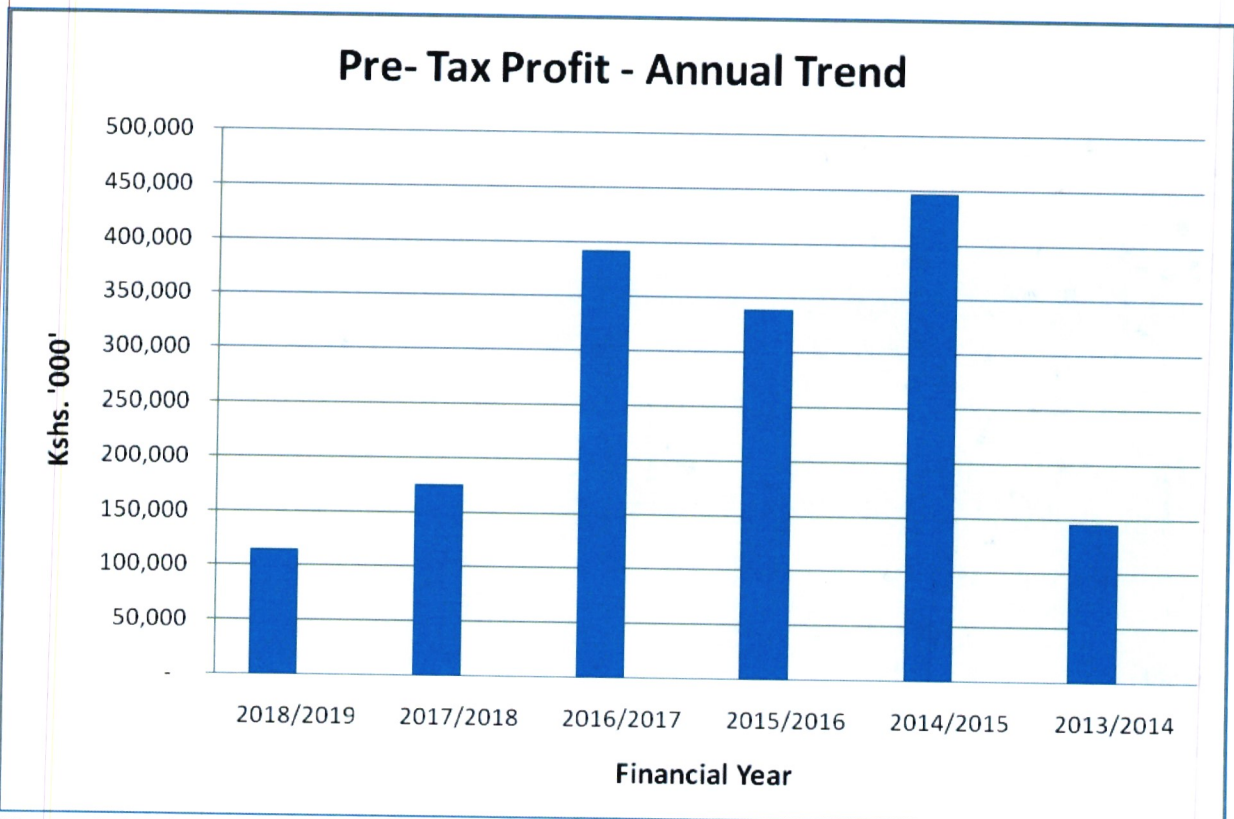


Figure 1 Analysis of Annual After Tax Profit

The Corporation continued to enjoy an extremely strong financial position with total assets of Kshs. 20.8 billion at the end of the year 2019.

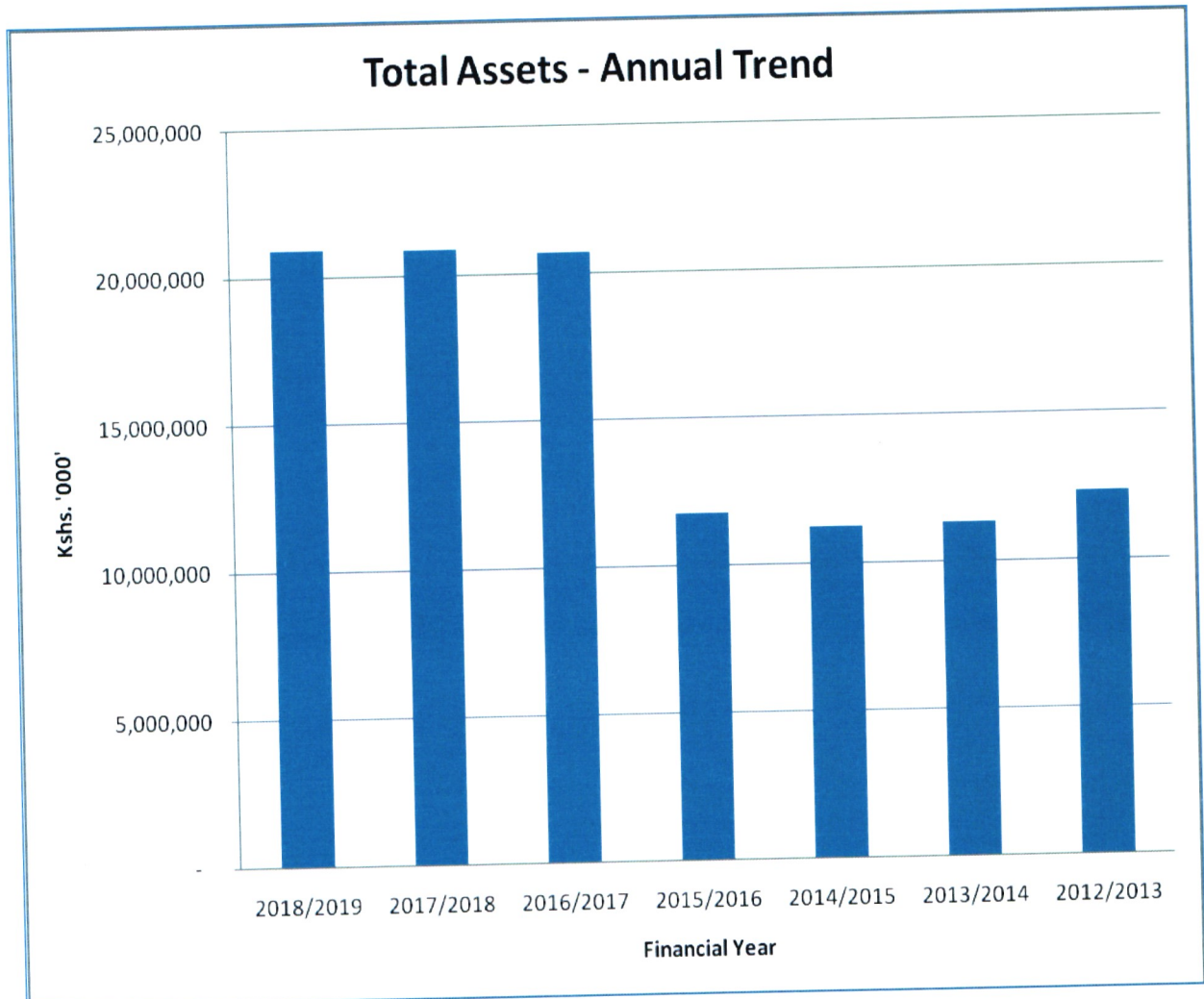


Figure 2 Analysis of Total Assets

## Revenue

Interest Income is the highest source of revenue, accounting for 50% of total turnover. Rent Income accounts for 20% of total revenue, EPS Sales at 18% and Gain on Sale of Houses, Professional Fees and Other Income at 4%, 6% and 2% respectively as indicated on the Pie Chart below.

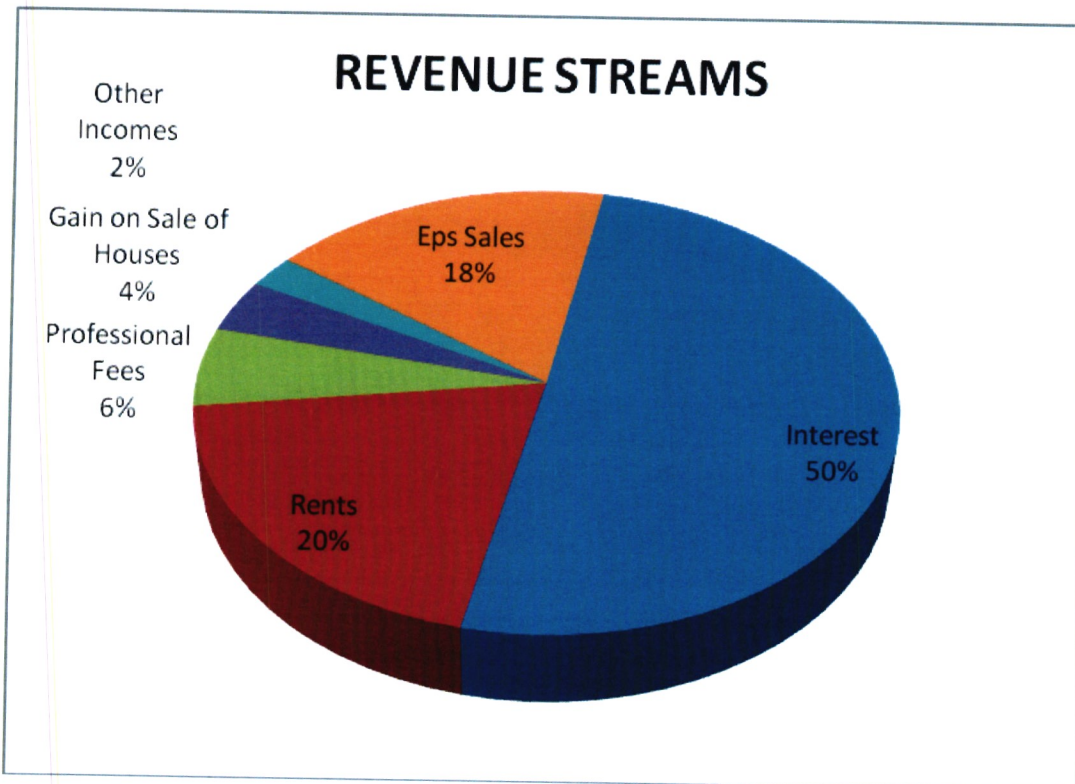


Figure 3 Analysis of Different Sources of Revenue

### Opportunities

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

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

## Challenges

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

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

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

## Compliance with Statutory Requirements

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

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

## Operational Developments

In the year ended June 2019, the Corporation continued to execute its mandate, of Housing the Nation.

The following are a list of ongoing projects;

Project	Number of Units
Langata Mixed Use Development	90 housing units plus commercial facilities
Changamwe Phase II Housing	84 housing units
Voi Infill	80 housing units
Nyeri Mixed Use Development	80 housing units plus commercial facilities
Stoni Athi Economy Phase II	300 housing units

The Corporation intends to commence more projects within the FY 2019/2020. This will be made possible through internally generated funds, borrowings as well as partnerships. The planned partnerships with County Governments will alleviate the prevalent housing shortage in the country. Collaboration with other institutions through joint ventures will enhance our capacity to deliver houses. N.H.C. will continue to grow sales and consumption of the EPS panels and Rural Housing Loans.

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

### Risk Analysis

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

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

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


#### **Material Arrears in Statutory/Financial Obligations**

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



### **Corporation's Financial Probity and Serious Governance Issues**

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

  
Mr. Andrew Saisi  
**Managing Director**

## CORPORATE GOVERNANCE STATEMENT

### Separation of Duties

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

### Responsibilities of Directors

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

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

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

### Board Composition

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

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

### **Board Meetings - Information for Directors**

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

### **Oversight Role of the Board**

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

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

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

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

### **Conflict of Interest**

The directors of the Corporation are under a fiduciary duty to act honestly and in the best interests of the Corporation. Any business transacted with National Housing Corporation must be at an arm's length and fully disclosed to the Board which must

consider and approve it. A director must refrain from discussing or voting on matters with a potential for conflict of interest.

### **Committees of the Board**

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

#### **1. Audit, Risk and Compliance Committee**

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

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

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

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

- |      |                        |   |             |
|------|------------------------|---|-------------|
| i)   | Mr. Jackson Kimuri     | – | Chairperson |
| ii)  | Mr. Philip Wachira     |   |             |
| iii) | Ms. Naomi Matheri      |   |             |
| iv)  | Internal Audit Manager |   |             |

The following is an analysis of the attendance in the financial year 2018/2019

NAME	DATE OF MEETING		
	6th Sept 2018	4th Oct 2018	7th Mar 2019
Mohamud Noor Ali	√	√	X
Philip Wachira	√	√	X
Naomi Matheri	√	√	√
Jackson Kimuri	X	√	√

## 2. Finance and Strategy Business Development Committee

The Finance Committee meets at least four times a year or at such other times as the Chairman of the Committee shall require. Its primary purpose is to determine the Corporation's investment strategy and policy and to consider the proposed strategic investments and make recommendation to the Board. It also maintains an interactive strategic planning, implementation and monitoring process with management.

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

- i) Mr. Wainaina Kenyanjui – Chairperson
- ii) Ms. Gladys Mboya
- iii) Mrs. Jane Mwangi
- iv) Ms. Naomi Matheri
- v) Mr. Andrew Saisi – Managing Director

The following is an analysis of the attendance in the financial year 2018/2019

NAME	DATE OF MEETING					
	28th Aug 2018	Special Meeting 9th Oct 2018	16th Oct 2018	9th Jan 2019	Special Meeting 18th Jan 2019	Special Meeting 11th Apr 2019
Wainana Kenyanjui	√	√	√	X	X	X
Gladys Mboya	√	X	√	X	√	X
Jane Mwangi	√	X	√	√	√	√
Jackson Kimuri	X	√	√	√	√	√
Naomi Matheri	X	√	√	√	√	√
David Gichuhi	√	X	X	X	√	X
Titus Muriithi	X	X	X	X	X	√
Andrew Saisi	√	√	√	√	√	√

### 3. Human Resource and Administration Committee

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

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

The members of the Human Resource and Administration Committee were:

- i) Ms. Gladys Mboya - Chairperson
- ii) Mr. Philip Wachira
- iii) Ms. Jane Mwangi
- iv) Mr. Andrew Saisi - Managing Director

The following is an analysis of the attendance in the financial year 2018/2019

NAME	DATE OF MEETING			
	30th August 2018	17th Oct 2019	22nd Jan 2019	5th Mar 2019
Gladys Mboya	√	√	X	√
Philip Wachira	√	X	X	X
Jane Mwangi	X	√	X	X
Jackson Kimuri	X	√	√	√
Naomi Matheri	X	X	√	√
David Gichuhi	√	X	√	√
Andrew Saisi	√	√	√	√

#### 4. Technical Committee

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

The members of the Technical Committee were:

- i) Mr. Jack Kimuri - Chairperson
- ii) Mr. Wainaina Kenyanjui
- iii) Mrs. Jane Mwangi
- iv) Mr. Andrew Saisi - Managing Director

The following is an analysis of the attendance in the financial year 2018/2019

NAME	DATE OF MEETING		
	5th Sept 2018	3rd Oct 2018	23rd Jan 2019
Mohamud Noor Ali	√	√	X
Wainaina Kenyanjui	√	X	X
Jane Mwangi	√	√	√
Naomi Matheri	X	X	√
Jackson Kimuri	X	√	√
David Gichuhi	X	X	√
Andrew Saisi	√	√	√

#### Attendance of the board Meetings

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

NAME	DATE OF MEETING		
	203RD 27th Sept 2018	204TH 8th Nov 2018	205TH 12th Apr 2019
Arch. Francis Mungai	√	√	X
Mohamud Noor Ali	√	X	X
Wainana Kenyanjui	√	√	√
Gladys Mboya	X	√	√
Jane Mwangi	√	√	√
Jackson Kimuri	√	√	√
Naomi Matheri	√	√	√
Peter Waweru	√	X	X
David Gichuhi	X	X	√
Gerald Mwangi	X	√	X
Andrew Saisi	√	√	√

## CORPORATE SOCIAL RESPONSIBILITY STATEMENT

### Introduction

National Housing Corporation-NHC acknowledges the significant contribution of the social, economic and environment aspects in the well being of a functional society. NHC uses Corporate Social Responsibility (CSR) as the primary tool to engage and give back to the Society within which it operates.

The parties involved include clients, employees, the general community, environment stakeholders, regulators, business partners, suppliers and the Government amongst many others.

During the FY 2018/2019, NHC participated in the following CSR activities:

1. **Mombasa County short rains tree planting launch.** The exercise themed '*Panda Miti, Boresha Maisha*' aimed at environment conservation at the coast. NHC participated by planting approximately 25 trees and facilitating guests refreshments.



NHC staff participating in the tree planting activity.

2. **Beyond Zero Half Marathon:** Aimed at improving maternal and child health in Kenya, and to reduce new HIV infections among children. NHC participated in the marathon by sponsoring its staff member's attendance.



Team NHC posing with their medals after the race.

3. The annual Mater Heart Run: in support of Mater Hospital's quest to help children with heart conditions undergo successful medical procedures.



NHC representatives during the 2019 edition of Mater Heart Run.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the corporation's financial statements, which give a true and fair view of the state of affairs of the corporation for and as at the end of the financial year ended on 30<sup>th</sup> June, 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 corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the State Corporations Act, Cap 446. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of the Corporation's transactions during the financial year ended 30<sup>th</sup> June, 2019, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained by the Corporation, which have been relied upon in the preparation of the Corporation's financial statements as well as the adequacy of the systems of internal financial control.

### Approval of the financial statements

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

**Chairman**

.....  


**Managing Director**

.....  






2018/2019

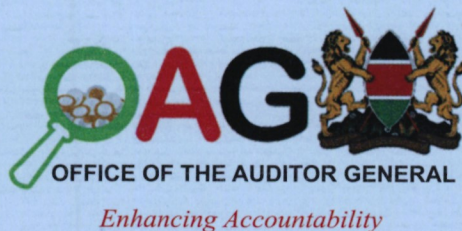
ANNUAL REPORT

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## **REPORT OF THE AUDITOR-GENERAL ON NATIONAL HOUSING CORPORATION FOR THE YEAR ENDED 30 JUNE, 2019**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of National Housing Corporation set out on pages 56 to 110, which comprise the statement of financial position as at 30 June, 2019, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the National Housing Corporation as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Housing Act, 2012 and the Public Finance Management Act, 2012.

#### **Basis for Qualified Opinion**

##### **1.0 Land**

As disclosed in Note 12 to the financial statements and as previously reported, the Corporation owned land valued at Kshs.2,373,672,688 as at 30 June, 2019. Excluded from this balance are fifty four (54) parcels of land which had not been valued and had no ownership documents as at 30 June, 2019. Further, the reported value for land is net of an adjustment of Kshs.79,500,000. Management has explained that the adjustment was necessitated by the need to exclude the value of the developed portion of land parcels in Stoni Athi which is recognized under investment property and sale of houses. However, the professional valuation report ascertaining the value of the developed portion of land was not provided for audit review.

Consequently, the accuracy and fair statement of the land balance of Kshs.2,373,672,688 as at 30 June, 2019 could not be confirmed.

## **2.0 Unquoted Investments**

The statement of financial position reflects a balance of Kshs. 104,657,797 in respect of unquoted investments which, as disclosed in Note 16 to the financial statements, includes an amount of Kshs.99,457,797 being investment in Research and Development Limited, a wholly owned subsidiary of the Corporation. However, the certificate of registration and share certificates confirming ownership were not provided.

Consequently, the ownership and fair statement of unquoted investments balance of Kshs.104,657,797 as at 30 June, 2019 could not be confirmed.

## **3.0 Loan Amount Receivable**

As disclosed in Note 18 to the financial statements, the statement of financial position reflects a balance of Kshs.2,703,052,586 under loan amount receivable as at 30 June, 2019. Included in the balance are staff loans amounting to Kshs.24,533,616 owed by former staff who have since exited the Corporation. No adjustment by way of provision for doubtful debts has been made to the financial statements to reflect this uncertainty. The balance also includes an amount of Kshs.373,917,035 relating to the tenant purchase scheme. However, the supporting schedules provided for audit reflected an amount of Kshs.344,539,048 resulting to an unexplained variance of Kshs.29,377,987.

Under the circumstances, the accuracy and fair statement of the loan amount receivable balance of Kshs.2,703,052,586 as at 30 June, 2019 could not be confirmed.

## **4.0 Trade and Other Receivables**

The statement of financial position reflects a balance of Kshs.481,778,142 under trade and other receivables which includes rent arrears of Kshs.251,630,601. However, the rent schedule provided in support of the balance, has netted off a credit net balance of Kshs.53,316,553 and a provision for loss of investment of Kshs.82,316,553 which were unsupported. Further, the trade and other receivables balance is net of Kshs.78,507,654 provision for doubtful debts which was not supported with a detailed schedule.

In addition, the trade and other receivables balance includes sundry debtors of Kshs.308,655,196 which includes amounts owed to the Corporation by Housing Finance Company of Kenya and the Ministry of Public Works amounting to Kshs.87,201,499 and Kshs.28,378,026 respectively. Further, the aging analysis indicates that an amount of Kshs.209,993,579 has been outstanding for periods exceeding one year hence recovery is doubtful. Provisions for doubtful debts in the period amounted to Kshs.1,446,196 which was also not supported.

In the circumstance, the accuracy and fair statement of trade and other receivables balance of Kshs.481,778,142 as at 30 June, 2019 could not be confirmed.

## **5.0 Expanded Polystyrene Panels (EPS) Factory Losses**

The statement of profit or loss and other comprehensive income reflects a balance of Kshs.210,871,495 under EPS sales. However, and as disclosed in Note 5(b) to the financial statements, EPS Factory recorded a trading loss of Kshs.34,000,030 during the year under review. Further, perusal of documents relating to the factory revealed that the factory had made accumulated losses totalling to Kshs.267,574,078 for the seven years. This is an indication that the factory is not a viable undertaking as it has not reached break-even point for the over seven years it has been in operation. If this trend continues, then it is likely that the entire investment will not provide any value for money on investment due to the losses being incurred.

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

### **Key Audit Matters**

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

### **Other Matter**

#### **1.0 Unresolved Prior Year Matters**

Various prior years' audit issues remained unresolved as at 30 June, 2019. Management has not provided reasons for the delay in resolving the prior years' audit issues disclosed under the progress on follow up of auditor's recommendations section of the financial statements.

#### **2.0 Budget Control and Performance**

The statement of comparison of budget and actual amounts reflects a final revenue budget and actual on comparable basis of Kshs.2,047,588,000 and Kshs.1,187,903,000 respectively resulting to an under-funding of Kshs.859,655,000 or 42% of the budget. Similarly, the Corporation incurred a total expenditure of Kshs.903,531,000 against an approved budget of Kshs.1,405,720,000 resulting to an under-expenditure of Kshs.502,189,000 or 36% of the budget. The underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

# 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 discussed 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**

### **1.0 Construction of Langata Court Mall**

The contract for the construction of Langata Court Mall was awarded on 25 February, 2015 for a sum of Kshs.527,407,286 and for a duration of fifty-two (52) weeks ending on 24 February, 2016. However, the contractor issued a performance bond of Kshs.52,740,729 from an Insurance Company contrary to the contract terms which required a performance bond from a reputable banking institution.

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

The works were subsequently re-tendered and awarded at a contract sum of Kshs.468,255,940 for a duration of fifty-two (52) weeks starting 6 March, 2017 to 6 March, 2018. The contract period was later extended to 17 January, 2019. However, a site inspection on 18 January, 2019 revealed that the contractor was still on site with only 45% of works being completed and nine (9) certificates of payments submitted amounting to Kshs.352,844,305 of which Kshs.280,180,277 had been paid being 60% of the contract sum. The contract was therefore behind schedule despite the approved extension of time having elapsed.

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

### **2.0 Boundary Wall and Civil Works at Stoni Athi-Nhc/Tech/Bwsa/002/2016-2017**

As previously reported, the contract agreement signed between the contractor and the employer required a performance security to be provided within fourteen (14) days of the contract award and before taking site possession or commencement of the works. However, the contractor was given certificate of possession of site on 18 November, 2016 before complying with the bond terms as per the signed contract. It was further

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

As per the contract agreement signed between the contractor and the employer, the Project completion date was set for 19 May, 2017 but was revised to 2 August, 2017. However, the Project had not been completed by April, 2019. A review of the Project during the year under review revealed that some sections of the wall were washed away by floods and had not been repaired as at 31 March, 2019.

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

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirement and plan and perform the review so as 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 EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

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

### **Basis for Conclusion**

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

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

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

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

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

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

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

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

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all

matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

  
**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**31 March, 2021**



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

	Notes	2018/2019 Kshs	Restated 2017/2018 Kshs
<b>INCOME</b>			
Turnover	3	948,330,378	941,122,100
Other Income	4	28,701,621	33,789,647
EPS Sales	5 (b)	210,871,495	174,543,201
		<b>1,187,903,494</b>	<b>1,149,454,948</b>
<b>EXPENSES</b>			
EPS Expenses	5 (a)	244,871,525	165,525,007
Staff Costs	6	331,582,748	342,360,340
Administration Costs	7 (a)	256,505,424	283,426,432
Board Expenses	7 (b)	10,240,701	8,215,366
Depreciation - Property Plant & Equipments Amortization	11 (b)	55,615,555	59,967,861
-Intangible Assets	13	4,715,231	5,427,340
		<b>903,531,184</b>	<b>864,922,346</b>
<b>OPERATING PROFIT</b>		<b>284,372,310</b>	<b>284,532,602</b>
Finance Income	8	10,203,123	54,161,546
<b>Profit Before Taxation</b>		<b>294,575,431</b>	<b>338,694,148</b>
Provision for tax	9 (a)	157,081,402	184,413,794
<b>Profit After Taxation</b>		<b>137,494,029</b>	<b>154,280,354</b>
Proposed Dividends	10	6,874,701	7,714,018
<b>Retained Profits</b>		<b>130,619,327</b>	<b>146,566,336</b>
<b>Profit attributable to Shareholders</b>		<b>130,619,327</b>	<b>146,566,336</b>





## STATEMENT OF FINANCIAL POSITION

	NOTES	2018/2019 Kshs	Restated 2017/2018 Kshs
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Property, Plant & Equipment	11 (a)	1,250,920,166	1,317,598,363
Land	12	2,373,672,688	2,452,126,202
Intangible Asset	13	5,973,817	10,689,047
Investment Property	14	7,329,767,565	7,387,619,242
Long Term loan Advanced	15	3,118,127,832	3,164,264,499
Unquoted Investment	16	104,657,797	104,657,797
<b>TOTAL NON-CURRENT ASSETS</b>		<b>14,183,119,869</b>	<b>14,436,955,155</b>
<b>CURRENT ASSETS</b>			
Schemes in Progress	17	2,441,521,856	2,747,787,904
Loan Amount Receivable	18	2,703,052,586	2,414,361,340
Inventories	19	963,028,014	465,582,730
Trade and other Receivables	20(a)	481,778,142	420,276,106
Tax Recoverable	9(b)	17,356,915	
Cash and Bank balances	21	37,595,837	373,080,753
<b>TOTAL CURRENT ASSETS</b>		<b>6,644,333,350</b>	<b>6,421,088,834</b>
<b>TOTAL ASSETS</b>		<b>20,827,453,219</b>	<b>20,858,043,989</b>
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Equity	22	6,936,000,000	6,936,000,000
Unrealised Gain on Sale of Houses	23	630,116,826	594,884,901
Retained Earnings	24	3,465,848,402	3,335,229,074
House Equalization	25	383,118,995	383,118,995
Revaluation Reserve	26	8,286,440,994	8,459,665,084
<b>TOTAL EQUITY</b>		<b>19,701,525,217</b>	<b>19,708,898,054</b>
<b>CURRENT LIABILITIES</b>			
Trade and other Payables	27	1,050,243,937	1,026,984,544
Dividend payable	10	26,127,143	19,252,442
Tax Payable	9(b)		39,496,694
Deferred Tax Liability	9(c)	49,556,921	63,412,255
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,125,928,001</b>	<b>1,149,145,935</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>20,827,453,219</b>	<b>20,858,043,989</b>

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

Chairman:  Date: 10/2/2021

Managing Director:  Date: 2021.02.09

General Manager Finance: ICPAK M. No. 3200  Date: 9 Feb 2021

## STATEMENT OF CHANGES IN EQUITY

	EQUITY	UNREALISED GAIN ON SALE OF HOUSES	RETAINED PROFIT	HOUSE EQUALIZATION RESERVE	REVALUATION RESERVE	TOTAL
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
<b>1ST JULY 2017</b>	6,936,000,000	560,080,075	3,174,565,752	383,118,995	8,652,167,205	19,705,932,027
Prior Year Adjustments			14,096,986			14,096,986
House Equalization Reserve				-		-
Realised Gain		(36,191,769)				(36,191,769)
Unrealised Gain		70,996,595				70,996,595
Proposed dividends for year			(7,714,018)			(7,714,018)
Profit for the year			154,280,354			154,280,354
Revaluation reserve					(192,502,121)	(192,502,121)
<b>30TH JUNE 2018 (Restated)</b>	<b>6,936,000,000</b>	<b>594,884,901</b>	<b>3,335,229,074</b>	<b>383,118,995</b>	<b>8,459,665,084</b>	<b>19,708,898,054</b>
<b>1ST JULY 2018</b>	6,936,000,000	594,884,901	3,335,229,074	383,118,995	8,459,665,084	19,708,898,054
Prior Year Adjustments			-			-
House Equalization Reserve				-		-
Realised Gain		(38,475,027)				(38,475,027)
Unrealised Gain		73,706,952				73,706,952
Proposed dividends for year			(6,874,701)			(6,874,701)
Profit for the year			137,494,029			137,494,029
Revaluation reserve					(173,224,090)	(173,224,090)
<b>30TH JUNE 2019</b>	<b>6,936,000,000</b>	<b>630,116,826</b>	<b>3,465,848,402</b>	<b>383,118,995</b>	<b>8,286,440,994</b>	<b>19,701,525,217</b>

## STATEMENT OF CASH FLOWS

	Notes	2018/2019 Kshs	Restated 2017/2018 Kshs
<b>OPERATING ACTIVITIES</b>			
Cash generated from operations	28	(100,299,680)	(183,331,448)
Dividends paid	10	-	(23,723,283)
Taxation paid	9 (b)	(227,790,344)	(54,848,519)
<b>Net cash generated from/(used in) operating activities</b>		<b>(328,090,024)</b>	<b>(261,903,250)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of fixed assets			
- Land	12	78,453,514	(18,414,742)
- Property, Plant & Equipment	11	(4,719,489)	(21,167,259)
- Intangible Assets	13	-	(13,766,000)
- Investment Property	14	(127,265,585)	(294,730)
Loans advanced	29	(181,354,908)	(194,804,724)
Tenant purchase loans advanced	29	(244,240,245)	(237,353,075)
Cash on disposal of fixed asset	11 (a)	-	6,198,897
Redemption of loans	29	168,867,817	160,770,924
Redemption of TP Loans	29	302,864,003	246,471,287
<b>Net cash generated from/(used in) investing activities</b>		<b>(7,394,893)</b>	<b>(72,359,421)</b>
<b>FINANCING ACTIVITIES</b>			
Prior year adjustments	24	-	(186,988)
<b>Net cash generated from/(used in) financing activities</b>		<b>-</b>	<b>(186,988)</b>
<b>Increase / (Decrease) in cash and cash equivalents</b>		<b>(335,484,916)</b>	<b>(334,449,659)</b>
Cash & Cash Equivalents at the beginning of the period		373,080,753	707,530,411
<b>Cash &amp; Cash Equivalents at the end of the period</b>	21	<b>37,595,837</b>	<b>373,080,753</b>

**STATEMENT OF BUDGET AND ACTUAL COMPARISON**

	Original Budget		Final Budget	Actual	Variance	% Variance	Explanation of material variances
<b>REVENUE</b>	<b>KSHS.'000'</b>					<b>%</b>	
Interest Earned	927,687		927,687	621,979	(305,708)	-33%	(a)
Rental Income	238,947		238,501	233,959	(4,542)	-2%	
Professional fees	191,625		191,625	68,491	(123,134)	-64%	(b)
Gain/(Loss) on sale of houses	310,982		310,982	46,312	(264,670)	-85%	(c)
Eps Sales	224,062		360,962	210,871	(150,091)	-42%	(d)
Other Incomes	17,801		17,801	6,290	(11,511)	-65%	(e)
<b>Total Revenue</b>	<b>1,911,105</b>	<b>-</b>	<b>2,047,558</b>	<b>1,187,903</b>	<b>(859,655)</b>		
<b>Operating Expenses</b>							
Salaries & Benefits	379,206		379,206	331,583	47,623	13%	
Staff Uniforms	800		800	683	117	15%	(f)
Staff Training	15,000		15,000	5,644	9,356	62%	(f)
Staff Welfare/Sports Clubs	3,905		3,905	2,749	1,156	30%	(f)
Travelling General	13,807		13,807	8,955	4,852	35%	(f)
Marketing, Advertising & Public Relations	14,239		14,239	8,530	5,709	40%	(f)
Audit fees	1,225		1,225	1,200	25	2%	
Rents - Offices	22,000		22,000	21,443	557	3%	
Telephones & Postage	4,200		4,200	3,879	321	8%	
Printing & Stationery	11,000		11,000	8,328	2,672	24%	(f)
Exhibitions/Shows	7,945		7,945	1,523	6,422	81%	(f)
Library expenses & Publication	944		944	1,146	(202)	-21%	
<b>Sub-total</b>	<b>474,271</b>		<b>474,271</b>	<b>395,663</b>			



	Original Budget	Adjustments	Final Budget	Actual Comparable Budget	Variance	% Variance	Explanation of material variances
<b>Operating Expenses</b>	<b>KSHS.'000'</b>					<b>%</b>	
Official Entertainment	8,204		8,204	7,423	781	10%	
Debt collect expenses	16,456		16,456	2,624	13,832	84%	(f)
Motor vehicle - Running Expenses	9,589		9,589	5,821	3,768	39%	(f)
Furniture & Equipment Maintainance	19,937		19,937	16,078	3,859	19%	(f)
Insurance	15,700		15,700	4,898	10,802	69%	(f)
Bad Debts	32,810		32,810	12,145	20,665	63%	(f)
Depreciation	88,006		282,114	60,331	221,783	79%	(f)
Legal charges	74,126		74,126	31,793	42,333	57%	(f)
Corporate Social Responsibility	500		500	292	208	42%	(f)
Alcohol & Drug Abuse program	500		500	104	396	79%	(f)
Disability & Gender mainstreaming	1,000		1,000	367	633	63%	(f)
General	20,658		20,658	20,118	540	3%	
Programme	200		200	69	131	66%	(f)
Medical Insurance cover	51,818		51,818	50,021	1,797	3%	
NHC rebranding	1,000		1,000	226	774	77%	(f)
HIV/ AID Control progra	1,000		1,000	332	668	67%	(f)
EPS Factory Expenses	312,083		312,083	244,872	67,211	22%	(f)
Bank Charges	4,000		4,000	3,016	984	25%	(f)
Property & Estates	50,000		50,000	35,339	14,661	29%	(f)
Board Expenses	28,000		28,000	10,241	17,759	63%	(f)
Post Contract Payments/Loss on	1,754		1,754	1,759	(5)	0%	
<b>Total Expenses</b>	<b>1,211,612</b>	<b>-</b>	<b>1,405,720</b>	<b>903,531</b>	<b>502,189</b>		
<b>Profit Before Tax</b>	<b>835,946</b>	<b>-</b>	<b>641,838</b>	<b>284,372</b>	<b>(357,466)</b>		

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

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

a) The unfavourable variance reported in the quarter under review is from

**a. Interest Income from Tenant Purchase Schemes**

The tough economic environment has seen Kanyakwar Phase I Tenant Purchase Scheme not fully sold and hence the Corporation could not recognize interest from the sale of the unsold units as budgeted. In addition, some tenant purchase loan beneficiaries opt to make lump sum payments in order to reduce their loans. This approach considerably reduces the expected interest.

b) The total professional fees earned for the period was Kshs.68 million against a target of Kshs.191 million. This indicates an un-favourable variance of Kshs.123 million. The negative variance reported is a result of challenges experienced in implementing the following projects

1. Kilifi Mortgage
2. Kisumu Kanyakwar III
3. Kericho Housing
4. Kakamega Tenant Purchase
5. Nakuru Commercial Centre
6. Meru commercial Centre
7. Njoro Affordable Housing

c) The gain on sale earned for the period was Kshs.46 million compared to a forecast of Kshs.310 million. This resulted in an unfavourable variance of Kshs.264 million which is realized due to delay in completing some of our planned projects.

The delay in completing the projects was largely as a result of the political environment of 2017. The environment in which the project is situated was very hostile hence the workers and the suppliers were not able to access the construction site.

- d) Other Income comprises of sale of forms and interest from staff loans. In the period under review the Corporation sold less tender forms than forecast. -
- e) The EPS factory did not achieve its target because of
  - a. Stiff competition from other players in the market offering the same product that is inferior but cheaper than NHC's.
  - b. Slow market uptake of the technology.
  - c. The increased cost of living of the target market. Potential customers are experiencing a decline in their surplus funds and therefore opt to use their funds on basic needs instead of buying panels.
  - d. High costs of production ranging from the costs of raw material, power, and maintenance of equipments.
- f) The favourable variance realized from the expenses is due to cost cutting measures adopted in line with prudent financial management.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### A. Statement of Compliance and Basis of Preparation

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

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

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

#### B. Application of new and revised International Financial Reporting Standards

##### (i) New standards and amendments to published standards

##### IFRS 16 Leases effective 1st January 2019

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and discloses leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has low value. Lessors continue to classify leases as operating or finance with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor IAS 17.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

IFRS 16 Leases applies to all leases, including subleases, except for: [IFRS 16:3]

- leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources;
- Leases of biological assets held by a lessee (see IAS 41 Agriculture);
- Service concession arrangements (see IFRIC 12 Service Concession Arrangements);
- Licences of intellectual property granted by a lessor (see IFRS 15 Revenue from Contracts with Customers); and
- Rights held by a lessee under licensing agreements for items such as films, videos, plays, manuscripts, patents and copyrights within the scope of IAS 38 Intangible Assets

A lessee can elect to apply IFRS 16 to leases of intangible assets, other than those items listed above. [IFRS 16:4]

#### Recognition exemptions

Instead of applying the recognition requirements of IFRS 16 described below, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term or another systematic basis for the following two types of leases:

- i) leases with a lease term of 12 months or less and containing no purchase options - this election is made by class of underlying asset; and
- ii) leases where the underlying asset has a low value when new (such as personal computers or small items of office furniture) - this election can be made on a lease-by-lease basis. [IFRS 16:5, 6 & 8]

#### Disclosure

The objective of IFRS 16's disclosures is for information to be provided in the notes that, together with information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users to assess the effect that leases have. Paragraphs 52 to 60 of IFRS 16 set out detailed requirements for lessees to

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

meet this objective and paragraphs 90 to 97 set out the detailed requirements for lessors. [IFRS 16:51, 89]

The Corporation (being a lessor) will therefore not be affected by this new standard.

#### **IFRS 9 Financial Instruments effective 1st January 2018**

International Financial Reporting (IFRS 9) Financial Instruments were issued in 2014 as the International Accounting Standards Board's replacement of IASB' 39

Financial Instruments that embraces both recognition and measurement were expected to take effect in January 2018.

The new regulation is anchored on three major categories which have been reduced from four that were previously under IAS 39. The categories are classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

#### **IFRS 9 Financial Instruments effective 1st January 2018**

The new regulation under IFRS 9 requires that financial institutions measure their financial assets at amortized cost (amortized cost is the accumulated portion of the recorded cost of a fixed asset that has been charged to expense through either depreciation or amortization). Depreciation is used to reduce the cost of tangible assets while amortization is used reduce the cost of intangible assets) or at fair value. This will have to be determined in either profit or loss or simply by being taken to other comprehensive income. Under this regulation, if the customer is in default of one product, then we will have to provide impairment across all other loan products issued to them.

#### **IFRS 15 Revenue from contracts with customers effective 1st January 2018**

The core principle of IFRS 15 is that an entity will recognize revenue to depict transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It involves five steps;

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation.

#### Presentation in financial statements

Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. [IFRS 15:105]

#### Disclosures

The disclosure objective stated in IFRS 15 is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Therefore, an entity should disclose qualitative and quantitative information about all of the following: [IFRS 15:110]

- Its contracts with customers;
- The significant judgments, and changes in the judgments, made in applying the guidance to those contracts; and
- Any assets recognized from the costs to obtain or fulfill a contract with a customer.

#### (ii) New and amended standards and interpretations in issue but not yet effective 1st January 2018.

New and Amendments to standards after	Effective for annual periods beginning on or after
IFRS 16 Leases	1st January 2019
IFRIC 23 Uncertainty over Income Tax Treatment	1st January 2019

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### IFRS 16 Leases effective 1<sup>st</sup> January 2019

IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions

#### IFRIC 23 Uncertainty over Income Tax Treatment effective 1<sup>st</sup> January 2019

The interpretation is to be applied to the determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatment under IAS 12.

#### Consensus

#### Whether tax treatment should be considered collectively

An entity is required to use judgment to determine whether each tax treatment should be considered independently or whether some tax treatment should be considered together. The decision should be based on which approach provides better predictions of the resolutions of the uncertainty.

#### Assumptions for taxation authorities' examinations

An entity is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information.

Determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates

- i. If the entity concludes that it is probable that a particular tax treatment is accepted, the entity has to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates consistently with the tax treatment included in its income tax filings.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- ii. If the entity concludes that it is not probable that a particular tax treatment is accepted, the entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profit/loss, tax bases, unused tax losses, unused tax credits and tax rates. The decision should be based on which method provides better predictions of the resolution of the uncertainty.

According to IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

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

#### (iii) Early adoption of standards

The company did not early-adopt any new or amended standards in 2018.

### C. Revenue recognition

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

- a) Interest income is recognized as it accrues unless its collectability is in doubt.
- b) Rental income is recognized in the income statement as it accrues using the effective lease agreements.
- c) Professional fees refer to fees earned on projects by the Corporation's. The fees are recognized at 70% in the year of commencement of construction works and the remaining 30% over the period of the project.
- d) Finance income comprises interest receivable from bank deposits and investment in securities, and is recognized in profit or loss on a time proportion basis using the effective interest rate method.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- e) Gain/loss on sale of houses is recognized in the income statement depending on the mode of sale. Gain on sale of houses on outright sale schemes is recognized in the year of sale and for tenant purchase schemes the gain is amortized over the period of the loan.
- f) Revenue from the sale of Panels is recognized in the year in which the Corporation delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- g) Other income is recognized as it accrues.

#### D. Property, Plant and Equipment

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

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

#### E. Depreciation and Impairment of Property, Plant and Equipment

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

#### F. Financial Instruments

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

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

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

#### G. Intangible Assets

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### H. Amortization and Impairment of Intangible Assets

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

#### I. Investment Property

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

#### J. Unquoted investments

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

#### K. Inventories

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



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### L. Trade and Other Receivables

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

#### M. Taxation

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

#### N. Cash and Cash Equivalents

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

#### O. Trade and other payables

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

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### P. Retirement Benefit Obligations

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

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

#### Q. Provision for staff leave pay

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

#### R. Exchange rate differences

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

#### S. Comparative Figures

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### T. Subsequent Events

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

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

### 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

#### (a) Critical Accounting Estimates and Assumptions

##### (i) Income taxes

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

##### (ii) Deferred Tax

The Corporation accounts for deferred tax in accordance with IAS 12, *Income Taxes*. Deferred tax liability is recognized for all taxable temporary differences except to the extent that the deferred tax liability arises from goodwill and initial recognition (except for business combinations and for transactions affecting neither profit nor loss). Deferred tax assets are recognized on amounts recoverable in future periods in respect of temporary differences, unused tax losses and unused tax credits carried forward. The carrying amount of deferred tax assets is reviewed at the reporting date and reduced to the extent that it is no longer probable that sufficient

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is measured at the tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3. TURNOVER

The sources of income are as stipulated below:

	2018 /2019	2017/2018
	Kshs	Kshs
Interest	599,567,760	603,807,013
Rents	233,959,432	232,737,125
Professional Fees	68,490,891	44,947,291
Gain on Sale of Houses	46,312,294	59,630,671
<b>Total</b>	<b>948,330,378</b>	<b>941,122,100</b>

### 4. OTHER INCOME

	2018 /2019	2017/2018
	Kshs	Kshs
Interest on Staff Loans	22,411,450	24,477,463
Income from Partnerships	-	200,000
Gain on Disposal of Fixed Assets	-	4,120,812
Miscellaneous (Tender Documents, Application Forms)	6,290,170	4,991,373
<b>Total</b>	<b>28,701,621</b>	<b>33,789,647</b>

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

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

### a) Manufacturing Account

	2018 /2019	2017/2018
	Kshs	Kshs
Raw Materials	127,729,315	106,834,802
Direct Labour	24,593,357	22,839,268
Other Direct Overheads	19,635,034	22,646,967
<b>Prime Costs</b>	<b>171,957,706</b>	<b>152,321,037</b>
Production and Other Factory Overheads	6,255,569	6,207,803
Depreciation	24,419,335	28,200,121
Opening Cost of Work in Progress	74,366,859	13,507,486
Add: Purchases	-	<b>18,549,920</b>
Less: Closing Cost of Work in Progress	(20,229,229)	<b>(74,366,859)</b>
<b>Production Costs of Goods Completed</b>	<b>256,770,241</b>	<b>144,419,508</b>

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

	2018 /2019	Restated 2017/2018
	Kshs	Kshs
<b>Sales</b>	<b>210,871,495</b>	<b>174,543,201</b>
<b>Cost of Goods Sold</b>		
Opening Stock of Finished Goods	1,833,614	11,598,202
Production Costs of Goods completed	256,770,241	144,419,508
Closing Stock of Finished panels(Cost)	(27,145,102)	(1,833,614)
<b>Cost of Goods Sold</b>	<b>231,458,753</b>	<b>154,184,096</b>
<b>Gross Profit / (Loss)</b>	<b>(20,587,258)</b>	<b>20,359,105</b>
Selling and Marketing Costs	1,727,413	568,172
Depreciation	3,255,965	1,400,144
Administration expenses	8,429,394	9,372,595
<b>Total Adm Expenses</b>	<b>13,412,772</b>	<b>11,340,911</b>
<b>Trading Profit / (Loss)</b>	<b>(34,000,030)</b>	<b>9,018,194</b>



c) EPS trading loss is arrived at after charging

	2018 /2019 Kshs	2017/2018 Kshs
Cost of Goods Sold	231,458,753	154,184,096.00
Selling and Marketing Costs	1,727,413	568,172.00
Depreciation	3,255,965	1,400,144.00
Administration expenses	8,429,394	9,372,595.00
Finacial Expenses	-	
<b>Total</b>	<b>244,871,525</b>	<b>165,525,007.00</b>

## 6. STAFF COSTS

Staff costs comprise the following:

	2018 /2019	2017/2018
	Kshs	Kshs
Salaries and Allowances	270,720,789	282,577,534
Casuals	3,199,675	325,798
Interns Allowance	320,000	-
NSSF	2,576,880	2,746,440
Other pension contributions	34,931,636	37,612,890
Leave pay	15,599,287	16,139,785
Gratuity Provisions	4,234,482	2,957,893
<b>Grand Totals</b>	<b>331,582,748</b>	<b>342,360,340</b>

The number of persons employed by the Corporation as at 30th June 2019 was 209.

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

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

The staff retirement benefits scheme was established for all new and eligible employees who had more than five years to attain the mandatory retirement age of sixty years and whose terms of service were not to remain contractual.

The Corporation therefore only makes contributions to the staff retirement benefits scheme. As at 30<sup>th</sup> June 2019, there were no amounts owed to the Staff Retirement Benefits Scheme

## 7. PROFIT BEFORE TAX

Profit before tax is stated after charging:

### a) Administration Costs

	2018 /2019	2017/2018
	Kshs	Kshs
Auditors Remuneration	1,200,000	1,224,960
Property & Estates	35,338,627	48,673,363
Motor Vehicle Expenses	5,821,788	7,102,712
Repairs of Equipment	16,077,774	17,879,872
Travelling General	8,955,040	9,261,358
Printing & Stationery	8,328,362	8,011,479
Office rents	21,443,270	21,185,856
Postage & Telephones	3,879,191	3,814,917
Advertising	8,529,625	6,178,481
Insurance	4,898,342	5,639,619
Bank Charges	3,015,603	3,962,681
Library Expenses	1,145,501	1,739,713
Staff Uniforms	682,514	718,736
Exhibition	1,523,365	669,444
Training	5,643,768	22,780,377
Bad Debts Provision	12,145,323	12,818,853
Post contract payments	1,759,475	3,215,817
Debt Collection Expenses	2,623,854	2,317,231
Legal Charges	31,919,248	28,513,351
Staff Sports Club	324,880	378,300
Consultancy General	21,088,574	19,034,128
Medical in Patient	50,021,091	47,000,000
Corporate Social Responsibility	292,410	362,550
Maintenance General	-	172,920
Entertainment	9,219,446	9,796,053
Staff welfare	628,356	973,662
<b>Total Administration Costs</b>	<b>256,505,424</b>	<b>283,426,432</b>

## 7. PROFIT BEFORE TAX (Continued)

## b) Board Expenses

	2018 /2019	2017/2018
	Kshs	Kshs
Honoraria	912,000	960,000
Sitting Allowances	3,620,000	3,173,200
Travel and Accomodation	4,744,693	3,800,091
Other Expenses	964,007	282,076
<b>Total</b>	<b>10,240,701</b>	<b>8,215,366</b>

## 8. FINANCE INCOME

The interest income is made up of:

	2018 /2019	2017/2018
	Kshs	Kshs
Interest from current accounts with banks	10,203,123	54,161,546
<b>Total</b>	<b>10,203,123</b>	<b>54,161,546</b>

## 9. TAXATION

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

	2018/2019	Restated 2017/2018
	Kshs	Kshs
Profit before taxation	294,575,431	338,694,148
Tax applicable rate of 30% of PBT	88,372,629	101,608,244
Tax effect of expenses not subject to tax	89,878,277	94,758,028
Wear & Tear allowance	(7,314,170)	(13,320,556)
<i>provision for tax</i>	<b>170,936,736</b>	<b>183,045,718</b>
Deferred tax	(13,855,334)	1,368,077
<b>Total taxation charge</b>	<b>157,081,402</b>	<b>184,413,794</b>

## b) Tax recoverable / Payable

Tax Movement Schedule	2018 /2019	2017/2018
	Kshs	Kshs
Balance Brought Forward	39,496,694	(89,252,918)
Provision for tax for the Year	170,936,736	183,045,717
Tax payable	-	-
Paid During the year	(227,790,344)	(54,848,519)
Withholding Tax Liability	-	552,414
<b>At end of the year</b>	<b>(17,356,915)</b>	<b>39,496,694</b>

## c) Deferred tax liability

	2018 /2019	2017/2018
	Kshs	Kshs
<b>Deferred Tax Liability b/f</b>	63,412,255	62,044,178
Accelerated capital allowances	(6,614,050)	3,898,725
<b>Deferred Tax Assets</b>	-	-
Various provisions	(4,158,965)	(2,530,648)
Deferred tax	(13,855,334)	1,368,077
<b>At end of the year</b>	<b>49,556,921</b>	<b>63,412,255</b>

**10. PROPOSED DIVIDENDS**

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

	2018 /2019	Restated 2017/2018
	Kshs	Kshs
At the beginning of the period	19,252,442	35,261,707
Provision for the Period	6,874,701	7,714,018
Paid during the Period	-	(23,723,283)
<b>At the end of the period</b>	<b>26,127,143</b>	<b>19,252,442</b>



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

FIXED ASSETS	BUILDING		EPS PRODUCTION		PLANT & EQUIPMENT		MOTOR VEHICLES		FURNITURE & FITTINGS		COMPUTER SYSTEM		TOTAL
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
AT 1ST JULY 2017	800,000,000		561,395,520	76,970,837	91,578,781	123,469,300	80,805,105	1,734,219,543					
Additions			6,407,700			963,600	13,795,959	21,167,259					
Disposals					(17,737,770)			(17,737,770)					
<b>AT 30th JUNE 2018</b>	<b>800,000,000</b>		<b>561,395,520</b>	<b>83,378,537</b>	<b>73,841,011</b>	<b>124,432,900</b>	<b>94,601,064</b>	<b>1,737,649,032</b>					
AT 1ST JULY 2018	800,000,000		561,395,520	83,378,537	73,841,011	124,432,900	94,601,064	1,737,649,032					
Additions			741,256	2,230,665		438,460	1,309,105	4,719,486					
<b>AT 30th JUNE 2019</b>	<b>800,000,000</b>		<b>562,136,776</b>	<b>85,609,202</b>	<b>73,841,011</b>	<b>124,871,360</b>	<b>95,910,169</b>	<b>1,742,368,518</b>					
<b>DEPRECIATION</b>													
AT 1ST JULY 2017	1,666,665		99,611,285	53,904,681	40,275,341	92,499,745	69,147,503	357,105,222					
Adjustment prior year													
Charge for the Year													
-Depreciation	6,244,006		21,782,940	4,455,598	11,346,775	16,143,868	5,103,947	65,077,135					
On Disposal/Adjustment	13,527,996				(15,659,685)			(2,131,689)					
<b>AT 30th JUNE 2018</b>	<b>21,438,667</b>		<b>121,394,226</b>	<b>58,360,280</b>	<b>35,962,432</b>	<b>108,643,614</b>	<b>74,251,451</b>	<b>420,050,669</b>					
AT 1ST JULY 2018	21,438,667		121,394,226	58,360,280	35,962,432	108,643,614	74,251,451	420,050,669					
Adjustment prior year													
Charge for the Year													
-Depreciation	6,092,521		20,646,616	4,520,857	8,617,163	13,056,631	5,274,102	58,207,890					
On Disposal/Adjustment	13,189,796		7,341				(7,341)	13,189,796					
<b>AT 30th JUNE 2019</b>	<b>40,720,984</b>		<b>142,040,842</b>	<b>62,888,476</b>	<b>44,579,594</b>	<b>121,700,244</b>	<b>79,518,212</b>	<b>491,448,354</b>					
<b>NET BOOK VALUE</b>													
AT 30th JUNE 2018	778,561,333		440,001,294	25,018,257	37,878,579	15,789,286	20,349,614	1,317,598,363					
<b>AT 30th JUNE 2019</b>	<b>759,279,015</b>		<b>420,095,936</b>	<b>22,720,725</b>	<b>29,261,417</b>	<b>3,171,115</b>	<b>16,391,958</b>	<b>1,250,920,166</b>					

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**
**11. (b) DEPRECIATION SCHEDULE**

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

ASSET CLASS	2018/2019				2017/2018			
	NHC	EPS	Revaluation Reserve Kshs	TOTAL	NHC	EPS	Revaluation Reserve Kshs	TOTAL
Land & Buildings Investment		6,092,521	13,189,796	19,282,317		6,244,006	13,527,996	19,772,002
Property	25,082,968		160,034,294	185,117,262	24,147,382		164,137,737	188,285,119
Motor Vehicles	7,879,380	737,782		8,617,163	10,357,739	989,036		11,346,775
Plant & Equipment	4,471,311	56,887		4,528,198	4,384,710	70,888		4,455,598
EPS Production Plant		20,646,616		20,646,616	-	21,782,940		21,782,940
Furniture & Fittings	12,915,136	141,495		13,056,631	15,974,083	169,785		16,143,868
Computer System	5,266,761			5,266,761	5,103,947			5,103,947
<b>Sub-total</b>	<b>55,615,555</b>	<b>27,675,301</b>	<b>173,224,090</b>	<b>256,514,947</b>	<b>59,967,861</b>	<b>29,256,656</b>	<b>177,665,733</b>	<b>266,890,250</b>

**12. LAND**

	2018 /2019 Kshs	2017/2018 Kshs
<b>COST</b>		
At start	2,452,126,202	2,433,711,460
Additions	1,046,486	18,414,742
Adjustments	(79,500,000)	-
<b>At end of year</b>	<b>2,373,672,688</b>	<b>2,452,126,202</b>

The Corporation has 54 number parcels of land that do not have the required ownership documentation; efforts are underway to process the land ownership documentation for these parcels of land.

### Adjustments

The adjustment of Kshs. 79.5 million is in respect to parcels of land in Stoni Athi. In 2018/2019 NHC completed development of the following projects that sit on 0.7265 ha of the total 60.56 ha in Stoni Athi.

- Stoni Athi Economy Block
- Stoni Athi Phase 2

To reflect the true value of land we have adjusted the value of land to exclude the developed portion. Stoni Athi Economy block is now recognized as an Investment Property and Stoni Athi Phase 2 has been recognized under Sale of Houses.

### 13. INTANGIBLE ASSETS

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

	2018 /2019	2017/2018
<b>COST</b>		
	<b>Kshs.</b>	
At start of the year	35,177,246	21,411,246
Additions	-	13,766,000
<b>At end of the year</b>	<b>35,177,246</b>	<b>35,177,246</b>
<b>Amortization</b>		
At start of the year	24,488,198	19,060,858
Charge in the year	4,715,231	5,427,340
<b>At end of the year</b>	<b>29,203,429</b>	<b>24,488,198</b>
<b>Net Book Value</b>	<b>5,973,817</b>	<b>10,689,047</b>

#### 14. INVESTMENT PROPERTY

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

	2018 /2019	2017/2018
<b>COST</b>	<b>Kshs.</b>	
At start of the year	7,594,712,541	7,594,417,811
Additions	127,265,585	294,730
Revaluation	-	-
Disposals/ Adjustments	-	-
<b>At end of year</b>	<b>7,721,978,126</b>	<b>7,594,712,541</b>
<b>DEPRECIATION</b>		
At start of the year	207,093,299	18,808,180
Charge for the Year	25,082,968	24,147,381
On Revaluation/Adjustment	160,034,294	164,137,737
At end of year	<b>392,210,561</b>	<b>207,093,299</b>
<b>Net book Value</b>	<b>7,329,767,565</b>	<b>7,387,619,242</b>

#### 15. LONG TERM LOANS ADVANCED

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

	2018 /2019	2017/2018
	<b>Kshs</b>	<b>Kshs</b>
Local Authorities	40,195,276	40,548,482
Rural Housing Loans	419,122,951	379,605,659
Staff Loans	535,731,572	562,408,568
Tenant Purchase	2,123,078,033	2,181,701,790
<b>Total</b>	<b>3,118,127,832</b>	<b>3,164,264,499</b>

## 16. UNQUOTED INVESTMENTS

These are investments held with;

	2018 /2019	2017/2018
	Kshs	Kshs
<b>Consolidated Bank</b>		
4% Non-Cum Preference Shares of Sh.20.00 each	4,100,000	4,100,000
Ordinary Shares of Sh.20 each	1,100,000	1,100,000
Research & Development Ltd	99,457,797	99,457,797
<b>Total</b>	<b>104,657,797</b>	<b>104,657,797</b>

Under note 16 we have indicated that the amounts are investments held with Consolidated Bank and Research and Development Unit Ltd (RDU).

### 1. Investments in Consolidated Bank

These are shares held at Consolidated Bank and valued at cost. They arose following takeover of Jimba Credit, Union Bank and Business Finance Ltd by the government.

### 2. Research and Development Unit Lt. (RDU)

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

**RDU Share Certificate** - RDU is a wholly owned subsidiary of NHC and therefore no share certificate has been issued to the Corporation. The Corporation only holds the Certificate of Incorporation, company search, Memorandum and Articles of Association.

**Consolidation of the financial statements** - The Corporation has not been preparing consolidated financial statements for the entity since 2013/2014. This was guided by

the Board's resolution to liquidate the Research Development Company. Under IAS 1 Presentation of Financial Statements, guides that when the going concern of the company in question, consolidation of the financial statements would be misleading to users of the financial statements.

**Current status** - The Corporation's effort of pursuing the Directors who are holding shares in trust for NHC to transfer the same to the current NHC Directors has not been successful. NHC has therefore engaged its lawyers to move to court and apply for orders to have the Registrar of Companies sign the transfer forms in lieu of the former Directors of the Company.

In the mean time the PIC had pronounced itself on this matter in its 19th Report and gave directions which the Corporation has acted upon.

#### 17. SCHEMES IN PROGRESS

These are valued at cost, and comprise:

	2018 /2019	2017/2018
	Kshs.	Kshs.
Tenant Purchase	453,266,955	283,992,839
Outright sale	1,691,938,976	2,186,750,486
Other Projects	296,315,925	277,044,579
<b>Total</b>	<b>2,441,521,856</b>	<b>2,747,787,904</b>

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

## 18. LOAN AMOUNTS RECEIVABLE

	2018 /2019	2017/2018
	Kshs.	Kshs.
<b>Rural Housing Loans</b>		
Amounts Due	720,231,822	660,459,772
Provision for Bad Debts	(127,645,034)	(115,314,085)
	<b>592,586,787</b>	<b>545,145,687</b>
Local Authorities	1,492,145,402	1,374,388,916
Staff Loans	24,533,616	19,971,011
Tenant Purchase	373,917,035	332,682,170
Outright sale Debtors	219,869,745	142,173,556
<b>Total</b>	<b>2,703,052,586</b>	<b>2,414,361,340</b>

### Credit Risk Management

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

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

## 19. INVENTORIES

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



	2018 /2019	2017/2018
	Kshs.	Kshs.
Consumable Inventories-NHC	1,286,901	1,471,541
Stock of unsold houses-NHC	872,676,958	362,255,792
Consumable Inventories-EPS	9,243,040	9,991,228
EPS Work In Progress	20,229,229	74,366,859
EPS stock of Finished panels	27,145,102	1,833,614
EPS stock of Raw materials	32,446,784	15,663,695
<b>Total</b>	<b>963,028,014</b>	<b>465,582,730</b>

## 20. a) TRADE AND OTHER RECEIVABLES

	2018 /2019	Restated 2017/2018
	Kshs.	Kshs.
Rent Arrears	251,630,601	244,237,384
Provision for bad debts on Rents	(78,507,654)	(78,740,189)
<b>Sub-Total</b>	<b>173,122,947</b>	<b>165,497,196</b>
Sundry Debtors	308,655,196	254,778,910
<b>Total</b>	<b>481,778,142</b>	<b>420,276,106</b>



**b) Aging analysis (Rent)**

AGING ANALYSIS	1 - 30 DAYS	31 - 60 DAYS	61 - 90 DAYS	91 - 180 DAYS	OVER 180 DAYS	TOTAL
30.6.2019						
Name						
NHC HOUSE	3,024,351.25	1,801,306.22	1,508,211.37	2,135,082.90	29,141,843.32	37,590,795.06
MISCELLANEOUS ESTATES	159,810.00	176,164.40	184,578.32	796,667.30	55,444,545.32	56,761,765.94
SADIROAD ESTATE	580,745.01	225,247.99	189,396.43	384,007.49	7,497,475.74	8,684,940.09
WOODLEY ESTATE	291,349.85	155,690.73	152,814.87	287,841.80	1,674,237.97	2,561,935.68
CHANGAMWE RENTAL	4,275,938.00	3,539,420.00	3,144,117.80	7,270,350.00	92,000,280.00	110,230,105.80
CHANGAMWE INFILL	699,175.00	627,117.00	603,167.00	1,486,169.00	2,698,087.00	6,113,715.00
ELGON VIEW-ELDORET	369,300.00	271,000.00	132,000.00	24,200.00	740,642.60	1,537,142.60
KIBERA KARANIA ROAD	73,500.00	48,000.00	36,000.00	67,600.00	1,418,453.25	1,636,553.25
MD'S RESIDENCE - NYARI HSE	275,000.00	275,000.00	149,000.00	-	-	699,000.00
SADIROAD INFILL	451,217.89	312,725.78	202,705.52	532,549.24	5,298,689.70	6,797,888.13
WOODLEY INFILL	254,749.24	141,367.60	119,231.18	228,190.75	2,230,656.51	2,974,195.28
VOI RENTALS	71,000.00	71,000.00	63,000.00	169,000.00	1,560,000.00	1,903,500.00
JOMO KENYATTA-RENTAL	562,417.40	436,543.00	348,915.00	736,804.15	1,283,703.00	3,368,382.55
KIPCHOGE ELDORET RENTALS	129,879.00	97,820.00	70,420.00	115,079.75	174,110.00	586,708.75
LIKONI RENTAL	-	-	-	-	3,122,932.00	3,122,932.00
KIDIWA ELDORET RENTALS	187,692.60	160,082.60	140,944.60	322,744.80	1,112,745.25	1,924,209.85
NAKURU BONDENI RENTAL	19,800.00	19,800.00	19,800.00	57,350.00	957,700.00	1,074,450.00
BONDENI ELDORET RENTALS	192,125.50	83,180.00	49,290.00	61,200.00	36,200.00	421,995.50
TUNTU RENTALS-NHC	-	-	-	-	313,880.00	313,880.00
KAPSUSWA ELDORET RENTAL	93,942.00	76,424.00	55,534.00	129,492.00	274,899.00	630,291.00
MUMBI ESTATE-MURANGA	48,500.00	39,000.00	32,500.00	76,990.00	138,000.00	334,990.00
NIORO RENTALS-NAKURU	25,901.59	21,300.12	19,200.12	54,200.36	263,631.62	384,233.81
KARANJA ROAD INFILL	146,000.00	92,990.80	55,000.00	159,000.00	1,086,000.00	1,538,990.80
STONI ATHI ECONOMY	39,500.00	23,000.00	39,500.00	106,500.00	-	192,000.00
MOGOTIO RENTALS	24,000.00	24,000.00	24,000.00	24,000.00	-	96,000.00
ITEN RENTALS	37,500.00	37,500.00	37,500.00	37,500.00	-	150,000.00
<b>TOTAL</b>	<b>12,033,394.33</b>	<b>8,755,680.24</b>	<b>7,376,826.21</b>	<b>15,262,519.54</b>	<b>208,468,712.28</b>	<b>251,630,601.09</b>

### b) Aging analysis (Sundry Debtors)

Details	CURRENT	1 - 90 DAYS	91 - 180 DAYS	181 - 270 DAYS	271 - 360 DAYS	OVER 360 DAYS	TOTAL
Insurance Prepayments						13,624,393.26	13,624,393.26
Fuel Deposit Total Kenya						597,000.00	597,000.00
Deposit Ministry Of Works						765,741.20	765,741.20
Fuel Deposit- Mombasa						21,000.00	21,000.00
Deposit - Postmaster General						8,622.35	8,622.35
Toyota Kenya Repairs Deposit						200,000.00	200,000.00
Deposits With Nairobi Hospital						149,000.00	149,000.00
Deposits With Mater-Misericordiae						270,000.00	270,000.00
Deposits With Aga Khan Hospital						200,000.00	200,000.00
Deposits With Aga Khan Hospital -Mbs						50,000.00	50,000.00
Deposit Aga Khan Hospital Kisumu						100,000.00	100,000.00
Deposit With Gertrude G. Hospital						10,000.00	10,000.00
Deposits With Kenyatta N. Hospital						200,000.00	200,000.00
Deposits With Valley Hospital Nakuru						50,000.00	50,000.00
Deposit With Kp&Lc Kanyakwar Ph 1						500,000.00	500,000.00
Deposit-East Africa Courier Lt						30,000.00	30,000.00
Arbitration Deposit						100,000.00	100,000.00
Rent Deposit - Kenya Re Kisumu Office						214,261.10	214,261.10
Deposits K.P. & T. Comm.						30,000.00	30,000.00
Webuye Rental Advances						1,362,495.95	1,362,495.95
Deposit K.P. & T. Comm.						216,520.00	216,520.00
Due From Pile Investment						300,000.00	300,000.00
Miscellaneous Debts						135,523,577.53	135,523,577.53
Rdu Limited Debt						31,047,760.35	31,047,760.35
Imprest	2,721,694.75						2,721,694.75
Salary Advances	1,562,592.75						1,562,592.75
Madaraka Old Rent & Rates Due						24,225,665.14	24,225,665.14
Standing Imprest( Office Float )	1,230,896.00						1,230,896.00
Ncc L/A Rent Debtors						197,542.77	197,542.77
National Oil Fuel Deposit	1,006,000.00						1,006,000.00
Eps Factory Debtors	93,506,054.55						93,506,054.55
<b>Provision For Bad Debts Sundry Debtors</b>							<b>(1,446,622.00)</b>
<b>Total Sundry Debtors</b>				<b>0.00</b>	<b>0.00</b>	<b>209,993,579.65</b>	<b>308,574,195.70</b>

## Credit Risk Management

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

### 21. CASH AND BANK BALANCES

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

	2018 /2019	2017/2018
	Kshs.	Kshs
Mobile Money	4,948,116	8,815,890
Co-operative Bank	16,357,990	372,006,243
National Bank of Kenya	1,547,595	4,800,158
Kenya Commercial Bank	14,742,136	(12,541,538)
<b>Total</b>	<b>37,595,837</b>	<b>373,080,753</b>

The Corporation introduced mobile money services with effect from 1<sup>st</sup> June 2017.

### 22. EQUITY

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

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

## 22. EQUITY (Continued)

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

Equity Injection to NHC as at 30th June 2019		Kshs.
2007/2008		216,000,000
2008/2009		250,000,000
2009/2010		250,000,000
2010/2011		900,000,000
<b>Total</b>		<b>1,616,000,000</b>
Conversion of Total Debts owed to GOK by NHC	2002/2003	5,320,000,000
<b>TOTAL EQUITY</b>		<b>6,936,000,000</b>

There was no capital injection in the year under review.

## 23. UNREALIZED GAIN ON SALE OF HOUSES

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

	2018 /2019	2017/2018
	Kshs.	Kshs.
<b>Opening balance</b>	594,884,901	560,080,075
Add: Unrealized gain recognized in the year	73,706,952	70,996,595
Less: Realized gain recognized in the year	(38,475,027)	(36,191,769)
Total Movement in the year	35,231,925	34,804,826
<b>Closing Balance</b>	<b>630,116,826</b>	<b>594,884,901</b>



## 24. RETAINED EARNINGS

This is made up as follows:

	2018 /2019	Restated 2017/2018
	Kshs.	Kshs.
Opening Balance	3,335,229,074	3,174,565,752
Prior year adjustments (non cash items)	-	14,096,986
prior year adjustments (cash items)	-	-
Proposed Dividends	(6,874,701)	(7,714,018)
Profit after tax for the Year	137,494,029	154,280,354
<b>Closing balance</b>	<b>3,465,848,402</b>	<b>3,335,229,074</b>

## 25. HOUSE EQUALIZATION

	2018 /2019	2017/2018
	Kshs.	Kshs.
Opening Balance	383,118,995	383,118,995
Charge in the Year	-	-
<b>Closing balance</b>	<b>383,118,995</b>	<b>383,118,995</b>

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**
**26. REVALUATION RESERVE**

	Land	Buildings	Investment Property	Total
	Kshs	Kshs	Kshs	Kshs
<b>2017/2018</b>				
Opening Balance	1,530,701,470	542,249,536	6,579,216,199	8,652,167,205
Charge in the Year	-	(14,657,683)	(177,844,438)	(192,502,121)
<b>Closing Balance</b>	<b>(1,530,701,470)</b>	<b>527,591,853</b>	<b>6,401,371,761</b>	<b>8,459,665,084</b>
<b>2018/2019</b>				
Opening Balance	(1,530,701,470)	527,591,853	6,401,371,761	8,459,665,084
Charge in the Year	-	(13,189,796)	(160,034,293)	(173,224,089)
<b>Closing Balance</b>	<b>(1,530,701,470)</b>	<b>514,402,057</b>	<b>6,241,337,468</b>	<b>8,286,440,995</b>

The Corporation revalued its land and buildings in the year 2016/2017 May and adopted the values on 1st June 2017. Depreciation of the revalued assets has been treated as an expense in the Profit and Loss Account since then. To comply with the International Accounting Standards 16, *Property, Plant and Equipment* some amendments were found necessary. This resulted in recognizing increased depreciation of the revalued properties under the Revaluation Reserve account instead of the Profit or Loss Account.

Management therefore had to restate its balance sheet and profit for the financial year 2017/2018. The figures adjusted related to financial years 2017/2018 and 2016/2017. The line items adjustments are shown below.

<b>Revaluation Reserve (Equity)</b>	<b>2017/2018</b>	<b>2016/2017</b>	<b>Total</b>
	Kshs.	Kshs.	Kshs.
Land	0	0	0
Buildings	13,527,997	1,129,686	14,657,683
Investment Property	164,137,738	13,706,700	177,844,438
	<b>177,665,735</b>	<b>14,836,386</b>	<b>192,502,121</b>

## 27. TRADE AND OTHER PAYABLES

These comprise:

	2018 /2019	2017/2018
	Kshs.	Kshs.
House Deposits	397,303,507	435,467,588
Ruai Police Housing Development Deposit	149,368,295	149,368,295
Deposits from County Gov.	22,628,149	-
Service Charge	150,414,366	125,720,202
Due to Contractors	218,184,095	200,462,391
Sundry Creditors	112,345,525	115,966,067
<b>Total</b>	<b>1,050,243,937</b>	<b>1,026,984,544</b>

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

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

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

**28. CASH GENERATED FROM OPERATING ACTIVITIES**

	2018 /2019 Kshs.	Restated 2017/2018 Kshs.
<b>CASHFLOW GENERATED FROM OPERATIONS</b>		
<b>Operating profit</b>	<b>294,575,431</b>	<b>338,694,149</b>
Adjustments for items not involving movement of cash		
<b>Depreciation</b>		
-Property, Plant & Equipment (Note11)	58,207,890	65,077,135
- Intangible Assets (Note 13)	4,715,231	5,427,340
- Investment Property (Note 14)	25,082,968	24,147,381
Realised gain on Sale of TP Houses	(38,475,027)	(36,191,769)
Unrealised gain on Sale of Tenant Purchase Houses (Note 23)	73,706,952	70,996,594
Bad Debts Provisions (Note 7a )	12,145,323	12,818,853
Gain on disposal (Note 4)	-	(4,120,811)
<b>Operating profit before working capital</b>	<b>429,958,768</b>	<b>476,848,872</b>
<b>Working capital adjustments:</b>		
Decrease/(Increase) in debtors & prepayments	(73,647,359)	45,519,754
Decrease (Increase) in inventories	(497,445,284)	263,527,716
Increase in creditors	23,259,393	20,418,039
Housing schemes in progress	306,266,048	(924,297,499)
Decrease/ (Increase) in Loan amount receivable	(288,691,246)	(65,348,330)
<b>Working capital changes</b>	<b>(530,258,448)</b>	<b>(660,180,320)</b>
<b>CASH GENERATED</b>	<b>(100,299,680)</b>	<b>(183,331,448)</b>

## 29. REDEMPTION OF LONG TERM LOANS

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

	2018 /2019	2017/2018
	Kshs.	Kshs.
<b>Tenant Purchase</b>		
Opening Balance	2,181,701,790	2,190,820,004
Advanced	244,240,245	237,353,074
Redemption	(302,864,003)	(246,471,287)
<b>Closing Balance</b>	<b>2,123,078,032</b>	<b>2,181,701,790</b>
<b>Other Loans</b>		
Opening Balance	982,562,710	948,528,910
Advanced	181,354,908	194,804,724
Redemption	(168,867,817)	(160,770,924)
<b>Closing Balance</b>	<b>995,049,800</b>	<b>982,562,710</b>
<b>Total</b>	<b>3,118,127,832</b>	<b>3,164,264,500</b>

## 30. CONTINGENT LIABILITIES

The Corporation is engaged in 6 disputes with some project contractors which are currently under arbitration. The value of the claims made by the claimants is analyzed as follows:



<b>NHC ARBITRATION MATTERS AS AT 30TH JUNE 2019</b>			
<b>No.</b>	<b>PARTIES</b>	<b>CLAIM/DISPUTE</b>	<b>STATUS OF ARBITRATION</b>
1	N.K. Brother Limited VS- NHC	12,407,683.00	Yet to be Determined
2	Mall of Africa -versus- NHC	60,457,218.00	Yet to be Determined
4	Custom General Construction Ltd -vs- NHC	229,381,524.21	Yet to be Determined
5	Lemna International INC. - VS- NHC	513,000,000.00	The award was delivered for Kshs.119,361,021.94 on10/5/2019 and NHC is to appeal to the High Court.
6	Tulsi Construction Limited - V- NHC	1,310,097,863.78	Yet to be Determined
<b>Total Claims</b>		<b>2,125,344,288.99</b>	

### 31. RELATED PARTY TRANSACTIONS

(a) Principal loan balances for staff.

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

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Tenant purchase loans</b>	<b>215,199,650</b>	<b>265,554,922</b>
<b>Staff loan</b>		
Car loan	35,259,732	30,807,668
Computer loan	2,437,146	2,044,306
House loan	448,213,207	479,982,280
Rural housing loan	46,904,187	49,574,314
<b>Sub Total(staff loan)</b>	<b>532,814,273</b>	<b>562,408,568</b>
<b>Total loan amount advanced to staff</b>	<b>748,013,922</b>	<b>827,963,491</b>

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

Tenants purchase loans are loans advanced to the corporation’s staff under the same terms as the general public at an interest rate of 13% per annum. These amounts are included in the tenants purchase loans as detailed in note15.

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

**(b) Directors Expenses.**

The directors’ expenses were Kshs 10,240,701 (2017/2018 Kshs 8,215,366) as detailed in note 7b.

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

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

	2018/2019	2017/2018
	kshs	kshs
Managing Director	8,290,948	7,716,560
Other Managers	34,696,202	35,205,427
<b>Total</b>	<b>42,987,150</b>	<b>42,921,987</b>

**32. FINANCIAL RISK MANAGEMENT**

The Corporation’s activities expose it to a variety of financial risks. These include credit and liquidity risks and effects of changes in foreign currency. The Corporation’s general risk management plan focuses on volatility in the business environment and seeks to minimize the potential unfavorable effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place strategies to ensure that credit is only extended to customers with a well-known credit history.

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

**(i) Credit risk**

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

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

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

**(ii) Liquidity risk management**

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

**32. FINANCIAL RISK MANAGEMENT (Continued)**

**(iii) Market risk**

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

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

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

**(iv) Foreign currency risk**

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



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

**(v) Interest rate risk**

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

### 33. RESTATEMENT OF FINANCIAL STATEMENTS

We have restated our financial statements for the year 2017/2018. The following is a brief explanation on the reasons for restatement of the Statement of Financial Position and Statement of Comprehensive Income

Statement of Financial Position		Original 2017/2018	Restated 2017/2018	Variance	Remarks
1	Long Term loan Advanced	3,162,546,732.00	3,164,264,499.00	1,717,767.00	This restatement was as a result of corrections of loan account. During reconciliations the team established that initial setup for one of the loan accounts was incorrect. The accrued loan principal amount on the specific account was overstated and the interest was understated. This error related to period prior to June 2017.
2	Schemes in Progress	2,754,217,770.00	2,747,787,904.00	(6,429,866.00)	NHC completed projects in Langata VI and Kanyakwar. Due to the depressed housing market, the Corporation experienced challenges in selling the units on cash basis. This resulted to a change in strategy on disposal of the units from cash to Tenant Purchase (TP) schemes. There were several buyers who had been given offers to purchase the units for cash. They had accepted the offers and were yet to pay the balance of the purchase price. However when they learnt of the change in mode of sale from cash to TP, they opted to take the units under the TP terms. We had already recognized gains from these units and the change in mode of disposal of the units required a change in the accounting treatment.  The difference between the cost to construct a tenant purchase house and the cost of the house to the tenant purchaser is the unrealized gain for NHC. This unrealized gain is accrued proportionately each year in the accounts of NHC and amortized over the life of the tenant purchase scheme. However, gains from units sold on cash basis are registered in the year when the sale is made.  The adjustments in the financial statements were therefore a correction and transfer of amounts recognized as gain on sale to unrealized gain for units in Kanyakwar and Langata VI sold on outright sale but converted to tenant purchase terms.



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3	Loan Amount Recoverable	2,414,360,790.00	2,414,361,340.00	550.00	Please see note 1 long term loans advanced
4	Tax Recoverable	11,564,575.00	-	(11,564,575.00)	This adjustment arose from increased profits upon restatement of our financial statements
5	Trade and other Receivables	417,247,188.00	420,276,106.00	3,028,918.00	During our reconciliation exercise we identified some errors in the trade and receivable accounts. This was an adjustment and correction of prior period errors.
6	Unrealized Gain on Sale of Houses	587,574,898.00	594,884,901.00	7,310,003.00	Please see our response on item number 2 scheme in progress account
7	Retained Earnings	3,212,868,824.00	3,335,229,074.00	122,360,250.00	Please see our response on item number 6 revaluation reserve, the adjustments touched on the retained earnings account Refer to our response item number 3 Trade and other receivables, the items also touched on retained earnings
8	Revaluation Reserve	8,652,167,205.00	8,459,665,084.00	(192,502,121.00)	1. The Corporation revalued its land and buildings in the year 2016/2017. 2. Depreciation of the revalued assets has been treated as an expense in the Profit and Loss Account since then. 3. However, we realized that some amendments are necessary so as to comply with IFRS where IAS 16 permits a transfer to be made of an amount equal to the excess depreciation from the revaluation reserve to retained earnings. This meant that we recognize depreciation of the revalued properties under the Revaluation Reserve account
9	Trade and other Payables	1,022,590,638.00	1,026,984,544.00	4,393,906.00	These were adjustments relating to errors identified in prior periods
10	Dividends	13,558,379.00	19,252,442.00	5,694,063.00	This adjustment arose from increased profits upon restatement of our financial statements

1	Tax Payable	39,496,694.00	39,496,694.00	This adjustment arose from increased profits upon restatement of our financial statements
1				

Statement of Comprehensive Income				
	Original 2017/2018	Restated 2017/2018	Variance	Remarks
INCOME	Kes	Kes	Kes	
Turnover	941,122,100	953,890,313	(12,768,213)	<p>NHC completed projects in Langata VI and Kanyakwar. Due to the depressed housing market, the Corporation experienced challenges in selling the units on cash basis. This resulted to a change in strategy on disposal of the units from cash to Tenant Purchase (TP) schemes. There were several buyers who had been given offers to purchase the units for cash. They had accepted the offers and were yet to pay the balance of the purchase price. However when they learnt of the change in mode of sale from cash to TP, they opted to take the units under the TP terms. We had already recognized gains from these units and the change in mode of disposal of the units required a change in the accounting treatment.</p> <p>The difference between the cost to construct a tenant purchase house and the cost of the house to the tenant purchaser is the unrealized gain for NHC. This unrealized gain is accrued proportionately each year in the accounts of NHC and amortized over the life of the tenant purchase scheme. However, gains from units sold on cash basis are registered in the year when the sale is made.</p>



					The adjustments in the financial statements were therefore a correction and transfer of amounts recognized as gain on sale to unrealized gain for units in Kanyakwar and Langata VI sold on outright sale but converted to tenant purchase terms.
Other Income	33,789,647	33,744,647	45,000		During our reconciliation exercise we identified some errors in the trade and receivable accounts. This was an adjustment and correction of prior period errors.
<b>EXPENSES</b>					
EPS Expenses	165,525,007	179,053,004	(13,527,997)		Please see our comments here below Depreciation Property Plant & Equipments
Depreciation - Property Plant & Equipments	59,967,861	224,105,598			1. The Corporation revalued its land and buildings in the year 2016/2017. 2. Depreciation of the revalued assets has been treated as an expense in the Profit and Loss Account since then. 3. However, we realized that some amendments are necessary so as to comply with IFRS where IAS 16 permits a transfer to be made of an amount equal to the excess depreciation from the revaluation reserve to retained earnings. This meant that we recognize depreciation of the revalued properties under the Revaluation Reserve account
Provision for tax	184,413,794	133,352,525	51,061,269		The adjustments relate to change in profits
Proposed Dividends	7,714,018	2,019,955	5,694,063		The adjustments relate to change in profits