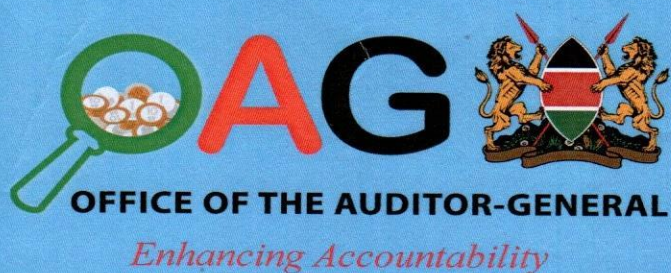


REPUBLIC OF KENYA



REPORT

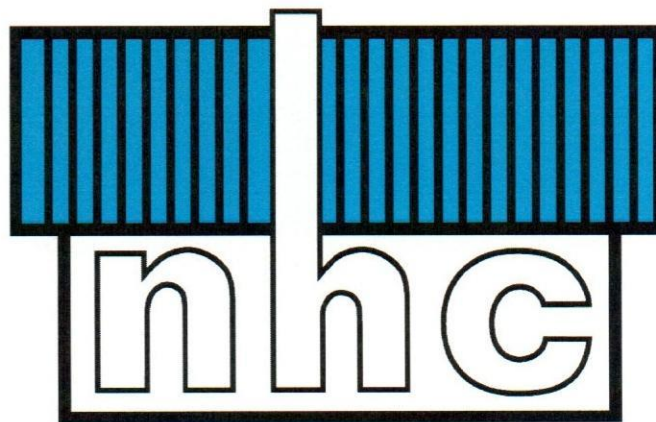
OF

THE AUDITOR-GENERAL

ON

NATIONAL HOUSING CORPORATION

**FOR THE YEAR ENDED
30 JUNE, 2022**



NATIONAL HOUSING CORPORATION

**FINANCIAL STATEMENTS FOR THE YEAR ENDED
30TH JUNE 2022**

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



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I. KEY ENTITY INFORMATION

BACKGROUND INFORMATION

National Housing Corporation (NHC) is a statutory body established by an Act of Parliament, Cap. 117 of the Laws of Kenya. At cabinet level, National Housing Corporation is represented by the Cabinet Secretary for Lands, Housing and Urban Development, who is responsible for the general policy and strategic direction of NHC. NHC is domiciled in Kenya and has branches in Mombasa, Nakuru, Eldoret, Kisumu, Kitale, Isiolo and Nyeri.

PRINCIPAL ACTIVITIES

The primary mandate of NHC is to play a principal role in the implementation of the Government's Housing policy.

OUR VISION

A decently and sustainably housed nation

OUR MISSION

To efficiently provide and facilitate access to innovative housing solutions

OUR CORPORATE VALUES

- Professionalism
- Integrity
- Innovation
- Environmental Sustainability
- Team Work and Team Spirit
- Commitment
- Equity
- Customer Focus

Core Objectives of NHC

The core objectives for 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 ended 30th June 2022 were as follows:

1.	Eng. Stephen Ngare	Chairman (Exited 9 th February 2022)
2.	Amb.Ukur Yatani Kanacho	Cabinet Secretary, The National Treasury
3.	Charles Hinga Mwaura	Principal Secretary, State Department of Housing and Urban Development
4.	Silvester Migwi	Director
5.	Jackson Kimuri	Director
6.	Jane Mwangi	Alternate Director State Department for Housing & Urban Development
7.	Jacqueline Mbithe Muindi	Alternate to the Cabinet Secretary, The National Treasury
8.	Prof. Arch. Jerry Magutu	Director (Exited 2nd May 2022)
9.	Dr. Habil Olaka	Director
10.	Patricia Nyambura Gathuri	Director
11.	Caroline Armstrong-Ogwapit	Director
12.	Violet Mwikali Mbindyo	Director (From 3 rd May 2022)
13.	Andrew Saisi	Managing Director (Exited on 31.08.2021)
14.	QS. (Dr.) Patrick M. Bucha, PhD, MBS	Ag. Managing Director
15.	William K. B. Keitany	Corporation Secretary

Corporation Secretary

William K. B. Keitany

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

CORPORATE INFORMATION

Registered Office/Corporation Headquarters:

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

Corporation Contacts:

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

Corporation Bankers:

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

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

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

Independent Auditors:

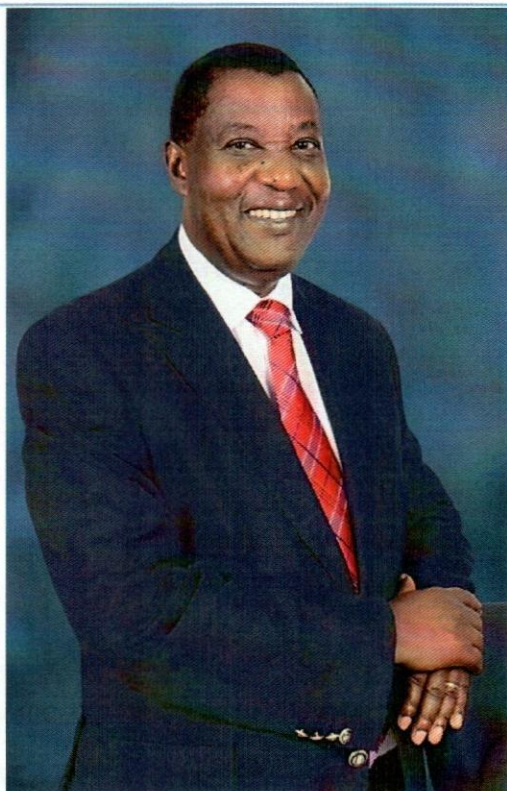
The Auditor General
Office of the Auditor General
P.O. Box 30084 - 00100
Nairobi, Kenya

Principal Legal Advisers:

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

II. THE BOARD OF DIRECTORS

Hon. Eng. Stephen Muriuki Ngare - Chairman (Exited 9th February 2022)



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.

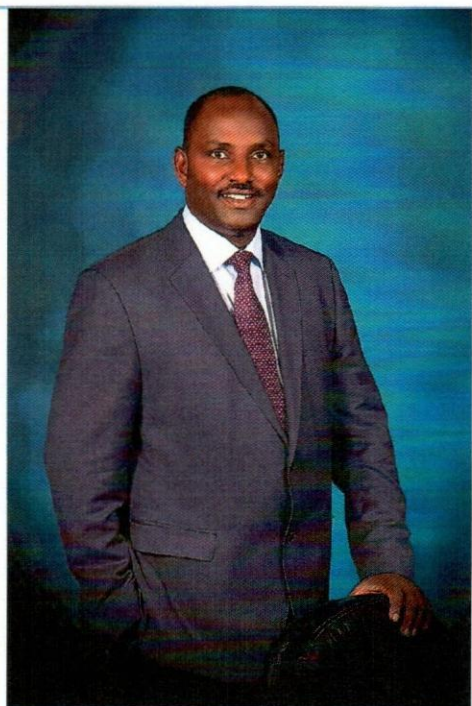
Mr. Jackson Kimuri



Mr. Jackson Kimuri is a senior management executive with over thirty-five (35) years' experiences 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.

Amb. Ukur Yatani Kanacho – Cabinet Secretary National Treasury



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

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

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

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

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

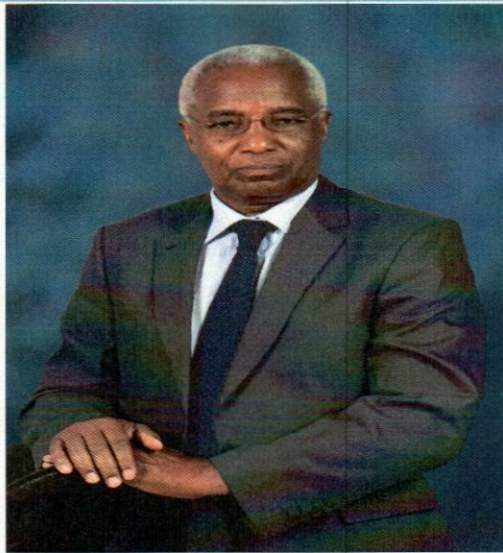
Mr. Charles Hinga Mwaura - Principal Secretary of the State Department of Housing and Urban Development



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

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

Mr. Silvester Njuguna Migwi



Silvester Njuguna Migwi is a senior government executive having served as the Government printer, serving as the chief advisor to the Government of Kenya on matters pertaining to printing. He brings on board various skills and competencies gained over the years from the various capacities that he has served in the public sector.

He holds a Bachelor of Arts Degree in Business Management from the University of Sunderland, United Kingdom.

Silvester has previously served as a member of the Kenya Law Reporting, Ministerial Tender Committee and Ministerial Human Resource Advisory Committee for the Ministry of Interior and Co-ordination of National Government, Chairman Ministerial Audit Committee Ministry of Interior and Co-ordination of National Government, Chairman Committee on Procurement of Passport Issuing System, Department of Immigration among others.

NATIONAL HOUSING CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR
ENDED JUNE 30, 2022



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).

Ms. Patricia Nyambura Gathuri



Ms. Patricia Nyambura Gathuri is an experienced professional Banker, with a successful career of thirty-one (31) years in various management positions within the Banking Industry. She brings on board various skills and competencies gained over the years, including banking operations, business strategy, business development, customer relationship management, asset and liability management, credit skills and risk management.

She holds a Bachelor of Arts Degree in Economics and Sociology (Upper Second-Class Honours) from the University of Nairobi.

Patricia is a certified professional coach from the Coach Development Institute of Africa (CDI-A), a consultant trainer and a member of the Chartered Institute of Securities and Investments (CISI) London. She also serves on the Board of Geminia Insurance Company Ltd. as an Independent Non-Executive Director and on the Board of Trustees for the Trust for Indigenous Culture and Health (TICAH).

Ms. Jacqueline Mbithe Muindi



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

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

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

Ms. Armstrong Ogwapit



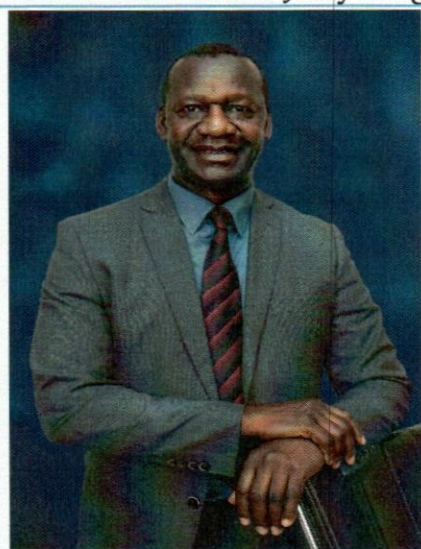
Ms. Armstrong-Ogwapit has served in senior management positions in the banking and property industry in a career that spans 23 years.

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 Jambo Jet, KQ's low-cost carrier.

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

Prof. Arch. Gerald Jerry Magutu - Exited on 2nd May 2022



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

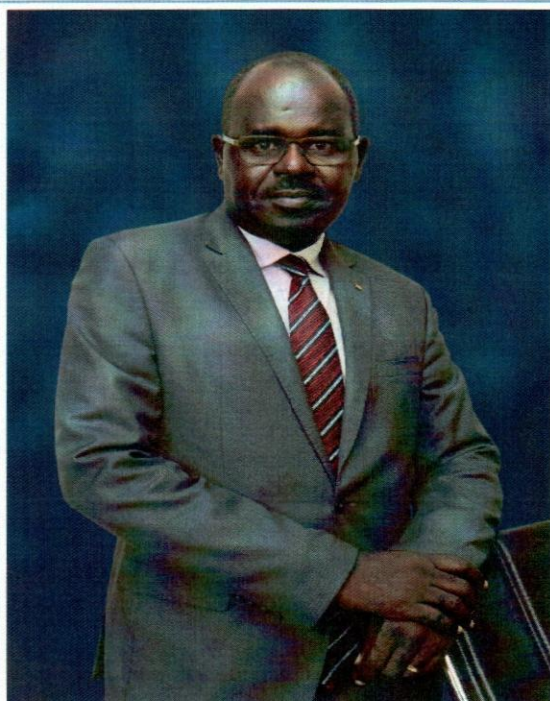
He holds a PhD in Architecture and a Master of Architecture both from the University of California, Berkeley and a Bachelor of Architecture (First Class Honours) from the University of Nairobi.

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

Prof. Arch. Magutu is a holder of a Rockefeller Careers Award by the Rockefeller Foundation

and a Senior Research Fellowship Award by the CV Raman International Research Fellowship among many other awards. He is an accomplished professional both locally and internationally.

Dr. Habil Olaka



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

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

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

Ms. Violet M. Mbindyo



Ms. Violet Mwikali Mbindyo is an accomplished entrepreneur with a track record of establishing enterprises that serve the needs in the market while driving shareholder value.

Originally from a banking background, Ms. Mbindyo brings with her expertise in banking and foreign exchange management, real estate valuation, development and management as well as consultancy services.

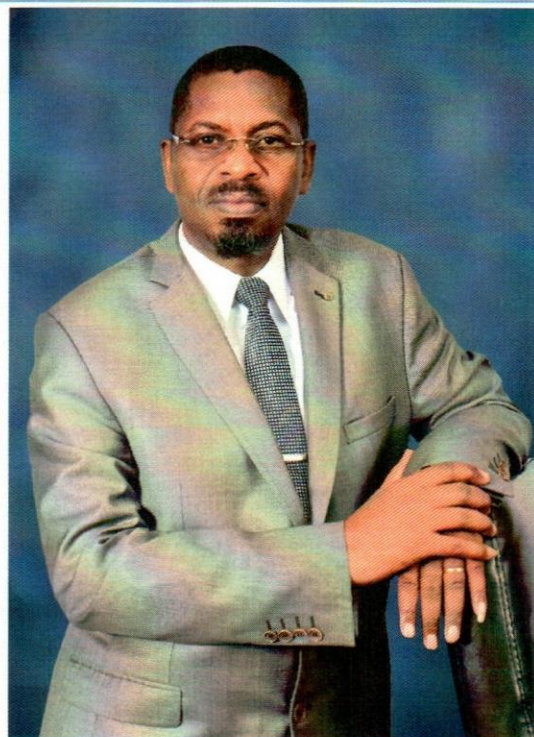
Ms. Mbindyo is the founder and chief executive officer of the Nairobi Bureau De Exchange- Kenya. She is also a Principal Partner and founder of the Black Teak Holdings- Kenya as well as a founding member of the Kenya Forex and Remittance Association.

She has previously held the Company Director and Venture Capitalist position at Cash Swift Limited and has served as a Management Officer at the National Bank of Kenya.

Ms. Mbindyo is passionate about social impact and is a significant contributor and leader, having supported and continuing to support several social causes and organizations that positively impact the community.

She is currently serving on the Boards of the Kenya Forex and Remittances Association as the National Treasurer, Rotary Club Nairobi- Muthaiga North, Black Teak Holdings Ltd and Nairobi Bureau de Change Ltd.

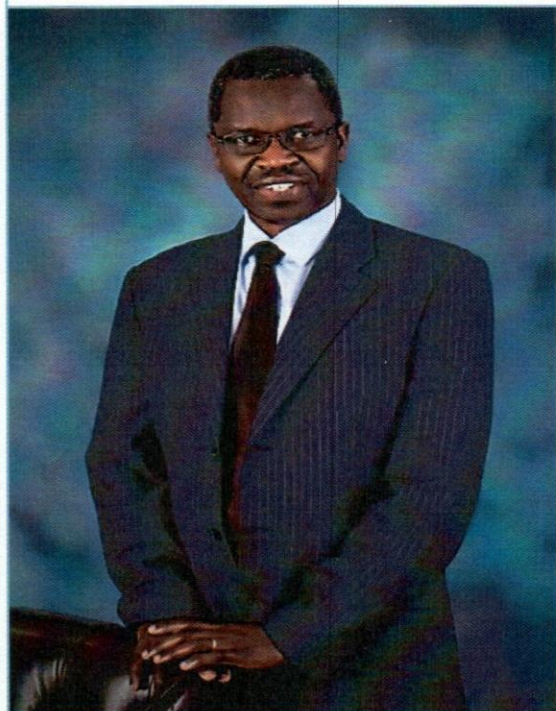
Dr. (Qs) Patrick M. Bucha, PhD, MBS - Ag. Managing Director



Dr. (Qs). Patrick Bucha is currently the Ag. Managing Director, he has been seconded from the State Department for Housing and Urban Development. He holds a Masters degree in Building Management and a Bachelors degree in Building Economics both from the University of Nairobi and currently pursuing a PhD in Leadership and Governance. He served as a part time lecturer in Architectural Department, University of Nairobi. He is a registered Quantity Surveyor and has worked with the Government for over 30 years in various positions including Deputy Director Housing, Programme Coordinator, Kenya Slum Upgrading Programme (KENSUP), Project Manager, Civil Servants Housing Programme and Director of Estates Management in charge of all government houses. He previously served as Managing Director, National Housing Corporation and chaired a team on housing bond issue and capital restructuring of the Corporation. Currently, he serves as the Secretary

Housing in the State Department for Housing and Urban Development in charge of implementing the Housing Agenda under the Big 4, formulation of housing policies as well as coordinating implementation of National Police and Kenya Prisons Services Housing Slum Upgrading and Civil Servants Housing. His Excellency the President honored him with Moran of the Burning Spear (MBS) on 12th December, 2011 for his contribution in the housing sector.

Mr. William Kimutai B. Keitany - Corporation Secretary



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

III. MANAGEMENT TEAM

Dr. (Qs). Patrick M. Bucha, PhD, MBS - Ag. Managing Director



Dr. (Qs) Patrick Bucha is currently the Ag. Managing Director, he has been seconded from the State Department for Housing and Urban Development. He holds a Masters degree in Building Management and a Bachelors degree in Building Economics both from the University of Nairobi and currently pursuing a PhD in Leadership and Governance. He served as a part time lecturer in Architectural Department, University of Nairobi. He is a registered Quantity Surveyor and has worked with the Government for over 30 years in various positions including Deputy Director Housing, Programme Coordinator, Kenya Slum Upgrading Programme (KENSUP), Project Manager, Civil Servants Housing Programme and Director of Estates Management in charge of all government houses. He previously served as Managing Director, National Housing Corporation and chaired a team on housing bond issue and capital restructuring of the Corporation. Currently, he serves as the Secretary Housing in the State Department for Housing and Urban Development in charge of implementing the Housing Agenda under the Big 4, formulation of housing policies as well as coordinating implementation of National Police and Kenya Prisons Services Housing Slum Upgrading and Civil Servants Housing. His Excellency the President honored him with Moran of the Burning Spear (MBS) on 12th December, 2011 for his contribution in the housing sector.

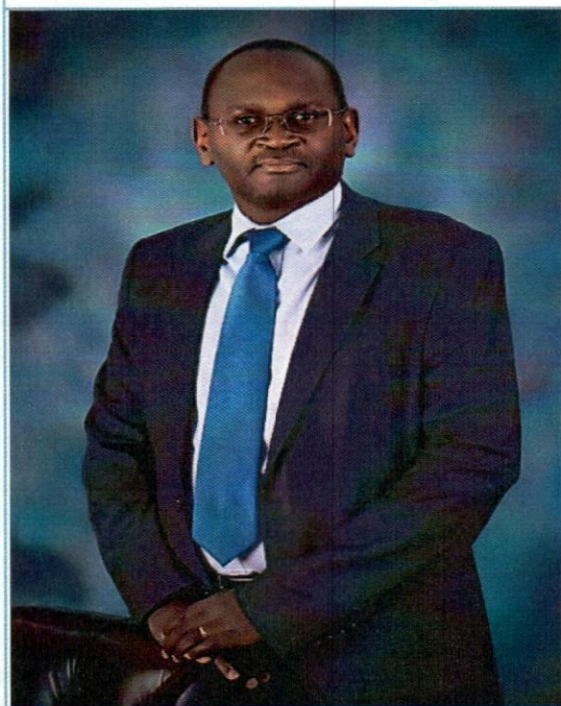
Mr. Joel Gatune - General Manager Finance



Joel is a Certified Public Accountant and Certified Public Secretary. He is a member of the Institute of Certified Public Accountants of Kenya and the Institute of Certified Public Secretaries of Kenya. He holds a Bachelor of Arts in Economics (First Class Honours) from Kenyatta University and a Master of Business Administration from the University of Nairobi.

He has over 25 years experience in Auditing, Strategy, Financial planning and Management. Prior to joining NHC, Joel worked for Deloitte as a Senior Auditor, ICEALION Group as the Head of Finance, CIC Group as the Group General Manager, Finance and Investments and Kenya Orient Insurance as the General Manager, Finance and Strategy.

Mr. Robert M. Ambuku - Ag. General Manager Manufacturing Division



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.

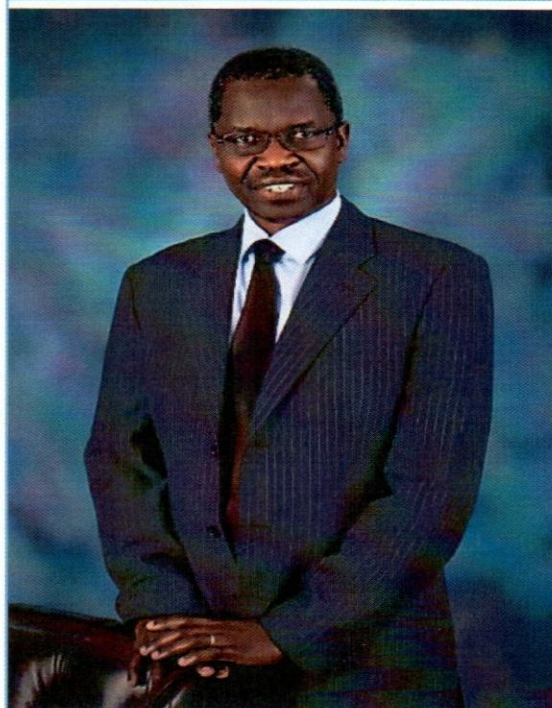
Mr. John Washington Agutu - General Manager - Estates



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

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

Mr. William Kimutai B. Keitany - Corporation Secretary



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

Ms. Moraa Ongeru - Ag. General Manager Business Development



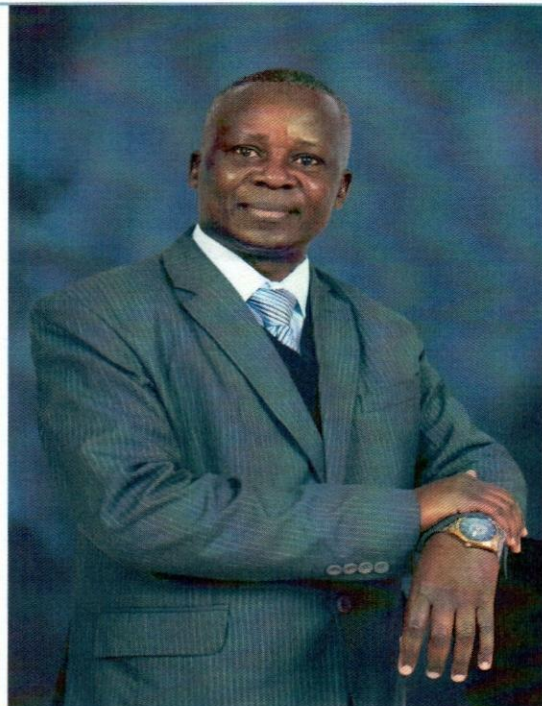
Ms. Moraa Ongeru is an MBA alumnus of Management College of Southern Africa (MANCOSA); and holds Bachelor of Arts (Economics) Degree from Moi University. She also holds a Diploma in Applied Statistics from the then Kenya Polytechnic (Technical University of Kenya). She is a qualified Monitoring and Evaluation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

Moraa has over 15 years experience in both Private and Public sector. She has worked at Moi Teaching and Referral Hospital in various capacities including Heading the Planning, Monitoring and Evaluation department. At United States International University Africa, she held the position of Monitoring and

Evaluation Specialist for a period of four years for a two programs; one training program focusing on women in business funded by Goldman Sachs Foundation and another focusing on agribusiness entrepreneurs funded by Bill and Melinda Gates Foundation.

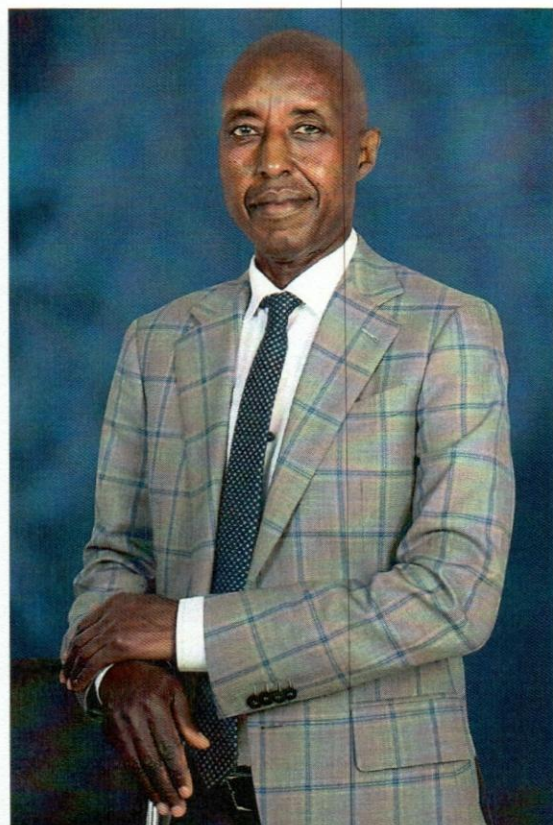
She is currently co-ordinating the activities in Business Development, Planning Section as the Ag. Corporate Planning Manager.

Eng. Thomas Ofwa-Ag. General Manager Technical Services



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

IV. CHAIRMAN'S STATEMENT



On behalf of the Board of Directors, I am pleased to present the National Housing Corporation's annual report and financial statements for the year ended 30th June, 2022.

Real Estate sector overview

The Kenyan Constitution spells out adequate housing and reasonable sanitation as a fundamental need. With a rapidly growing population and more so, an increasing middle class, the residential sector has recorded the highest demand with the nationwide housing deficit standing at 200,000 units annually and an accumulated deficit of over 2 million units.

However, the largest demand has been for affordable housing to cater for the 61% of urban dwellers who live in slums and shortage in student accommodation accounting for 40% of the deficit. Therefore, the Corporation has been increasingly applying low-cost housing construction methods such as alternative

building technologies (EPS) which are known to reduce construction costs by as much as 50%. In addition, with the demand for a live-work-play lifestyle, master planned communities are increasing with areas such as Kiambu and Machakos counties becoming hotspots. Notable master planned communities are the likes of Konza City, Tatu City, and NHC's Stoni Athi Waterfront City.

Challenges facing the real estate sector

In the last FY 2021/2022, the globe experienced easing of the COVID-19 pandemic infections and hence restrictions which had immense negative effect in the real estate sector and the Corporation as well. During the same year, the war in Russia and Ukraine precipitated a rise in fuel prices which have had an impact on cost of construction materials leading to high cost of houses. Apart from delaying completion of projects, this also affected the demand for houses especially those on outright sale.

As the real sector started experiencing growth after the effects of COVID-19; the uptake was also affected by reduced lending by financial institutions towards the real estate sector due to



increase of non-performing loans expended the previous year. There has also been affects on uptake of office spaces with many firms finding it less costly to work from home leading to oversupply of spaces hence affecting incomes.

NHC Strategic Focus

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

The Corporation has set out the following strategic objectives through its strategic plan to enable it fulfill its mandate of implementing the housing policy on behalf of the government;

- To grow the Corporation's business in the delivery of housing mandate.
- Implementation of the Government affordable housing programmes
- Re-engineer internal business processes and systems in line with best practice
- Focus on stakeholders to create and maintain synergistic relationships with key stakeholders in the housing industry
- Enhance the institutional capacity and entrench Corporate Governance in service delivery.
- Embrace and mainstream environmental sustainability in all business operations

Overview of Financial Results

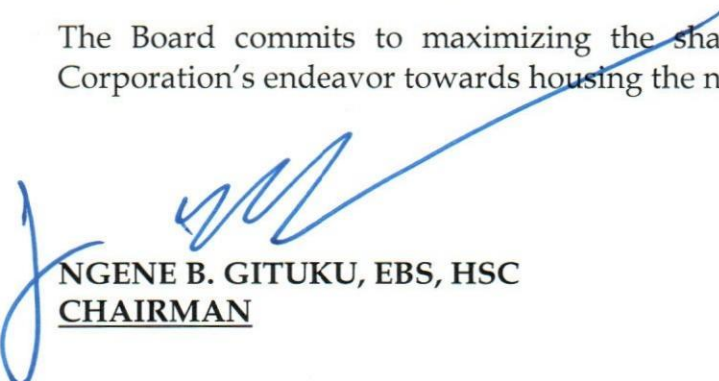
The National Housing Corporation recorded a pre-tax profit of Kshs. 76million representing 23.9% decrease from the previous financial year. The Corporation's total turnover for the year was Kshs.1.009 billion, compared to the last financial year turnover of Kshs 1.008 billion.

Dividends

The board proposes a dividend of Kshs. 520,707 based on 5% of profits after tax.

Conclusion

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


**NGENE B. GITUKU, EBS, HSC
CHAIRMAN**

V. REPORT OF THE CHIEF EXECUTIVE OFFICER



Dear Shareholders,

I am delighted to present to you the Corporation's Annual Report for the year ended 30th June 2022.

Now more than ever, the housing industry is at a period of significant change with challenges and opportunities in equal measure. The demand for houses continues to grow and the Corporation must meet this with adequate supply that is both decent and affordable.

Since the onset of the Affordable Housing Pillar under the Big 4 Agenda, the Corporation has been at the forefront in ensuring that it is realized. Great strides have been made with the successful completion and handover of the AHP Park Road project with others that will be spread across the country in the pipeline. This is despite the challenging political and macro-economic environment.

Operational Overview

In upholding the provisions of the Constitution of Kenya 2010 as provided for in Article 43(1)(b) - Every person has the right to accessible and adequate housing, and to reasonable standards of sanitation; the National Housing Corporation has been at the forefront in delivering decent and affordable housing to Kenyans.

As the institution mandated to implement government housing agenda, the Corporation has embarked on housing the nation by accelerating development of affordable housing units.

Current ongoing NHC housing projects include:

- NHC Nyeri Mixed Use Development
- Voi Infill TP
- Changanwe Rental Infill Phase II
- Stoni Athi Economy Phase II Sector A

Despite the challenges being experienced within the housing sector, the Corporation has lined-up a number of housing developments in the coming year, that include;

- Kisumu Kanyakwar Phase III



- Kajiado Housing Phase I
- Changamwe Phase III
- Kibera Karanja Road Housing
- Turkana Phase I
- Stoni Athi Phase III
- Narok Housing Phase I
- Malindi Housing Phase II
- Kakamega Amalemba
- Kericho Housing Phase I
- Bububu Housing Phase II
- Eldoret Office and Flats

The Corporation is keen to further the AHP agenda across the country through joint housing ventures with various counties. The Corporation received approval from the National Treasury to borrow Kshs. 3.8 billion to further the housing agenda. This money once accessed will fund construction of over 1,000 housing Units. The Corporation is also having discussions with the various County Governments on possible partnership on house delivery. These counties include Kiambu, Muranga, Kirinyaga, Homabay, Bungoma, Transzoia, Makueni and Laikipia.

To streamline revenue collections, the Corporation rolled out the NHC KENYA App through which customers are able to access the following services;

- i. Online payments
- ii. Access personal loan/tenant purchase statements
- iii. The Corporation will use this App to send demand notices to the customers.
- iv. Apply for rental and tenant purchase properties
- v. Provide customer feedback
- vi. The Corporations projects are advertised through the App
- vii. Access to frequently asked questions and answers
- viii. Loan calculator

2021/2022 Performance Overview

Revenues in the period were Kshs.1.009 Billion compared to Kshs.1.008 Billion in the year ended 30th June, 2021. The Corporation's reported a reduction of 23.9% in its profits. The pre-tax profits for the year were Kshs.76 million from a profit of Kshs. 100.6 million reported in the same period last year.

NHC has renewed its emphasis on prudent utilization of resources and we are pleased to see our cash reserves for the year improve from Kshs. 600 million in FY 2020/2021 to Kshs. 688 million in FY 2021/2022. This therefore meant that as a Corporation, we were able to meet our expectation of declaring dividend of Kshs. 520,707 representing 5% of our pretax profit.

Way Forward

As the Corporation carries out its mandate, it faces numerous challenges. Key among them is budgetary constraints to undertake the proposed housing projects spread across the country. Whereas NHC's mandate is broad, the provision of loans, grants, alternative technology, partnerships and applied research has been partially realized.

Conclusion

I would like to take this opportunity to thank the Government of Kenya and the NHC Board of Directors for their immense support they have accorded the Management team as we continue to house the nation. I am looking forward to a collective effort to grow the Corporation to greater heights and deliver value to our stakeholders.

A handwritten signature in blue ink, appearing to be 'Patrick M. Bucha', written in a cursive style.

QS. PATRICK M. BUCHA, PhD, MBS
Ag. MANAGING DIRECTOR



VI. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2021/2022

Section 81 Subsection 2 (f) of the Public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of the national government entity's performance against predetermined objectives.

The National Housing Corporation has five strategic themes with various objectives within the current Strategic Plan for the FY 2019 FY 2023. These strategic themes are as follows:

- a. Strategic Theme One (1): Housing Economy
- b. Strategic Theme Two (2): Internal Business Processes and Systems
- c. Strategic Theme Three (3): Stakeholder Focus
- d. Strategic Theme Four (4): Human Capital and Corporate Governance
- e. Strategic Theme Five (5): Environmental Sustainability

The Corporation develops its annual work plans based on the above five Themes. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The Corporation achieved its performance targets set for the FY 2021-2022 period for its five strategic themes, as indicated in the diagram below:

Strategic Themes	Objective	Key Performance Indicators	Activities	Achievements
Strategic Theme One (1): Housing Economy	To Grow the Corporation's business by 144%	<ul style="list-style-type: none"> • No. of Houses Completed/ongoing • No. of title deeds processed • Resources accessed towards implementing the strategic plan • Production of Construction Panels 	<ul style="list-style-type: none"> • Sites identified across the country • Number of houses completed • Number of houses ongoing • Number of titles processed • Number of partners 	<ul style="list-style-type: none"> • Number of Houses Completed: Nil • Number of houses ongoing: 324 (77% completion level) • 10 active engagements towards housing



Strategic Themes	Objective	Key Performance Indicators	Activities	Achievements
		<ul style="list-style-type: none"> • Collaboration towards delivery of Affordable Houses • Operationalization of Boma Yangu portal 	<ul style="list-style-type: none"> • identified. • Amount of resources mobilized. • Marketing strategy approved • Enhanced online presence • Portal developed 	<ul style="list-style-type: none"> • projects • 44 title deeds acquired during the year • 57,557 M2 of EPS Panels produced • 389 Artisans and Fundis trained on EPS technology • Approval granted to NHC by the National Treasury to borrow Kshs. 3.81 Billions
Strategic Theme Two (2): Internal Business Processes and Systems	To fully re-engineer internal business processes and systems in line with the best practices	ISO 9001:2015 Certification Risk Management framework in place No. of apps in use	<ul style="list-style-type: none"> • Internal Audits carried out as per Audit Schedule • Surveillance Audit carried out by KEBS 	100%



Strategic Themes	Objective	Key Performance Indicators	Activities	Achievements
Strategic Theme Three (3): Stakeholder Focus	<p>To continuously identify and map out the Corporation stakeholders</p> <p>To improve customer satisfaction from the current 67% to 77% (10% improvement)</p>	<ul style="list-style-type: none"> List of stakeholders Stakeholder mapping matrix Create a detailed database for all customers/clients Data mining through Online surveys e.g., Customer satisfaction survey Create an interactive website Aggressive online presence Customer satisfaction survey index 	<ul style="list-style-type: none"> Mapping out the Corporation stakeholders Complaint resolution report Updating the website on a regular basis Customer satisfaction survey index 	<p>100%</p> <p>Complaints are recorded and resolved as they are received. A report is prepared and submitted to CAJ quarterly.</p> <p>The Corporation has an interactive website</p> <p>The Corporation is on Facebook, Twitter, YouTube and LinkedIn social platforms.</p> <p>Stakeholder satisfaction survey was carried out (Internal customers, suppliers and general customers). Average satisfaction was at 67%.</p>
Strategic Theme Four (4): Human Capital and Corporate Governance	To Enhance the institutional capacity of the Corporation to carry out its	Corporate Governance	<ul style="list-style-type: none"> Board was trained on Corporate Governance 	100%



Strategic Themes	Objective	Key Performance Indicators	Activities	Achievements
	business	<ul style="list-style-type: none"> • No. of staff recruited and deployed • No. of staff trained • No of virtual training/workshops and meeting engagements • No. of Policies and Procedures revised • Employee satisfaction index • Implementation of survey findings 	<ul style="list-style-type: none"> • Staff signed Code of Conduct. <p>Recruitments</p> <ul style="list-style-type: none"> • The position of the MD was re-advertised. • Six positions for legal officers were advertised, summaries done; awaiting short listing. <p>Outsourcing:</p> <ul style="list-style-type: none"> • Recruitment, cleaning and security services • Capacity building through training; 120 no. staff attended various trainings within the year under review 	
Strategic Theme Five (5): Environmental Sustainability	To comply with all laws, regulations, policies and guidelines that protect and promote environmental	NEMA regulations complied with	<ul style="list-style-type: none"> • Annual Audits done on NHC properties • Environmental Impact Assessment done for all new projects. 	100%

**NATIONAL HOUSING CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR
ENDED JUNE 30, 2022**



Strategic Themes	Objective	Key Performance Indicators	Activities	Achievements
	sustainability			

The strategic plan forms one of the critical documents upon which the performance contract and budget are based. Strategic objectives in the annual performance contract are aligned to those in the strategic plan. Under the housing economy theme, the corporation targets to expedite deliver of housing units both internally and through partnerships. The performance contract therefore a tool used to monitor implementation of the Strategic plan.

VII. CORPORATE GOVERNANCE STATEMENT

Separation of Duties

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

Responsibilities of Directors

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

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

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

Board Composition

The Board of directors comprise the non-executive chairman who is an independent director, six other independent directors, and two other directors from the public sector, representing Ministry of Finance & Treasury and State Department for Housing & Urban Development (Ministry of Transport, Infrastructure & Urban Development).

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

Board Meetings - Information for Directors

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



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

Oversight Role of the Board

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

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

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

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

Conflict of Interest

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

Committees of the Board

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

1. Audit, Risk and Compliance Committee

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

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

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

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

Name	Position
Dr. Habil Olaka	Chairman
Ms. Jane Mwangi	Member
Ms. Jacqueline Muindi	Member

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

Name	06/07/21	06/10/21	08/02/22	06/04/22
Dr. Habil Olaka	√	√	√	√
Ms. Patricia Gathuri	√	√	√	√
Ms. Jacqueline Muindi	√	√	√	√
Mr. Jackson Kimuri	√			



2. Finance, Strategy and Business Development Committee

Finance, Strategy and Business Development Committee meets at least four times a year, with authority to convene additional meetings, as circumstances 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 committee further addresses all the procurement matters at corporate level.

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

Name	Position
Ms. Caroline Armstrong	Chair person
Mrs. Jacqueline Muindi	Member
Ms. Patricia Gathuri	Member (From 07.10.21 to 09.12.21)
Mr. Jackson Kimuri	Member (from 06.01.22)
Managing Director	Member

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

Name	08/07/21	07/10/21	06/01/22	31/01/22	07/04/22	SPECIAL 07/09/21	SPECIAL 02/12/21
Ms. Caroline Armstrong	√	√	√	√	√	√	√
Mrs. Jacqueline Muindi	√	√	√	√	√	√	√
Dr. Habil Olaka	√						
Arch. Jerry Magutu				√			
Ms. Patricia Gathuri		√					
Mr. Jackson Kimuri	√		√	√	√		
Managing Director	√		√	√	√	√	√

3. Human Resource and Administration Committee

The Committee meets at least four times a year with authority to convene additional meetings, as circumstances 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, and legal matters at the corporate level.

The members of the Human Resource and Administration Committee were:

Name	Position
Ms. Patricia Gathuri	Chairperson
Arch. Jerry Magutu	Member (From July 2021 to 02.05.22)
Mr. Silvester Migwi	Member (From 14.06.22)
Ms. Jane Mwangi	Member
Managing Director	Member

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

Name	02/07/21	05/10/21	26/01/22	08/04/22	SPECIAL 03/11/21
Ms. Patricia Gathuri	√	√	√	√	√
Arch. Jerry Magutu	√	√	√	√	√
Ms. Caroline Armstrong	√				
Ms. Jane Mwangi	√	√	√	√	√
Mr. Silvester Migwi					
Managing Director	√	√	√	√	√



4. Technical Committee

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

The members of the Technical Committee were:

Name	Position
Ms. Violet M Mbindyo	Chairperson (From 14.06.22)
Arch. Jerry Magutu	Chairman (Exited 02.05.22)
Ms. Jane Mwangi	Member
Mr. Silvester Migwi	Member
Managing Director	Member

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

Name	01/07/21	01/10/21	20/01/22	05/04/22	SPECIAL 08/09/21	SPECIAL 29/11/21
Arch. Jerry Magutu	√	√	√	√	√	√
Ms. Jane Mwangi	√					
Mr. Silvester Migwi			√	√	√	
Dr. Habil Olaka		√				√
Ms. Caroline Armstrong		√	√	√	√	√
Managing Director	√	√	√			√

Attendance of the Board Meetings

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

Name	13/07/21	13/10/21	16/02/22	13/04/22
	213 th Meeting	214 th Meeting	215 th Meeting	216 th Meeting
Mr. Stephen Ngare	√	√		
Mr. Charles Hinga				√
Mr. Silvester Migwi		-	√	√
Ms. Jacqueline Muindi	√	√	√	√
Mr. Jackson Kimuri	√		√	√
Dr. Habil Olaka	√	√	√	√
Arch. Jerry Magutu	√	√	√	√
Ms. Caroline Armstrong	√			√
Ms. Patricia Gathuri	√	√	√	√
Mrs. Jane Mwangi	√	√	√	√
Managing Director	√	√	√	√

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

Name	16/09/21	09/12/21	12/01/22	24/03/22	06/05/22	14/06/22
Mr. Stephen Ngare	√	√	√			
Mr. Hinga Mwaura				√	√	
Mr. Jackson Kimuri		√	√	√	√	√
Dr. Habil Olaka	√	√	√	√		√
Arch. Jerry Magutu	√	√	√			
Ms. Caroline Armstrong	√	√	√	√		√
Ms. Patricia Gathuri	√	√	√	√		√
Mrs. Jane Mwangi	√	√	√		√	√
Mrs. Jacqueline Muindi	√	√	√	√	√	√
Mr. Silvester Migwi			√	√	√	√
Ms. Violet Mbindyo						√
Managing Director	√	√		√	√	√



VIII. MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Performance

The National Housing Corporation (NHC) recorded positive results in the year ended 30th June, 2022.

Financial Performance

The Corporation reported a pre-tax profit of Kshs. 76 million in the year under review. However, the performance was below the forecast due to:

1. The Corporation hindrances in obtaining funding for its projects. The Corporation applied for authority to borrow Ksh 3.8 billion in January 2021 from the National Treasury. This approval was granted on 22nd March 2022. Thus, the Corporation did not realize the professional fees that had been budgeted for.
2. In addition, an arbitration process that had been ongoing over the years between Customs General Contractor and the Corporation for development of Kisii I Tenant Purchase Scheme was concluded. The Arbitrator awarded the Contractor Ksh 108 million. However, the Corporation negotiated a reduced payment of Ksh 83.6 million in full and final satisfaction of the claim. This payout impacted negatively on our performance during the period under review.
3. Slow uptake of the EPS products by the market.

The table below shows the pre-tax profit trend in the last five years.



Figure 1 Analysis of Annual Pre- Tax Profit

The Corporation continued to enjoy an extremely strong financial position with total assets of Kshs. 21.6 billion at the end of the year ended June 2022.

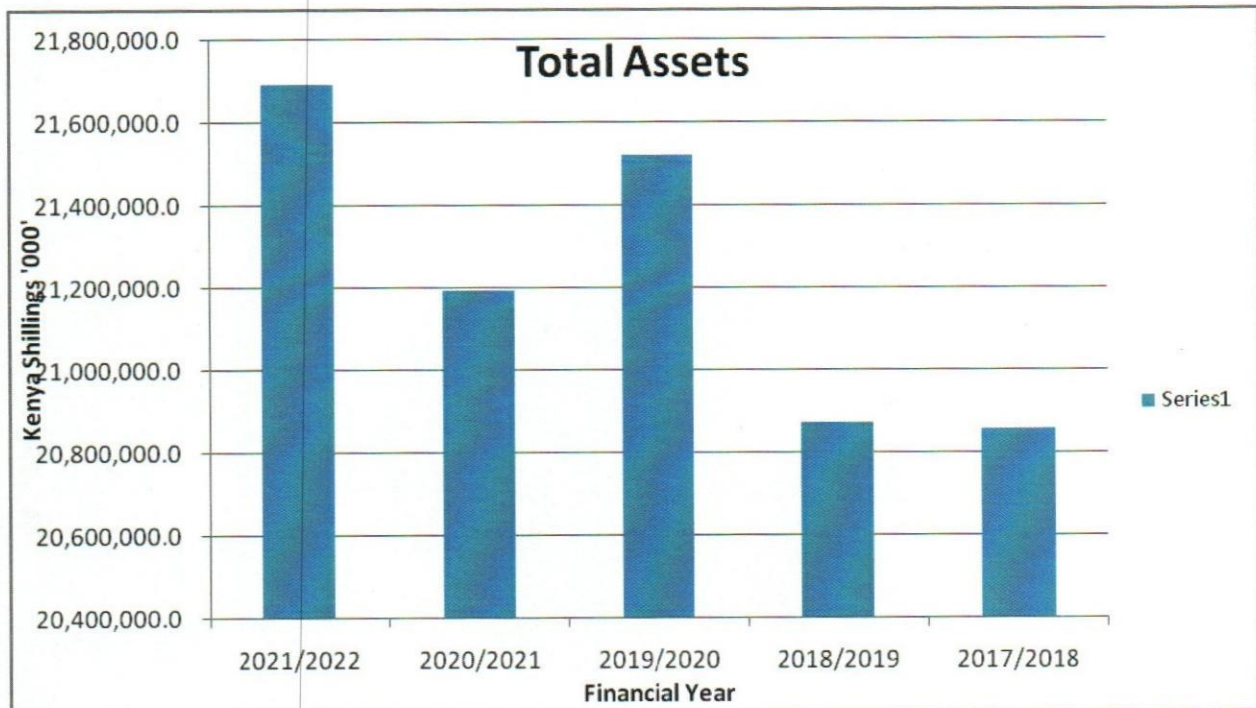


Figure 2 Analysis of Total Assets

Revenue

Interest Income is the highest source of revenue, accounting for 47% of total turnover. Rent income accounts for 26% of total revenue, EPS sales at 9% and gain on sale of houses, professional fees, finance income and other income at 6%, 7%, 2 and 3% respectively as indicated on the pie chart on revenue streams.

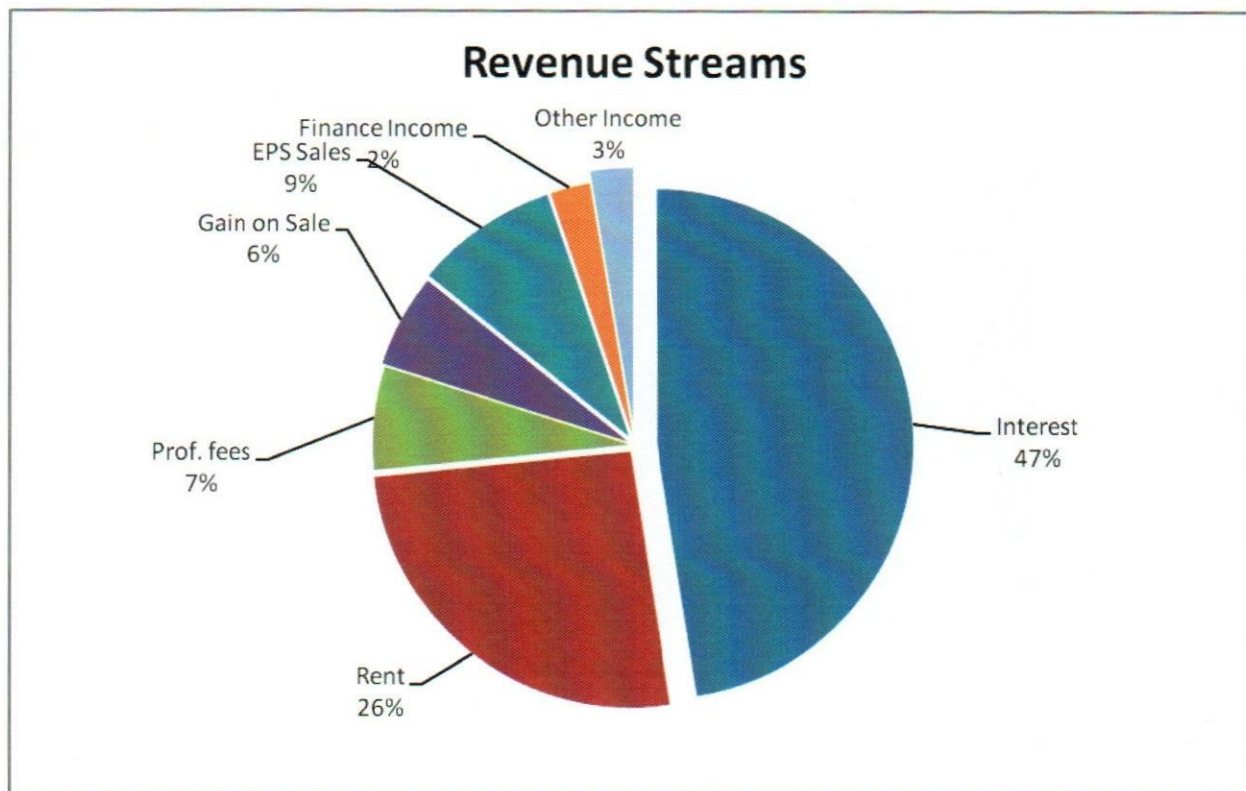


Figure 3 Analysis of Different Sources of Revenue

Opportunities

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

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

Challenges

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

1. **Covid-19:** The pandemic has greatly affected all sectors of the economy including the housing sector which has led to many job cuts, collapsing of businesses, making potential home owners unable to acquire a unit for shelter.
2. **Inflation:** Inflation has affected the cost of construction which in turn affects the cost of the end product.
3. **Harsh economic times:** Have eroded the purchasing power of potential home buyers. This has adversely affected our project revenues.
4. **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 August 2019, NHC was certified in ISO 9001:2015-Quality Management System standard. This is recognition and an indication of continual quality improvement in the organization's operations.

Operational Developments

In the year ended 30th June 2022, the Corporation continued to execute its mandate, of Housing the Nation.

The Corporation intends to commence more projects within the FY 2022/2023. This will be made possible through internally generated funds, borrowings, government grants as well as partnerships. The planned partnerships with County Governments will alleviate the prevalent housing shortage in the Country. Collaboration with other institutions through



joint ventures will enhance our capacity to deliver houses. NHC will continue to grow sales and promote consumption of the EPS panels and Rural Housing Loans.

The flagship projects will be on the Stoni Athi, Meru, Nakuru and Kanyakwar Lands 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 effectively manage its projects in order to minimize factors that may result in project overruns and delays.
2. **Covid-19:** The pandemic makes the future uncertain. Continuation of the pandemic will adversely dip the economy leading to massive job losses, closure of businesses where majority of people and employee's purchasing power will decline thus unable to own decent housing.
3. **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.
4. **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.
5. **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.



6. **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.
7. **Stock out of Raw Materials:** The major raw material used in the EPS factory is supplied from overseas by agents appointed by the Corporation. The Corporation has put in place mechanisms which reduces the risk of stock out by placing orders early enough to give the suppliers adequate time to source and deliver the required raw materials in good time.

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.


MANAGING DIRECTOR



IX. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

National Housing Corporation exists to transform lives. This is our purpose; the driving force behind everything we do. It’s what guides us to deliver our strategy, putting the customer/Kenyan Citizen first, delivering affordable houses, and improving operational excellence. Below is an outline of the organisation’s policies and activities that promote sustainability.

i) Sustainability strategy and profile

The broad trends in political and macroeconomic affecting sustainability priorities in respect to the Corporation mandate is the Affordable Housing Program (AHP). The government has developed AHP Development-Framework-Guidelines which gives guidance on how to achieve sustainability in implementation of the programme.

The Corporation sustainability strategies can be categorised broadly as below,

<p>Environmental Health and Safety</p>	<ul style="list-style-type: none"> ✓ Environmental Impact Assessments and auditing for the Corporations new projects and facilities ✓ Undertaking effluent analysis and application of effluent discharge licenses from NEMA ✓ Establishment of environment Health and Safety Committees ✓ Undertaking annual statutory Occupational Health and Safety Audits and Fire safety Audits for NHC House and NHC EPS Factory and submitting reports to Directorate of Occupational Safety and Health Services (DOSHS) ✓ Undertaking annual statutory Noise Survey for the NHC EPS Factory and submitting reports to Directorate of
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	<p>Occupational Safety and Health Services (DOSHS)</p> <ul style="list-style-type: none"> ✓ Undertaking the statutory Energy Audits for NHC house and NHC EPS Factory every three year and implementation of the recommendations ✓ Undertaking Occupational Safety and Health (OSH) workplace inspections and submitting reports to Directorate of Occupational Safety and Health Services (DOSHS). ✓ Training and retraining of Fire marshals ✓ Training and retraining of First Aiders ✓ Installation of fire safety systems at NHC workplaces ✓ Undertaking annual statutory OSH medical examination for HC EPS Factory staff ✓ Procurement and contracting NEMA Registered cleaning and waste management companies ✓ Environmental Health and Safety education and awareness creation,
Social	<ul style="list-style-type: none"> ✓ HIV and Aids workplace Programme, ✓ Disability mainstreaming ✓ Corporate Social Responsibilities ✓ Gender Mainstreaming programme ✓ Diversity, equity, & inclusion ✓ Data privacy
Governance	<ul style="list-style-type: none"> ✓ Anti-Corruption programme - this is achieved by Implementing measures/ strategies outlined in the risk mitigation plan ✓ Transformational Governance



	✓ Upholding the rule of law
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The Corporation is in the initial stages of initiating Environment and Social Governance auditing and reporting by registering with the UN Global Compact ESG framework, this is in keeping in international sustainability best practices as well as tap into associated benefits.

ii) Environmental performance

<p>The Corporation has a Health, Safety and Environment Policy. The Policy objectives are to;</p>	<ul style="list-style-type: none"> ✓ Encourage, support and implement work practices aimed at continuous improvement of Occupational Health, Safety and Environmental protection. ✓ Ensure that, work systems design and procedures comply with organizational, and national health, safety and environmental provisions standards. ✓ Create an enabling environment through training staff on Health, Safety and Environment protection awareness and provide campaigns to ensure that employees are committed to best practices in health, safety and environmental protection. ✓ Establish a Health, Safety and Environment Committee to manage Health, Safety and Environment activities in work place, ✓ Create a Health, Safety and Environment co-ordination office and incorporate Health Safety and Environment programmes in all work places, ✓ Incorporation of green building concept in the design of the Corporation housing projects ✓ Utilization of Expanded Polyester (EPS) construction panels for some of the Corporations housing project, EPS is an environmentally friendly construction material.
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<p>To achieve the above objectives the Corporation is using the following strategies:</p>	<ul style="list-style-type: none"> ✓ Formulate suitable Health, Safety and Environment procedures to guide employees, ✓ Include Health, Safety and Environment as an agenda item in management, departmental, regional and workstations meetings, ✓ Conduct regular risk assessments on Health, Safety and Environment and take appropriate correction, ✓ Maintain an effective reporting procedure for all accidents and incidents, ✓ Provide appropriate tools and protective devices for the success of the programme, ✓ Encourage, motivate, reward and support employees to take personal initiatives and commitment on Health, Safety and Environment, ✓ Review the Health, Safety and Environment policy, systems and programmes after every three (3) years and when necessary for those areas requiring special attention.
<p>Successes;</p>	<ul style="list-style-type: none"> ✓ Establishment and staffing of the Environment office, ✓ Incorporation of the statutory Environmental assessment and audits for the Corporations new project and existing facilities respectively, ✓ Establishment of Occupational Safety and health committees for all its offices, ✓ Procurement of a NEMA Registered cleaning and waste management companies, ✓ A budgetary allocation in the Corporate Social Responsibility for Environment to support among others the Government National



	<p>Trees Growing Directive Initiative.</p> <ul style="list-style-type: none"> ✓ Undertaking the statutory energy audits for NHC House and NHC Factory and implementation of the three-year work plan for the recommendations therein, ✓ Statutory Monitoring of effluent discharge at the EPS Factory and application of the annual effluent discharge license from NEMA ✓ Undertaking Consultation and Public Participation as for of the environmental assessment and auditing processes.
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iii) Employee Welfare

Gender ratio	<ul style="list-style-type: none"> ✓ The corporation is compliant on the issues of gender representation. Currently there are Sixty-One (61) Female Employees and One Hundred and Three (103)
Stakeholder engagements	<ul style="list-style-type: none"> ✓ The Corporation is currently reviewing HR Policy Documents and the Strategic Plan which has taken into accounts the views and opinions of stakeholders.
Appraisal and reward systems	<ul style="list-style-type: none"> ✓ There exists a Staff Performance Appraisal system in the Corporation. Employees are regularly appraised; good performances are commended and end of year presents to staff considered for positive overall performance. ✓ Give account of the policies guiding the hiring process and whether they take into account the gender ratio, whether they take in stakeholder engagements and how often they are improved. Explain efforts made in improving skills and managing careers, appraisal and reward systems.

iv) Market place practices-

The Corporation	<ul style="list-style-type: none"> ✓ We adhere to the turnaround time on payment upon the successful delivery of goods and services. From the date of approval by the
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<p>observes the following</p>	<p>inspection and acceptance committee and on issuances of certificates, the process of onward submission of procurement records to accounts section takes a maximum of five working days with a fully approved pay advise from the accounting officer. The turnaround time for payment takes a maximum of 30days as prescribed by the relevant laws.</p>
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Responsible marketing and advertisement

The corporation ensures the practice of moral principles and values are upheld in its marketing practices such as;

1. Deep understanding of customer needs
2. Commitment to public, environmental and social well being
3. No manipulation and exaggerated promotion
4. Openness about business operations
5. Genuine intention to fulfill the promises given to customers and society
6. Engaged in charitable programs as a way of giving back to the society of CSR e.g. participated in the mater heart run

The Corporation continues to use clear standards of promotions, transparent pricing and positive advertising. We endeavor from the inception of a project to highlight product or service benefits, carry out ethical and positive advertisement, no arbitrary price hikes and predatory promotions, as well customer interaction with our process such public participation, feasibility studies and market survey.

Product stewardship

Our real estate development, engineering and management are guided by market research, feasibility studies and market survey. Hence our expertise is data-driven and focuses on continuous improvement.

We form wide collaboration with different stakeholders which gives us competitive advantage in the built environment strategically and holistically.

Our architecture address world challenges from indoor air quality to carbon emissions to occupant well-being in buildings with the use of innovative and scalable solutions.



Corporate Social Responsibility Statement

Introduction

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

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

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

During the FY 2021/2022, the Corporation did not undertake any CSR project due to Covid-19 pandemic restrictions and other challenges.

X. Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended June 30, 2022, which show the state of the National Housing Corporation's affairs.

i) Principal activities

The principal activities 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.

ii) Results

The results of the entity for the year ended June 30, 2022, are set out on pages 1-45. Below is summary of the profit or loss made during the year.

iii) Dividends

Subject to the financial statements being audited, the Board of Directors recommends the payment of dividend for the year of Kshs. 520,707 based on 5% of profits after tax.

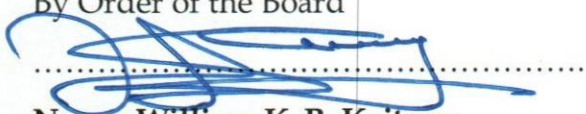
iv) Directors

The members of the Board of Directors who served during the year are shown on page v.

v) Auditors

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

By Order of the Board


Name: William K. B. Keitany

Corporate Secretary

Date

05/05/23



XI. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year ended on 30th June, 2022. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the State Corporations Act, Cap 446. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of the Corporation's transactions during the financial year ended 30th June, 2022, 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 19th September 2022 and signed on its behalf by:

Chairman

Managing Director

.....

.....

REPUBLIC OF KENYA



Enhancing Accountability

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON NATIONAL HOUSING CORPORATION FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Housing Corporation set out on pages 1 to 57, which comprise the statement of financial position as at 30 June, 2022 and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions

of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all 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, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Housing Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unauthenticated Inventory Listing of Houses

The statement of financial position and as disclosed at Note 19(a) to the financial statements reflects inventories balance of Kshs.3,231,819,977. Included in this balance is stock of unsold houses amounting to Kshs.3,200,093,313 out of which Kshs.1,024,352,689 were additions during the year as a result of transfer of the Parkroad Housing Scheme houses and commercial shops from the State Department of Housing and Urban Development to the Corporation. However, there was no detailed inventory list of houses included in the inventory signed by the Accounting Officers of both the transferring and receiving entities. This is contrary to Regulation 169(1) of the Public Procurement and Asset Disposal Regulations, 2020 which states that when assets or liabilities of a procuring entity are transferred to another government entity or other institution by operation of law or reorganization of government functions, an accounting officer for the transferring procuring entity shall be required to identify an inventory list of such assets and liabilities.

In the circumstances, the accuracy and completeness of additions to stock of unsold houses balance of Kshs.1,024,352,689 could not be confirmed.

2. Unrecorded Land Parcels

The statement of financial position and as disclosed in Note 12(a) to the financial statements reflects property, plant and equipment balance of Kshs.3,457,486,462 which includes a balance of Kshs.2,296,149,894 in respect of land. It was however observed that out of the 113 parcels of land listed, only 45 parcels have title deeds. The remaining 68 parcels were not valued, did not have any ownership documents and they were therefore, not included in the cost of land balance of Kshs.2,296,149,894. In addition, two of the untitled parcels in Kakamega County have ownership dispute. The Management did not provide records to show the current status of the land in dispute. Further, and as previously reported, the valuation report provided for audit excluded three (3) pieces of land with a total value of Kshs.360,358,358 as indicated below:

Tag No.	Description	Value at Cost (Kshs.)
00000001	Mariakani	350,000,000
00000004	Webuye	4,787,260
00000007	Undeveloped Land – Pumwani	5,571,098
	Total	360,358,358

In the circumstances, the fair value of land balance of Kshs.2,296,149,894 could not be confirmed.

3. Loan Amounts Receivable

The statement of financial position and as disclosed under Note 18 to the financial statement reflects loan amounts receivables balance of Kshs.2,863,155,769. However, examination of ledgers and other records provided for audit review revealed the following anomalies:

(i) Doubtful Rural Housing Loans

Included in the loan amounts receivables balance of Kshs.2,863,155,769 is rural housing loans balance of Kshs.770,347,150. The following observations were made:

- (a) Scrutiny of the ledgers supporting the balance revealed that Kshs.694,039,284 or 90% of the loan remained outstanding for more than one year. It was not clear why the Corporation had not made efforts to collect the loans.
- (b) Out of the Kshs.770,347,150 rural housing loans reported, Kshs.431,113,600 equivalent to 56% were unsecured loans.

(ii) Doubtful Outstanding Loans from Various Counties

As previously reported, included in the loan amounts receivables balance of Kshs.2,863,155,769 is Kshs.1,862,666,542 in respect of outstanding loans from the defunct Local Authorities. This is an increase by Kshs.90,891,451 from the previous year balance of Kshs.1,771,775,091. Since the Local Authorities were taken over by the respective County Governments, the Management has engaged the respective County Governments on debt recovery but the process has been slow.

(iii) Long Outstanding Staff Loans

Included in the loan amounts receivables balance of Kshs.2,863,155,769 is Kshs.21,270,459 in respect of staff loans which includes Kshs.13,055,133 or 61% that was in arrears and remained outstanding for more than one year.

(iv) Long Outstanding Tenant Purchase

Included in the loan amounts receivables balance of Kshs.2,863,155,769 is tenant purchase balance of Kshs.513,261,675. In addition, the loan policy requires invoices be paid within 21 days after they become due. It was however, noted that tenant purchase loans amounting to Kshs.366,993,689 or approximately 72% remained outstanding for more than one year.

In the circumstances, the accuracy and full recoverability of the outstanding tenant purchase balance of Kshs.2,863,155,769 as at 30 June, 2022 could not be confirmed.

4. Inaccuracies in Trade and Other Receivables

The statement of financial position and as disclosed in Note 20 to the financial statements reflects a balance of Kshs.480,014,388 in respect of trade and other receivables. The following anomalies were noted;

(i) Unsupported Provision for Bad Debts

Note 20 to the financial statements reflects rent arrears of Kshs.196,438,682 net of provision for bad debts on rents of Kshs.101,471,605, which further includes balance of Kshs.9,222,692 from various schemes whose supporting details were not provided for audit review as detailed below:

Account Number	Scheme	Name	Arrears as at 30 June, 2022
4226102000100	Wamagana	PC-Central Wamagana Rentals	216,483
3166101000010A	Kithimani	DC Machakos-Kithimani Rental	1,195,656
3166101000100	Kithimani	DC-Machakos Tala Rentals	1,088,185
3236101000100	Marsabit	DO Marsabit-Marsabit Rentals	729,113
7056101000100	Homabay	DC Homabay-Homabay 1&2 Rentals	3,347,160
7056104000100	Rongo	DO-Rongo	265,219
7056103000100	Ndhiwa	DC Homa Bay-Ndhiwa Rentals	245,340
7056105000100	Migori	DC Migori Suna-Migori Rental	509,785.50
6176101000100	Busia	DC-Busia Rentals	260,583
6176103000100	Amagoro	DC-Amagoro Rentals	523,373
6176102 000100	Nambale	DO-Nambabe Rentals	841,794
Total			9,222,692

(ii) Unsupported Sundry Debtors

Note 20(b) to the financial statements reflects aging analysis (sundry debtors) of Kshs.283,575,704. The following observations were made;

- a. Supporting documents including invoices and statements for sundry debtors totalling to Kshs.251,656,852 were not provided for audit review.
- b. A review of documents provided to support some debtors revealed that the Corporation made some deposits totalling to Kshs.360,000 to four hospitals in respect to staff medical facilities between May, 1995 and September, 2002. Another deposit of Kshs.30,000 was made to a courier for provision of courier services. However, duly executed contract service agreements were not provided for audit review.

In the circumstances, the accuracy and completeness of trade and other receivables balance of Kshs.480,014,388 could not be confirmed.

5. Unsupported Investment in Research Development Company

The statement of financial position and as disclosed in Note 16 to the financial statements reflects unquoted investments of Kshs.104,657,797, which further includes Kshs.99,457,797 as investment to Research Development Company Limited, a subsidiary company wholly owned by the Corporation. As previously reported, the

balance was however, not supported by a certificate of registration and share certificates. In addition, the financial statements for the subsidiary were not submitted for audit review.

In the circumstances, the accuracy, existence and validity of the investment of Kshs.99,457,797 as at 30 June, 2022 could not be confirmed.

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

Emphasis of Matter

Deteriorating Expanded Polystyrene Panels (EPS) Factory Operations

As previously reported, the Corporation has a factory which commenced in 2013 to address housing shortage problem, reduce cost and time spent in construction and also reduce environmental pollution by adopting the EPS panels for slab and wall partitions. The statement of profit or loss and other comprehensive income under Note 9(b) to the financial statements discloses trading loss of Kshs.47,263,705 from the operations of the EPS factory. This was increase of Kshs.4,276,099 from the loss of Kshs.42,987,606 reported in the previous year. This is indicative of the continued deterioration in the financial performances of the subsidiary.

Further, a visit to the factory in February, 2023, revealed the following observations:

- i. Erratic availability of raw materials and long procurement method since two out of the three raw materials are imported leading to unreliable production and failure to meet the few orders made. Supply of beads were received on 26 November, 2022 after nine months of stock out from March to November, 2022. The Corporation ordered 132 metric tons but received 50 metric tons leaving a balance of 82 metric tons not supplied. At the time of the audit, the stock of the beads was running out and no reorder had been done.
- ii. The cost of production of the EPS panels has continued to rise compared to their income hence resulting to the factory operating on losses.
- iii. The factory was facing a low production capacity due to regular stock outs.

Although Management has highlighted strategies that have been put in place to avert the losses, the strategies have so far not yielded desired results.

My opinion is not modified in respect to the above matter.

Key Audit Matters

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

Other Matter

1. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under Report on the Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, most of the issues remained un-resolved as at 30 June, 2022. No explanation has been provided for failure to resolve the issues as required by the Public Sector Accounting Standards Board guidelines.

2. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis totalling to Kshs.1,701,041,000 and Kshs.1,009,515,000 respectively, resulting to an underfunding amounting to Kshs.696,905,000 or 41% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.1,558,983,000 and Kshs.932,988,000 respectively, resulting to an under expenditure amounting to Kshs.625,995,000 or 40% of the budget.

The underfunding and 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 described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Schemes in Progress

The statement of financial position and as disclosed under Note 17 to the financial statement reflects scheme in progress balance of Kshs.1,974,829,300. However, the following anomalies were noted;

1.1 Stalled Implementation of Enterprise Resource Planning (ERP) System

Included scheme in progress balance of Kshs.1,974,829,300 is other projects costs balance of Kshs.234,169,375 which include capitalized expenditure amounting to Kshs.81,274,817 incurred in financial year 2013/2014 to procure an Enterprise Resource Planning (ERP) system for the Corporation. It was however noted that despite the payment made for the procurement of the system, the project stalled and the ERP had not been implemented as at the time of the audit in February, 2023.

In the circumstances, value for money in the expenditure of Kshs.81,278,817 so far on the project could not be confirmed.

1.2 Projects not Implemented During the Year

The Corporation had projected to start the following projects whose feasibility study costs of Kshs.70,177,579 were incurred.

Project Name	Amount Incurred on Feasibility Study (Kshs.)	Budget Allocated (Kshs.)
Nakuru Commercial	937,758	135,000,000
Meru Commercial	5,666,126	255,000,000
Kericho Housing	1,163,527	165,000,000
Jomo Kenyatta Makande	60,210,594	10,000,000
Kakamega Amalemba	464,000	125,000,000
Changamwe III	928,000	100,000,000
Eldoret Bondeni Office Block & Apart	807,575	50,000,000
Total	70,177,580	840,000,000

In the circumstances, value for money for the expenditure of Kshs.70,177,580 incurred so far on feasibility studies for the projects could not be confirmed.

1.3 Delayed Implementation and Completion of Projects

1.3.1 Proposed Construction of NHC Stoni Athi Economy Phase II

The contract for the construction of Stoni Athi Economy Phase II Project in Machakos County was signed on 30 September, 2021 at a contract sum Kshs.769,976,976. The project commenced on 9 December, 2021 and was expected to be completed on 8 June, 2023. According to certificate number 08 dated 25 January, 2023 the total value of works certified and paid was Kshs.110,805,177 representing 14% of the contract sum. The project overall progress according to the progress report for the month of January, 2023 was 13% against 75% of time lapsed. The project was behind schedule and the completion date of 8 June, 2023 may not be met by the contractor and no extension of time has been sought and granted.

Further, the Corporation obtained Environmental Impact Assessment License from National Environmental Management Authority (NEMA) on 5 October, 2022, eleven (11) months after the project commenced on 9 December, 2021. NEMA issued a letter to the Corporation on 18 May, 2022 to stop the construction of the project for lack of Environmental Impact Assessment License which resulted to delays/stoppage in the project for 24 weeks starting from 17 May, 2022 to 24 October, 2022. As a result, the Contractor in a letter dated 19 August, 2022 raised a claim on compensation for extension of time and additional costs of Kshs.37,455,041 due to stoppage of works by NEMA.

In the circumstances, value for money from the total expenditure of Kshs.148,260,218 so far incurred on the project could not be confirmed.

1.3.2 Proposed Construction of Makande Project

The contract was awarded at a contract sum is Kshs.26,102,820. The project started on 19 April, 2019 and was to be completed on 9 August, 2019 but later extended to 26 October, 2020. However, the contract was terminated on 2 February, 2021. As at the time of audit in February, 2023, a total of 62% of the contract sum amounting to

Kshs.16,265,293 were certified and paid. The progress of work as at 30 June, 2022 was at 90%. Physical verification done in February, 2023 revealed that the project had stalled and the contractor was not on site. The Corporation did not provide plans to complete the stalled project.

Delay in completion of the project will adversely affect realization of the expected benefits to the Corporation and the public and value for money from the expenditure of Kshs.16,265,293 so far incurred on the project could not be confirmed.

1.3.3 Proposed Construction of NHC Voi Infill Housing Scheme

The contract was awarded at a contract sum of Kshs.224,574,140. The project completion period was 50 weeks with an expected completion date 8 May 2019. As at 30 June, 2022 works amounting to Kshs.102,521,397 representing 46% of the contract sum were certified and paid. As at the time of audit on in February, 2023, the contractor had been paid Kshs.111,885,532 representing 50% of certified works and the project was at 75% completion against 102% of the extended time elapsed as per the weekly progress report dated 10 February, 2023. The contractor is currently working with a revised completion time of 30 April, 2023.

Delay in completion of the project will adversely affect realization of the expected benefits to the Corporation and the public and value for money from the expenditure of Kshs.111,885,532 so far incurred on the project on could not be confirmed.

1.3.4 Proposed Construction of Changamwe Infill II

The contract was awarded at contract sum was Kshs.384,167,878 with a completion period of 52 weeks from the commencement date of 13 November, 2017. As per the progress report dated 9 February, 2023 works amounting to Kshs.328,607,755 were certified and paid representing 85% of the contract sum. Physical verification done in February, 2023 revealed that one of the blocks (Block A1) made up of 14 units of two bedroom was completed and occupied by tenants while the second one, Block F is near completion. However, it was noted that the occupied block A1 does not have an occupational certificate and no completion certificate was provided for audit review.

In the circumstances, value for money from the total expenditure of Kshs.328,607,755 so far incurred on the project could not be confirmed.

1.3.5 Proposed Construction of Nyeri Mixed Use Development

The project was awarded on 7 March, 2018 at a contract sum of Kshs.330,000,000 with expected completion time of 52 weeks translating to 21 May, 2019. The site was handed over to the contractor on 18 April, 2018. The following observations were made:

- i. The initial contract price of Kshs.330,000,000, included an amount of Kshs.20,000,000 which was not attached to any works and it was to cover for any unforeseen eventualities. The amounts attributable to works and administration of the project was Kshs.310,000,000. As at the time of audit, the contract price had been revised up to Kshs.397,649,358. This resulted to an increase of Kshs.87,649,358, equivalent to 28.3% price variation which is higher than the allowed 25% combined variation of both works and administration of the project as per the Public Procurement and Asset Disposal Regulations, 2020.

- ii. According to the program of works submitted by the contractor and the contract signed, the project was to be implemented within 52 weeks effective 18 April, 2019 and to be completed by 21 May, 2019. However, it was noted that the contract had over time been granted eight (8) extensions of time with the revised completion time being 15 March, 2023 translating to 248 weeks project time. The completion of the project has delayed by 196 weeks, equivalent to 377%. Consequently, every extension of time, the employer gave a rider that any contract over run beyond the requested extension of time shall attract a penalty. Review of the contractor accounts did not show any liquidated damages being charged.
- iii. At the time of audit verification, it was noted that there was low demand and sales for the units given that out of the 91 units for sale, only 22 units had either been booked or sold while the project was at 98% completion.
- iv. Cost benefit analysis of the project revealed that from the expected sales of the units and development cost, the amount so far spent is way more than the expected revenue that will be generated from the sales of the units, thus may be an uneconomical venture to the Corporation as analyzed below:

Expected Sales Revenue

No.	Description	Units	Rate (Kshs.)	Amount (Kshs.)
1.	Two Bedrooms	72	5,060,000	364,320,000
2.	Type A Three Bedrooms	4	7,150,000	28,600,000
3.	Type B Three Bedroom	4	6,850,000	27,400,000
4.	Shops	10	4,830,000	48,300,000
5.	Restaurant	1	7,300,000	7,300,000
Total				475,920,000

Estimated Development Cost

No.	Description	Amount (Kshs.)
1.	Construction Cost	397,649,358
2.	Land (0.3721HA) Estimation	50,000,000
3.	Approval Fees	900,000
4.	Survey and Plan Fees	1,500,000
5.	Professional Fees @8%	31,811,949
6.	Supervision Expense	4,000,000
7.	Marketing and Relating Fees	1,000,000
8.	Administrative Cost	500,000
9.	Interest on Construction Cost Finance @8%	31,811,949
10.	NHC Overhead Costs @2%	7,952,987
Total		527,126,243

From the analysis above, the Corporation may incur a loss of Kshs.51,206,243 on this project.

In the circumstances, the delay in the project implementation will adversely affect realization of value for money from the expected expenditure of Kshs.527,126,243.

2. Boundary Wall and Civil Works at Stoni Athi

As reported previously, the contract agreement for the boundary wall and civil works at Stoni Athi was signed with the understanding of the performance security being provided within fourteen (14) days of contract award and before taking site possession or commencement of the works. However, the contractor was issued with a certificate of possession of site on 18 November, 2016 before complying with bond terms in the signed contract. It was also observed that the Corporation deducted an amount of Kshs.5,850,222 from the first interim certificate no. 1 dated 24 February, 2017 raised by the contractor as a cash bond in lieu of the bond contrary to the terms of the contract and no satisfactory explanation was provided. This is contrary to the provisions of Section 142(1) of Public Procurement and Asset Disposal Act, 2015 which provides that a successful tenderer shall submit a performance security equivalent to not more than ten per cent of the contract amount before signing of the contract.

In the circumstances, Management was in breach of the law.

3. Stock of Unsold Houses

The statement of financial position under Note 19 to the financial statements reflects a balance of Kshs.3,212,830,214 on inventories. Included in this balance is Kshs.3,200,093,313 relating to stock of unsold houses. The Corporation implemented seven (7) projects under outright sale and tenant purchase schemes. Although some of the projects were completed as far back in 2013 and 2016, the same have not been sold and hence reported as inventories.

In the circumstances, the Corporation may not have obtained value for money for the schemes implemented at Kshs.3,200,093,313 and included under inventories.

4. Staff in Acting Positions for a Prolonged Period

Review of the employment records and payroll data revealed that thirteen (13) employees including top Management have been appointed on acting capacity for more than six months contrary to Section C14 (1) of the Human Resource Policy and Procedures for Public Service which states that when an officer is eligible for appointment to a higher post and is called upon to act in that post pending advertisement of the post, he is eligible for payment of acting allowance at the rate of twenty percent (20%) of his substantive basic salary. Acting allowance will not be payable to an officer for more than six (6) months.

In the circumstances, Management was in breach of the human resource policies and procedures.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Ineffective Controls Over Property, Plant and Equipment

The statement financial position and as disclosed under Note 12 reflects property, plant and equipment with a net book value of Kshs.3,457,486,462. However, the following observations were made:

- i. Physical verification of assets additions during the year indicated that they were not tagged.
- ii. The Corporation for a long time has not cleaned up its assets register since some computers bought in in 2008 and 2009 are still maintained in the register.
- iii. The Corporation had a standing appointment for inspection and acceptance committee against the provisions of Regulation 35(I) of the Public Procurement and Disposal Regulations, 2020, that requires an ad hoc appointment of such committees.
- iv. There were general delays in the inspection and acceptance of items supplied in some cases a duration of more than one month after delivery.

In the circumstances, the effectiveness of internal controls over property, plant and equipment could not be confirmed.

2. Under-Establishment of Staff in Key Departments

The Corporation has an approved optimum staffing of 326 personnel. However, in the financial year ended 30 June, 2022 a total of 168 staff were in place translating to 51.5% of the required number of staff. Key departments like Estates Division, Internal Audit, Technical Division and Finance Division were noted to be highly understaffed with some key departments lacking confirmed heads resulting to prolonged acting appointments and overwhelming the existing staff.

The under-establishment if not addressed could adversely affect the attainment of the Corporation's mandate.

3. Recurring Casuals Throughout the Year

During the year under review, the Corporation spent an amount of Kshs.12,489,109 on engagement of casual workers. Most of the casuals were recurring after every three months. The casuals in some cases were assigned to crucial departments such as finance and are noted to be undertaking essential duties in these departments due to understaffing in the Corporation.

Engagement of casuals in critical areas pose internal control challenges to the Corporation.

4. Failure to Develop Risk Management Policy

As previously reported, the Corporation did not have in place an approved customized Risk Management Policy and therefore, had no approved processes and guidelines on how to mitigate operational, legal and financial risks such as assessing the likelihood or occurrence of risk, estimating the significance of risks, in identifying business risks relevant to financial reporting objectives and deciding about actions to address those risks. The Corporation was therefore in breach of chapter three of Mwongozo, Code of Governance for State Corporations on Governance Practice which requires the Board to among other things to ensure the development of a policy on risk management, which should consider sustainability, ethics and compliance risks, set out its responsibility for risk management in the Board charter and approve the risk management policy and the risk management framework.

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

Responsibilities of the 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 to as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless Management is aware of the intention to terminate the Corporation or to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition, to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them 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 controls 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 controls 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 Corporation's policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

14 June, 2023

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XIII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR
THE YEAR ENDED 30TH JUNE 2022.

Description	Notes	2021/2022 Kshs	2020/2021 Kshs
INCOME			
Revenue	6	865,805,751	821,158,063
Cost of Sale		-	-
GROSS PROFIT		865,805,751	821,158,063
OTHER INCOME			
Finance Income	7	25,168,433	8,750,435
Other Income	8	27,148,174	35,131,895
EPS Sales	9 (b)	91,395,353	143,519,884
TOTAL REVENUE		1,009,517,711	1,008,560,277
OPERATING EXPENSES			
EPS Expenses	9 (c)	138,659,058	186,507,490
Administration Costs	10 (a)	794,331,812	721,398,039
TOTAL OPERATING EXPENSES		932,990,870	907,905,529
Profit Before Taxation	10 (c)	76,526,841	100,654,748
Provision for tax	11 (a)	66,112,708	48,888,462
Profit After Taxation		10,414,133	51,766,286
Proposed Dividends	24	520,707	2,588,314
Retained Profits		9,893,426	49,177,972
Profit attributable to Shareholders		9,893,426	49,177,972

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XIV. STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2022

Description	NOTES	2021/2022 Kshs	2020/2021 Kshs
ASSETS			
Non Current Assets			
Property, Plant & Equipment	12(b)	3,457,486,462	3,485,398,065
Intangible Asset	13	11,231,159	5,863,137
Investment Property	14	6,476,778,878	6,638,161,298
Long Term loan Advanced	15	2,188,663,306	2,561,491,373
Unquoted Investment	16	104,657,797	104,657,797
Total Non-Current Assets		12,238,817,602	12,795,571,670
Current Assets			
Schemes in Progress	17	1,974,829,300	1,761,071,854
Loan Amount Receivable	18	2,863,155,769	2,971,182,756
Inventories	19	3,231,819,977	2,388,606,497
Trade and other Receivables	20	480,014,388	511,779,936
Tax Recoverable	21	166,368,598	151,111,750
Deferred Tax asset	22	35,724,807	10,785,337
Cash and Bank balances	23	688,374,415	600,746,028
Total Current Assets		9,440,287,254	8,395,284,158
TOTAL ASSETS		21,679,104,856	21,190,855,828
EQUITY AND LIABILITIES			
Capital and Reserves			
Equity	25	7,960,352,689	6,936,000,000
Unrealised Gain on Sale of Houses	26	435,095,730	479,867,347
Retained Earnings	27	3,861,220,609	3,857,585,041
House Equalization	28	383,118,995	383,118,995
Revaluation Reserve	29	7,595,940,878	7,748,179,684
Total Capital and Reserves		20,235,728,901	19,404,751,067
Current Liabilities			
Trade and other Payables	31	1,440,266,936	1,365,741,062
Dividend payable	24	3,109,021	23,777,558
Total Current Liabilities		1,443,375,957	1,389,518,620
TOTAL EQUITY AND LIABILITIES		21,679,104,856	21,190,855,828

The financial statements were approved by the Board on 19th September 2022 and signed on its behalf by:

Managing Director:.....

General Manager Finance
 ICPAK NO. 3200

Chairman:.....

XV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2022

	EQUITY Kshs	UNREALISED GAIN ON SALE OF HOUSES Kshs	RESTATED RETAINED PROFIT Kshs	HOUSE EQUALIZATION RESERVE Kshs	REVALUATION RESERVE Kshs	TOTAL Kshs
1ST JULY 2020	6,936,000,000	509,701,383	3,808,407,069	383,118,995	8,119,124,295	19,756,351,742
Unrealised Gain (Note 26)		19,803,687				19,803,687
Realised Gain (Note 26)		(49,637,723)				(49,637,723)
Proposed dividends for year (Note 24)			(2,588,314)			(2,588,314)
Profit for the year (Note 27)			51,766,285			51,766,285
Adjustment (Note 29)					(208,244,579)	(208,244,579)
Revaluation reserve (Note 29)					(162,700,032)	(162,700,032)
30TH JUNE 2021	6,936,000,000	479,867,347	3,857,585,040	383,118,995	7,748,179,684	19,404,751,066
1ST JULY 2021	6,936,000,000	479,867,347	3,857,585,040	383,118,995	7,748,179,684	19,404,751,066
Park road AHP	1,024,352,689					1,024,352,689
Unrealised Gain (Note 26)		7,827,368				7,827,368
Realised Gain (Note 26)		(52,598,985)				(52,598,985)
Adjustment on overprovision of Dividend & Insurance			5,694,063			5,694,063
Adjustment on Unutilised Insurance Prepayments			(11,951,920)			
Proposed dividends for year (Note 24)			(520,707)			(520,707)
Profit for the year (Note 27)			10,414,133			10,414,133
Revaluation reserve (Note 29)					(152,238,805)	(152,238,805)
30TH JUNE 2022	7,960,352,689	435,095,730	3,861,220,609	383,118,995	7,595,940,878	20,235,728,901

XVI. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2022

Description	Notes	2021/2022	2020/2021
		Kshs	Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from (used in) operations	32	(755,244,434)	557,596,915
Taxation paid	11	(106,352,259)	(215,306,441)
Dividends paid	24	(15,495,181)	(13,558,379)
Net cash generated from/(used in) operating activities		(877,091,874)	328,732,095
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets			
- Property, Plant & Equipment	12 (b)	(23,953,834)	(20,673,266)
- Intangible Assets	13	(9,836,800)	(2,151,100)
- Investment Property	14	(2,328,830)	(50,889,033)
Loans advanced	33	(77,954,084)	(36,110,422)
Tenant purchase loans advanced	33	(56,486,150)	(182,809,175)
Redemption of loans	33	160,307,301	176,998,625
Redemption of TP Loans	33	348,102,660	267,455,803
Net cash generated from/(used in) investing activities		337,850,263	153,393,492
CASH FLOWS FROM FINANCING ACTIVITIES			
Absa Loan Paid	30	(396,586,142)	-
Interest on Absa Loan Paid		(896,551)	-
Equity Injection (Parkroad AHP)	25	1,024,352,689	-
Net cash generated from/(used) in financing activities		626,869,996	-
Increase / (Decrease) in cash and cash equivalents		87,628,385	482,125,587
Cash & Cash Equivalents at the beginning of the period		600,746,028	118,620,441
Cash & Cash Equivalents at the end of the period	23	688,374,413	600,746,028

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**XVII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE PERIOD ENDED 30TH JUNE 2022**

	BUDGETED	ACTUAL	VARIANCE	% OF	
	2021/2022	2021/2022	2021/2022	2021/2022	Explanations on
					material Variances
REVENUE	KSHS '000'	KSHS '000'	KSHS.	%	
Interest Earned	432,861	479,863	49,883	12%	(b)
Other income	25,417	27,148	-6,552	-26%	(c)
Rental income	242,524	261,830	19,306	8%	(a)
Finance Income	0	25,168	25,143	%	(c)
Professional fees	530,946	65,726	-465,219	-88%	(d)
Gain on sale of houses	47,118	58,385	11,314	24%	(e)
EPS Factory sales	422,175	91,395	-330,780	-78%	(f)
TOTALS	1,701,041	1,009,515	-696,905	-41%	
Operating Expenses					
Salaries & Benefits	503,093	282,905	220,188	44%	(g)
Staff Uniforms	2,000	1,149	852	43%	(g)
Staff Training	30,000	11,926	18,074	60%	(g)
Staff Welfare/Sports Club	7,000	5,452	1,548	22%	(g)
Travelling General	20,000	19,800	200	1%	(g)
Marketing, Advertising &	13,817	12,215	1,602	12%	(g)
Audit fees	1200	1,200	0	0%	
Rents - Offices	24,000	21,099	2,901	12%	(g)
Telephones & Postage	6,000	3,871	2,129	35%	(g)
Printing & Stationery	12,918	9,437	3,481	27%	(g)
Exhibitions/Shows	6,252	6,237	15	0%	
Library expenses & Public	2,000	1,399	601	30%	(g)
Official Entertainment	11,000	8,365	2,635	24%	(g)
Debt collect expenses	10,400	7,600	2,800	27%	(g)
Motor vehicle - Running	7,800	6,403	1,397	18%	(g)
Furniture & other Equipm	35,700	19,807	15,893	45%	(g)
Insurance	22,000	4,478	17,522	80%	(g)
Bad Debts	100,000	101,121	-1,121	-1%	
Legal charges	40,000	21,679	18,321	46%	(g)
CSR/Staff Sports Club	7,333	674	6,659	91%	
Misc & Consultancy Gener	24,015	22,350	1,665	7%	(g)
Depreciation	126,967	43,402	83,565	66%	(g)
Bank Charges	4,000	2,438	1,562	39%	(g)
Property & Estates	70,000	50,310	19,690	28%	(g)
Board Expenses	30,001	21,372	8,629	29%	(g)
Medical Insurance	56,000	51,341	4,659	8%	(g)
EPS Factory Expenses	385,487	138,659	246,828	64%	(g)
Post Contract Payments/l	0	56,299	-56,299		(h)
Total Expenses	1,558,983	932,988	625,995	40%	

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 positive variance on rental income is due to conversion of Kibera mixed use and Stoni Athi economy phase 11 schemes from outright sale to rental schemes and also the uptake of vacant units in Stoni Athi phase 1 during the year.
- b) The positive variance on interest is due to increased sales of Stoni Athi houses on TP terms instead of outright sale as originally planned. The Loans on the houses sold were running in the period.
- c) The adverse variance on other Incomes is due to low income earned from sale of applications and tender forms. The Corporation also earned Kshs25 Million from bank deposits during the period under review
- d) The total professional fees earned for the period was Kshs.65.7 million against a target of Kshs.530.9 million. This resulted in an adverse variance of Kshs.465.2 million. The negative variance reported is a result of delay commencement of the Eldoret Phase I, Bububu Phase II, Kericho Phase I, Kisumu Kanyakwar Phase III, Kakamega Amalemba, Malindi housing, Nakuru Mixed Development and Meru Housing.
- e) The positive variance on gain sale of houses is due to the gain realized from sale of repossessed house in Langata (D2-717), Kisumu Mamboleo house no C-18& C-29
- f) 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. Lack of raw materials hence reduction in production.

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- g)** The favourable variance realized from the expenses is due to cost cutting measures adopted in line with prudent financial management. The Corporation also deferred purchase of some fixed assets in the period leading to a lower depreciation charge than budgeted.
- h)** The adverse variance of post contract payment is due to the payment of arbitration award to Customs ltd after the litigation process was concluded.

XVIII. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

National Housing Corporation (NHC) is established by and derives its authority and accountability from an Act of Parliament, Cap. 117 of the Laws of Kenya. NHC is wholly owned by the Government of Kenya and is domiciled in Kenya. NHC's principal activity is to play a principal role in the implementation of the Government's Housing policy.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

2. 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 quarters presented.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. Application of New and Revised International Financial Reporting Standards (IFRS)

- i. New and amended standards and interpretation in issue but not yet effective in the year ended 30th June 2022.

IAS 1 Presentation of Financial Statements

Description

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

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

Further the board has issued 'Classification of Liabilities as Current or Non-Current providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date.

Effective Date

The amendments were originally effective for annual reporting periods beginning on or after January 1, 2022, however, their effective date has been delayed to 1 January 2023 and are to be applied retrospectively.

Effect

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

IAS 8 Accounting Policies. Changes in accounting Estimates and Errors
(Amendments on accounting estimates.)

Description

In January 2023, the IASB issued 'Definition of Accounting Estimates to help entities to distinguish between accounting policies and accounting estimates.

Effective Date

The amendment is effective for annual reporting periods beginning on or after January 1, 2023.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

IAS 16 Property, Plant and Equipment (amendments regarding proceeds before intended use).

Description

On 14th May 2020, the IASB issued amendments regarding proceeds from selling items procured while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management.

Effective Date

The amendments are effective for annual reporting periods beginning on or after June 1, 2022.

IAS 12: Income Taxes

Description

The differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.

Effective Date

The amendments are effective for annual period beginning on or after 1st January 2023.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Summary of Significant Accounting Policies

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

a) Revenue recognition

Revenue is measured based on the consideration to which the Corporation expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Corporation recognizes revenue when it transfers control of a product or service to a customer.

- i) **Revenue from the sale of goods and services** is recognised in the period in which the Corporation delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognised in the period in which the Corporation actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognised in the income statement in the period in which the right to receive the payment is established.
- v) **Rental income** is recognised in the income statement as it accrues using the effective interest implicit in lease agreements.
- vi) **Other income** is recognised as it accrues.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

b) In-kind contributions

The Corporation did not receive any form of in-kind contributions during the period under review.

c) 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.

d) Depreciation and Impairment of Property, Plant and Equipment

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

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

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

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

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable



NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

e) 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.

f) 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.

g) 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.

h) Unquoted investments

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

i) 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.

j) 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.

k) 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.

(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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

in respect of temporary differences, unused tax losses and unused tax credits carried forward. The carrying amount of deferred tax assets is reviewed at the reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is measured at the tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

l) 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.

m) 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.

n) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

o) 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.

p) Exchange rate differences

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

q) Comparative Figures

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

r) Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30th June 2022.

s) Budget information

The original budget for FY 2021-2022 was approved by the Treasury on 6th January 2022.

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



reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section xiii of these financial statements.

5. Significant Judgments and Sources of Estimation Uncertainty

(a) 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)

6. REVENUE

The sources of income are as stipulated below:

	2021 /2022	2020 /2021
	Kshs	Kshs
Interest	479,863,585	504,281,897
Rents	261,829,873	240,621,302
Professional Fees	65,726,767	35,668,198
Gain on Sale of Houses	58,385,526	40,586,666
Total	865,805,751	821,158,063

7. FINANCE INCOME

The interest income is made up of:

	2021/2022	2020/2021
	Kshs	Kshs
Interest from current accounts with banks	25,168,433	8,750,435
Total	25,168,433	8,750,435



NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. OTHER INCOME

	2021/2022	2020 /2021
	Kshs	Kshs
Interest on Staff Loans	16,294,880	17,615,137
Income from Partnerships	-	200,000
Gain on Disposal of Fixed Assets	711,770	72,227
Service charge Management fees	5,368,541	5,804,510
Miscellaneous (Tender Documents, Legal fees, Safaricom Mast, Lease renewal fees)	4,772,982	11,440,021
Total	27,148,174	35,131,895

9. 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 34 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

a) Manufacturing Account

	2021 /2022	2020 /2021
	Kshs	Kshs
Raw Materials Consumed	55,513,696	57,442,783
Direct Labour	23,819,086	22,774,058
Other Direct Overheads	6,240,213	7,200,411
Prime Costs	85,572,995	87,417,252
Production and Other Factory Overheads	6,159,828	5,261,294
Depreciation	22,825,392	23,925,660
Opening Cost of Work in Progress	6,201,463	23,980,819
Add: Purchases	-	
Less: Closing Cost of Work in Progress	(2,400,535)	(6,201,463)
Production Costs of Goods Completed	118,359,143	134,383,562



NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

b) Trading, Profit and Loss Account

	2021 /2022	2020 /2021
	Kshs	Kshs
Sales	91,395,353	143,519,884
Cost of Goods Sold		
Opening Stock of Finished Goods	11,056,707	52,535,422
Production Costs of Goods completed	118,359,065	134,383,563
Closing Stock of Finished panels(Cost)	(6,032,067)	(11,056,707)
Cost of Goods Sold	123,383,705	175,862,278
Gross Profit / (Loss)	(31,988,352)	(32,342,394)
Selling and Marketing Costs	3,597,675	2,356,032
Depreciation	1,019,874	1,087,781
Administration expenses	10,657,804	7,201,399
Total Adm Expenses	15,275,353	10,645,212
Trading Loss	(47,263,705)	(42,987,606)

c) EPS trading loss is arrived at after charging

	2021 /2022	2020 /2021
	Kshs	Kshs
Cost of Goods Sold	123,383,705	175,862,278
Selling and Marketing Costs	3,597,675	2,356,032
Depreciation	1,019,874	1,087,781
Administration expenses	10,657,804	7,201,399
Total	138,659,058	186,507,490

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. PROFIT BEFORE TAX

a) Administration Costs

	2021/2022	2020 /2021
	Kshs	Kshs
Staff Costs(Note 9b)	282,905,287	293,928,151
Directors' emoluments	21,372,407	7,042,913
Auditors Remuneration	1,200,000	1,200,000
Property & Estates	50,309,976	29,970,355
Motor Vehicle Expenses	6,402,842	5,442,646
Repairs of Equipment	19,807,432	17,813,056
Travelling General	19,800,408	6,495,010
Printing & Stationery	9,436,858	4,248,748
Office rents	21,098,894	22,248,317
Postage & Telephones	3,871,306	4,054,485
Advertising	12,215,539	3,621,799
Insurance	4,477,950	4,116,448
Bank Charges	2,437,590	2,766,369
Library Expenses	1,399,309	1,543,214
Staff Uniforms	1,148,526	912,980
Exhibition	6,236,349	116,750
Training	11,926,496	5,050,066
Bad Debts Provision	101,121,393	161,074,798
Post contract payments	56,299,493	2,859,383
Debt Collection Expenses	7,600,063	2,832,449
Legal Charges	21,678,882	23,811,159
Staff Sports Club	673,770	172,965
Consultancy General	22,349,822	15,893,339
Medical in Patient	51,341,199	52,803,044
Entertainment	8,365,496	1,432,107
Staff welfare	5,452,170	1,287,295
Depreciation	38,933,576	45,754,852
Amortization	4,468,778	2,905,341
Total Administration Costs	794,331,812	721,398,039

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(b) STAFF COSTS

Staff costs comprise the following:

	2021/2022	2020 /2021
	Kshs	Kshs
Salaries and Allowances	223,238,770	236,870,687
Temporary Employees	12,489,109	7,973,715
Interns Allowance	-	-
NSSF	2,069,280	2,226,960
Other pension contributions	25,518,372	28,514,462
Leave pay	12,699,743	12,743,128
Gratuity Provisions	6,890,012	5,599,199
Grand Totals	282,905,287	293,928,151
The average no of employees at the end of the period was:		
Permanent Employees	142	157
Contracted Employees	28	31
Temporary Employees	48	45
Total	218	233

The number of persons employed by the Corporation as at 30th June 2022 was 170.

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

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

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

The Corporation therefore only makes contributions to the staff retirement benefits scheme. As at 30th June 2022, there were no amounts owed to the Staff Retirement Benefits Scheme

(c). Operating profit/(Loss)

	2021/2022	2020/2021
	Kshs	Kshs
Operating profit/(loss) is arrived at after charging/(crediting)		
Staff cost (note 9b)	(282,905,287)	(293,928,151)
Administration cost	(344,028,392)	(209,491,984)
Depreciation of property, plant and equipment	(38,933,576)	(45,754,852)
Eps Expenses	(138,659,058)	(186,507,490)
Amortisation of intangible assests	(4,468,778)	(2,905,341)
Provision of bad and doubtful debts	(101,122,000)	(161,074,798)
Directors' emoluments - fees	(21,372,387)	(7,042,913)
- others	-	-
Auditors' remuneration - current period	(1,200,000)	(1,200,000)
Professional fees	65,726,767	35,668,198
Gain on sale of Houses	59,645,912	40,586,666
Finance income	25,168,433	8,750,435
Interest receivable	479,863,585	504,281,897
Rent receivable	261,829,873	240,621,302
Eps sales	91,395,353	143,519,884
Other incomes	27,150,569	35,131,895
Operating Profit	78,091,014	100,654,748



NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. Income Tax Expenses/(Credit)

a) Current taxation

	2021/2022	2020 /2021
	Kshs	Kshs
Provision for tax for the Year	91,052,179	104,712,470
Deferred tax for the year	(24,939,471)	(55,824,008)
Taxation charge	66,112,708	48,888,462

b) Reconciliation of expected tax based on profit before taxation

	2021/2022	2020/2021
	Kshs	Kshs
Profit before taxation	76,526,841	100,654,747
Tax applicable rate of 30% of PBT	22,958,052	30,196,424
Tax effect of expenses not subject to tax	74,610,197	79,548,753
Wear & Tear allowance	(6,516,070)	(5,032,707)
Provision for tax	91,052,179	104,712,470
Deferred tax	(24,939,471)	(55,824,008)
Total taxation charge	66,112,708	48,888,462

NATIONAL HOUSING CORPORATION
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12.(a) PROPERTY, PLANT AND EQUIPMENT SCHEDULE

NATIONAL HOUSING CORPORATION PROPERTY, PLANT & EQUIPMENT MOVEMENT SCHEDULE 2021/2022									
FIXED ASSETS	LAND	BUILDING	EPS PRODUCTION PLANT & MACHINERY	PLANT & EQUIPMENT	MOTOR VEHICLES	FURNITURE & FITTINGS	COMPUTER SYSTEM	TOTAL	
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
COST									
AT 1ST JULY 2020	2,196,149,894	800,000,000	562,136,778	87,526,640	73,841,014	125,573,910	98,813,682	3,944,041,917	
Additions	100,077,107			1,432,699		12,826,830	6,413,754	1,207,503,900	
Revaluation				(3,117,564)	(9,547,026)	(910,165)	(4,784,876)	(18,359,631)	
Disposals									
Adjustments									
AT 30th JUNE 2021	2,296,227,001	800,000,000	562,136,778	85,841,775	64,293,988	137,490,575	100,442,559	4,046,432,676	
AT 1ST JULY 2021	2,296,227,001	800,000,000	562,136,778	85,841,775	64,293,988	137,490,575	100,442,559	4,046,432,676	
Additions				1,755,907	7,085,700	9,517,486	5,594,723	23,953,817	
Revaluation				(93,000)				(93,000)	
Disposals									
Adjustments	(77,107)					(504,300)		(581,407)	
AT 30th JUNE 2022	2,296,149,894	800,000,000	562,136,778	87,504,682	71,379,688	146,503,761	106,037,283	4,069,722,086	
DEPRECIATION									
AT 1ST JULY 2020	-	59,525,745	161,674,323	66,707,179	51,236,147	97,839,608	84,157,268	521,140,270	
Adjustment prior year Charge for the Year									
-Amortization									
-Depreciation		5,908,467	19,023,793	3,794,308	5,649,990	4,823,291	4,553,822	43,753,672	
On Disposal/Adjustment		12,411,652	(2,566,316)	(9,087,694)	(777,947)	(777,947)	(3,839,025)	(3,839,330)	
AT 30th JUNE 2021	-	77,845,864	180,698,117	67,935,171	47,798,444	101,884,952	84,872,065	561,034,612	
AT 1ST JULY 2021	-	77,845,864	180,698,117	67,935,171	47,798,444	101,884,952	84,872,065	561,034,612	
Adjustment prior year Charge for the Year									
-Amortization									
-Depreciation		5,751,598	17,664,139	2,973,472	4,165,400	4,013,628	4,568,981	39,137,217	
On Disposal/Adjustment		12,091,994	(38,196)	(38,196)				12,053,798	
AT 30th JUNE 2022	-	95,689,456	198,362,255	70,870,448	51,963,844	105,898,580	89,441,045	612,225,627	
NET BOOK VALUE									
AT 30th JUNE 2021	2,296,227,001	722,154,137	381,438,661	17,905,604	16,495,544	35,605,623	15,570,495	3,485,398,065	
AT 30th JUNE 2022	2,296,149,894	704,310,545	363,774,523	16,634,235	19,415,844	40,605,181	16,596,238	3,457,918,642	

NATIONAL HOUSING CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS (Continues)

12 (b) Property, Plant and Equipment at Cost

	Cost	Accumulated Depreciation	NBV
	Kshs	Kshs	Kshs
Land	2,296,149,894		2,296,149,894
Buildings	800,000,000	95,689,456	704,310,544
Plant and machinery	562,136,778	198,362,255	355,268,859
Motor vehicles, including motorcycles	71,379,688	51,963,844	22,513,147
Computers and related equipment	106,037,283	89,441,045	28,604,427
Office equipment	87,504,682	70,870,448	17,842,020
Furniture and fittings	146,503,761	105,898,580	40,900,109
	4,069,712,086	612,225,628	3,457,486,462

13. INTANGIBLE ASSETS

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

	2021/2022	2020/2021
Cost	Kshs.	Kshs.
At start of the year	41,423,898	38,736,241
Additions	9,836,800	2,687,657
At end of the year	51,260,698	41,423,898
Amortization		
At start of the year	35,560,761	32,655,420
Charge in the year	4,468,778	2,905,341
At end of the year	40,029,539	35,560,761
Net Book Value	11,231,159	5,863,137

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. INVESTMENT PROPERTY

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

	2021/2022	2020 /2021
Cost	Kshs.	Kshs.
At start of the year	7,347,262,333	7,647,850,407
Additions	2,328,830	50,889,033
Revaluation		
Disposals/ Adjustments	77,107	(351,477,107)
At end of year	7,349,668,270	7,347,262,333
Depreciation		
At start of the year	709,101,034	574,406,783
Charge for the Year	23,641,546	27,561,292
On Revaluation	140,146,811	150,288,380
Adjustment	-	(43,155,421)
At end of year	872,889,391	709,101,034
Net book Value	6,476,778,878	6,638,161,298

15. LONG TERM LOANS ADVANCED

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

	2021/2022	2020/2021
	Kshs	Kshs
Local Authorities	20,125,821	28,806,873
Rural Housing Loan	214,660,646	298,898,501
Staff Loans	436,072,240	425,506,549
Tenant Purchase	1,517,804,600	1,808,279,450
Total	2,188,663,306	2,561,491,373



NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. UNQUOTED INVESTMENTS

These are investments held with;

	2021/2022	2020 /2021
	Kshs	Kshs
Consolidated Bank		
4% Non-Cum Preference Shares of Sh.20.00 each	4,100,000	4,100,000
Ordinary Shares of Sh.20 each	1,100,000	1,100,000
Research & Development Ltd	99,457,797	99,457,797
Total	104,657,797	104,657,797

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. SCHEMES IN PROGRESS

These are valued at cost, and comprise:

	2021/2022	2020 /2021
	Kshs.	Kshs.
Tenant Purchase	685,455,099	638,300,092
Outright sale	1,055,204,826	1,014,357,214
Other Projects	234,169,375	108,414,548
Total	1,974,829,300	1,761,071,854

Included in other projects are Kshs. 81,274,817.10, and Kshs. 152,894,557.90 being amounts incurred in the new ERP system and NHC's minor works. The new ERP system is still at the design stage.

18. LOAN AMOUNTS RECEIVABLE

	2021/2022	2020 /2021
	Kshs.	Kshs.
Rural Housing Loans		
Amounts Due	770,347,150	798,291,479
Provision for Bad Debts	(379,607,916)	(280,713,615)
	390,739,234	517,577,864
Local Authorities	1,862,666,542	1,771,775,091
Staff Loans	21,270,459	28,087,352
Tenant Purchase	513,261,675	500,081,378
Outright sale Debtors	75,217,857	153,661,071
Total	2,863,155,769	2,971,182,756



NOTES TO THE FINANCIAL STATEMENTS (Continued)

Credit Management Policy

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.

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.

A specific provision for bad debts has been provided for Rural Housing Loans and rent debtors and it is reflected in both the statements of financial position and the statement of comprehensive income as per NHC's Credit Management Policy clause 6.6.3.1 that provides for specific provisions. 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 (a) INVENTORIES

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

	2021/2022	2020 /2021
	Kshs.	Kshs.
Stock of unsold houses-NHC	3,200,093,313	2,332,645,215
EPS Work In Progress	2,400,535	6,201,464
EPS stock of Finished panels	6,032,067	11,056,707
EPS stock of Raw materials	4,304,300	21,582,322
Total	3,212,830,214	2,371,485,708

19 b) CONSUMABLES

	2021/2022	2020 /2021
	Kshs.	Kshs.
Consumable Inventories-NHC	3,163,621	4,971,941
Consumable Inventories-EPS	15,826,142	12,148,848
Total	18,989,763	17,120,789

20. TRADE AND OTHER RECEIVABLES

	2021/2022	2020 /2021
	Kshs.	Kshs.
Rent Arrears	297,910,288	303,923,300
Provision for bad debts on Rents	(101,471,605)	(99,244,512)
Sub-Total	196,438,683	204,678,788
Debtors	283,575,705	307,101,148
Total	480,014,388	511,779,936



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

a) Aging analysis (Rent)

Description	1 - 30 DAYS	31 - 60 DAYS	61 - 90 DAYS	91 - 180 DAYS	181 - 360 DAYS	OVER 360 DAYS	TOTAL
1 NHC HOUSE	-10,820,280	1,757,852	10,256,002	8,636,627	7,191,874	54,607,008	71,629,084
2 WOODLEY ESTATE	441,657	315,763	145,139	389,853	160,941	4,685,381	6,138,736
3 KIBERA	225,991	168,000	104,200	190,000	238,000	2,059,453	2,985,644
4 SADIROAD ESTATE	241,205	451,239	350,560	944,716	1,557,589	16,155,704	19,701,014
5 MD'S RESIDENCE - NYARI HSE	275,000	275,000	130,500	0	0	0	680,500
6 KIBERA OLYMPIC VIEW	409,600	198,000	127,000	126,400	50,000	0	911,000
7 MADARAKA	72,410	72,410	72,410	203,297	323,050	42,437,223	43,180,800
8 CHANGAMWE RENTAL	4,275,014	3,154,583	2,571,291	6,236,294	7,967,749	102,644,902	126,849,833
9 VOI RENTALS	54,000	48,000	40,000	71,000	102,000	2,307,000	2,622,000
10 JOMO KENYATTA-RENTAL	323,630	132,403	79,975	122,150	95,925	245,028	999,110
11 LIKONI RENTAL	0	0	0	0	0	3,067,332	3,067,332
12 TUNTU RENTALS-NHC	0	0	0	0	0	313,880	313,880
13 STONI ATHI ECONOMY	635,450	358,000	201,550	304,980	241,800	208,500	1,950,280
14 PROVINCIL SCHEMES RENTALS	189,300	174,090	154,906	410,700	602,800	3,983,365	5,515,161
15 NAKURU BONDENI RENTAL	0	0	0	0	0	1,468,100	1,468,100
16 NJORO RENTALS-NAKURU	27,901	26,460	21,710	58,331	76,265	363,904	574,572
17 MOGOTIO RENTALS	0	0	0	0	0	384,000	384,000
18 BONDENI I ELDORET RENTALS	53,661	12,650	7,600	10,600	7,800	21,000	113,311
19 BONDENI II ELDORET RENTALS	71,916	30,190	6,760	2,100	0	1,100	112,066
20 KAPSUSWA II ELDORET RENTAL	51,647	37,068	29,168	57,831	59,700	110,008	345,422
21 KAPSUSWA III ELDORET RENTALS	30,890	18,762	16,330	37,090	41,700	28,260	173,032
22 KIDIWA 4 ELDORET RENTALS	161,400	125,024	101,378	226,029	227,735	1,057,321	1,898,887
23 KIPCHOGE ELDORET RENTALS	96,860	56,399	38,830	59,388	46,780	88,920	387,177
24 ITEN RENTALS	-	-	-	-	-	591,000	591,000
25 ELGON VIEW-ELDORET	360,000	149,000	135,000	270,000	400,000	1,845,643	3,159,643
26 MISC ESTATES	5,972	-	107,628	27,903	107,903	1,909,300	2,158,705
TOTALS	(2,816,775)	7,560,894	14,697,937	18,385,289	19,499,612	240,583,332	297,910,288

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b) Aging analysis (Debtors)

Details	CURRENT	1 - 90 DAYS	91 - 180 DAY	181 - 270 D	271 - 360 I	OVER 360 DAYS	TOTAL
Fuel Deposit Total Kenya						597,000	597,000
Deposit Ministry Of Works						765,741	765,741
Fuel Deposit- Mombasa						21,000	21,000
Deposit - Postmaster General						8,622	8,622
Toyota Kenya Repairs Deposit						200,000	200,000
Deposits With Nairobi Hospital						149,000	149,000
Deposits With Mater-Miscordiae						270,000	270,000
Deposits With Aga Khan Hospital						200,000	200,000
Deposits With Aga Khan Hospital - Mbs						50,000	50,000
Deposit Aga Khan Hospital Kisumu						100,000	100,000
Deposit With Gertrude G. Hospital						10,000	10,000
Deposits With Kenyatta N. Hospital						200,000	200,000
Deposits With Valley Hospital Nakuru						50,000	50,000
Deposit With Kp&Lc Kanyakwar Ph 1						500,000	500,000
Deposit-East Africa Courier Lt						30,000	30,000
Arbitration Deposit						100,000	100,000
Rent Deposit - Kenya Re Kisumu Office						214,261	214,261
Deposits K.P. & T. Comm.	483,376					30,000	30,000
Prepaymnet Various						-	483,376
Webuye Rental Advances						1,362,496	1,362,496
Deposit K.P. & T. Comm.						216,520	216,520
Housing Finance						88,336,601	88,336,601
Due From Pile Investment						300,000	300,000
NHC Debts Various						12,270,544	12,270,544
Rdu Limited Debt						31,047,760	31,047,760
Service Charge Debtors						31,032,836	31,032,836
Salary Advances	423,287					423,287	423,287
Imprest	3,425,585						3,425,585
Insurance Receivable	(79,670)						(79,670)
Madaraka Old Rent & Rates Due						26,807,118	26,807,118
Gok Debtors						43,894,512	43,894,512
Amount Due From Parkroad Scheme	1,510,428						1,510,428
Eps Factory Debtors		39,203,148					39,203,148
National Oil Fuel Deposit						1,006,000	1,006,000
Safaricom Mast		286,158					286,158
Provision For Bad Debts Sundry Debtors						(1,446,622)	(1,446,622)
Total Sundry Debtors	5,763,007	39,203,148	-	-	-	238,323,391	283,575,704



NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. TAX RECOVERABLE

	2021/2022	2020/2021
Tax Movement Schedule	Kshs	Kshs
Balance Brought Forward	(151,111,750)	(40,517,779)
Provision for tax for the Year	91,052,179	104,712,470
Paid During the year	(106,309,026)	(215,306,441)
At end of the year	(166,368,598)	(151,111,750)

22. DEFERRED TAX LIABILITY

Deferred tax is calculated on all temporary differences under the liability method using the enacted tax rate, currently 30%. The net deferred tax liability at year end is attributed to the following items:

	2021/2022	2020/2021
	Kshs	Kshs
Accelerated capital allowances	6,040,699	(8,756,587)
Provision for liabilities and charge	(30,980,170)	(47,067,421)
Deferred tax during the year	(24,939,471)	(55,824,008)

The movement on the deferred tax account is as follows:

	2021/2022	2020/2021
	Kshs	Kshs
Deferred Tax Liability b/f	(10,785,337)	45,038,670
Accelerated capital allowances	6,040,699	(8,756,587)
Add: Various provisions	(30,980,170)	(47,067,421)
Deferred tax during the year	(24,939,471)	(55,824,008)
At end of the year	(35,724,807)	(10,785,337)

23. CASH AND BANK BALANCES

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

The funds held in the banks are to be utilized to fund internally funded projects lined up in the coming quarters and support payment of recurrent expenditure.

	2021/2022	2020/2021
	Kshs.	Kshs.
Mobile Money	501,508	7,339,749
Co-operative Bank	638,607,187	182,532,394
National Bank of Kenya	37,838,819	8,012,025
Kenya Commercial Bank	8,236,316	6,638,406
ABSA Bank	3,190,586	396,223,453
Total	688,374,415	600,746,028



NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. PROPOSED DIVIDENDS

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

	2021/2022	2020/2021
	Kshs	Kshs
At the beginning of the period	23,777,558	34,747,623
Adjustment during the year	(5,694,063)	-
Provision for the Period	520,707	2,588,314
Paid during the Period	(15,495,181)	(13,558,379)
At the end of the period	3,109,021	23,777,558

25. 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

Included in the amount of equity, is the value of the transferred Parkroad houses constructed and financed by GoK under the Affordable Housing Programme. These houses were transferred to the Corporation for ownership and management. The additional equity from these houses amounts to Kshs.1.024billion based on prevailing sale prices.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Equity Injection to NHC as at 30th June 2022		Kshs.
2007/2008	216,000,000	216,000,000
2008/2009	250,000,000	250,000,000
2009/2010	250,000,000	250,000,000
2010/2011	900,000,000	900,000,000
Total	1,616,000,000	1,616,000,000
Conversion of Total Debts owed to GOK by NHC		
	5,320,000,000	5,320,000,000
Parkroad AHP	1,024,352,689	-
TOTAL EQUITY	7,960,352,689	6,936,000,000

26. 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.

	2021/2022	2020 /2021
	Kshs.	Kshs.
Opening balance	479,867,347	509,701,383
Add: Unrealized gain recognized in the year	7,827,368	19,803,687
Less: Realized gain recognized in the year	(52,598,985)	(49,637,723)
Total Movement in the year	(44,771,617)	(29,834,036)
Closing Balance	435,095,730	479,867,347



NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. RETAINED EARNINGS

This is made up as follows:

	2021/2022	2020/2021
	Kshs.	Kshs.
Opening Balance	3,857,585,041	3,808,407,069
Adjustments on overprovision of Dividends	5,694,063	-
Adjustments on Utilized Insurance prepayment	(11,951,920)	-
Proposed Dividends	(520,707)	(2,588,314)
Profit after tax for the Year	10,414,133	51,766,285
Closing balance	3,861,220,609	3,857,585,041

28. HOUSE EQUALIZATION

	2021/2022	2020 /2021
	Kshs.	Kshs.
Opening Balance	383,118,995	383,118,995
Charge in the Year		-
Closing balance	383,118,995	383,118,995

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29. REVALUATION RESERVE

	Land	Buildings	Investment Property	Total
	Kshs	Kshs	Kshs	Kshs
2020/2021				
Opening Balance	1,530,701,470	501,662,067	6,086,760,758	8,119,124,295
Charge in the Year	-	(12,411,652)	(150,288,380)	(162,700,032)
Adjustment			(208,244,579)	(208,244,579)
Closing Balance	1,530,701,470	489,250,415	5,936,472,378	7,748,179,684
2021/2022				
Opening Balance	1,530,701,470	489,250,415	5,936,472,378	7,748,179,684
Charge in the Year	-	(12,091,994)	(140,146,811)	(152,238,805)
Adjustment			-	-
Closing Balance	1,530,701,470	477,158,421	5,796,325,567	7,595,940,878

30. LONG TERM LOANS

	2021/2022	2020 /2021
	Kshs.	Kshs.
Opening Balance	396,586,142	396,586,142
Amounts Borrowed in the Year		
Amount paid during the year	(396,586,142)	
Closing balance	-	396,586,142



31. TRADE AND OTHER PAYABLES

These comprise:

	2021/2022	2020 /2021
	Kshs.	Kshs.
House Deposits	757,175,324	789,365,577
Deposits from Gov. Agencies	3,885,000	3,885,000
Service Charge	62,737,404	75,739,528
Due to Contractors	137,258,745	206,155,390
Sundry Creditors	331,164,594	180,114,491
Prepayments	70,041,461	83,355,756
Affordable Housing	78,004,409	27,125,320
Total	1,440,266,936	1,365,741,062

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. CASH GENERATED FROM OPERATING ACTIVITIES

	2021/2022	2020 /2021
	Kshs.	Kshs.
a) Reconciliation of Operating Profit/(loss) to Cash Generated		
Profit or Loss before tax	76,526,841	100,654,748
Depreciation (Note 12 & 14)	62,778,763	71,506,702
- Intangible Assets (Note 13)	4,468,778	2,905,341
Gain on disposal (Note 4)	(711,770)	(72,227)
Retained earnings (prior year 23)	(11,951,920)	
	(52,598,985)	-
Unrealised gain on Sale of Tenant Purchase Houses (Note 23)	7,827,368	19,803,687
Bad Debts Provisions (Note 7a)	101,121,393	161,074,797
Operation Profit/(Loss) before Working Capital changes	187,460,468	355,873,048
Decrease/(Increase) in debtors & prepayments	(68,286,837)	(105,062,755)
Decrease (Increase) in inventories	(843,213,480)	274,455,752
Payables	74,525,874	106,753,498
Housing schemes in progress	(213,757,446)	(79,460,384)
Decrease/ (increase) in Loan amount receivable	108,026,987	5,037,756
Working capital changes	(942,704,902)	201,723,867
Cash Generated from/(Used In) Operations	(755,244,434)	557,596,915
(b) Analysis of Changes in Loans		
Balance at beginning of the year	396,586,142	396,586,142
Receipts during the year	-	-
Repayment during the year	(397,482,693)	-
Repayments of previous year's accrued		-
Accrued interest	896,551	-
Balance at the end of the year	-	396,586,142



NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. REDEMPTION OF LONG TERM LOANS

Long term loans include loans to Local Authorities, Rural Housing Loans and staff loans. See Note 16.

	2021/2022	2020 /2021
	Kshs.	Kshs.
Tenant Purchase		
Opening Balance	1,808,279,441	1,894,067,728
Advanced	56,486,150	182,809,175
Redemption	(346,961,000)	(267,455,803)
Closing Balance	1,517,804,591	1,808,279,441
Other Loans		
Opening Balance	753,211,932	894,100,135
Advanced	77,954,084	36,110,422
Redemption	(160,307,301)	(176,998,625)
Closing Balance	670,858,716	753,211,932
Total	2,188,663,306	2,561,491,373

34. CONTINGENT LIABILITIES

The Corporation is engaged in 2 disputes with some project contractors which are currently under arbitration. The value of the claims made by the claimants is analyzed as follows:

NHC ARBITRATION MATTERS AS AT 30TH JUNE 2022			
No.	PARTIES	CLAIM/DISPUTE	STATUS OF ARBITRATION
1	Mall of Africa -versus- NHC	60,457,218	Yet to be Determined
2	Tulsi Construction Limited - V- NHC	1,310,097,864	Yet to be Determined
	Total Claims	1,370,555,082	
	Settled Arbitration in the year under review.		
1	Custom General Construction Ltd -vs- NHC	83.6 million	Determined and settled.

35. RELATED PARTY TRANSACTIONS

(a) Principal loan balances for staff

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

	2021/2022 Kshs	2020/2021 Kshs
Tenant purchase loans	152,840,809	165,975,422
Staff loan		
Car loan	18,775,452	22,399,540
Computer loan	1,781,446	2,761,031
House loan	389,158,817	377,119,799
Rural housing loan	31,736,199	38,074,626
Sub Total(staff loan)	441,451,914	440,354,997
Total loan amount advanced to staff	594,292,723	606,330,419

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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.

XIX. APPENDICES

APPENDIX I: PROGRESS AND FOLLOW UP OF ISSUES RAISED BY EXTERNAL AUDITOR

Reference No. on External Audit Report	Issue/Observation from Auditor	Management Comments	Focal Point Person to resolve the issue (Name and Designation)	Status: (Resolved/Not Resolved)	Timeframe; (put a date when you expect the issue to be resolved)
1.1 Variances in Rural Housing Loans	Included in the loan amounts receivable balance of Kshs.2,971,182,756 is rural housing loans balance of Kshs.798,291,479 for which the supporting schedule provided for audit reflected a balance of Kshs.752,802,984 resulting to an unexplained variance of Kshs.45,488,495. Further, loans amounting to Kshs.668,961,089 remained outstanding for more than one year. Although a provision for bad debts of Kshs.280,713,615 has been made, its adequacy is	<p>Unexplained difference of Kshs. 45,488,495 The difference of Kshs. 45, 488,495.18 arose from migration from the old system to the current system. However, we have reduced to Kshs. 834,305 as at 30th June 2022. Reconciliation of the accounts is currently ongoing and we expect to resolve this conclusively.</p> <p>Outstanding balance of Kshs. 668,691,089 Although the Corporation has now discontinued disbursement of funds using the old terms in, certain loans issued in the past have proved unrecoverable due to the following challenges:</p> <ol style="list-style-type: none"> 1.Death of the principal borrower(s). 2)Loans were not insured – This has since changed; currently all loans are insured against the life of the principal borrower. 3)Repossessing community land has proved difficult. 4)Court injunctions barring the Corporation from repossessing property of borrowers who have defaulted. 5)Inability to trace the borrowers and their guarantors 	Leah Kemboi Senior Accountant Loans	Not Resolved	30 th June 2023

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	<p>doubtful. In addition, loans totalling to Kshs.417,997,669 equivalent to 52% of the reported rural loans were unsecured. In the circumstances, the accuracy, completeness and recoverability of loan amounts receivable balance of Kshs.2,971,182,756 as at 30 June, 2021 could not be confirmed.</p>	<p>especially for loans advanced before early 2000's.</p> <p>Write offs of Kshs. 475,728,516.33</p> <p>The Corporation is in the process of seeking approval from the Cabinet to write-off non-performing loans as per Board instruction. We expect to receive the approval before end of this financial year.</p>	<p>Martin Shiveere Ag. Credit Control Manager</p>	
<p>1.2 Outstanding Loans from Local Authorities</p>	<p>Included in the loan amounts receivable balance of Kshs.2,971,182,756 is Kshs.1,771,775,091 in respect of outstanding loans from the defunct Local Authorities which were taken over by the respective County Governments, and which reflects an Increase of Kshs. 137,766,187 from the previous year balance of Kshs. 1,634,008,904. Although the Management</p>	<p>After the promulgation of the new constitution, all the functions of the local authorities', their assets and liabilities were taken over by the County Governments. This transition was naturally by law and therefore means that the Counties owe the Corporation debts that they took over from the defunct local authorities.</p> <p>In addition, the Corporation has been engaging various County Governments with aim of collecting all debts.</p>	<p>Martin Shiveere Ag. Credit Control Manager</p>	<p>Not Resolved</p> <p>30th June 2023</p>

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	<p>has engaged the respective Counties on debt recovery, the Progress is slow. In the circumstances, full recoverability of the debts is doubtful.</p>			
<p>1.3 Variance in Staff Loans</p> <p>Included in the loan amounts receivable balance of Kshs.2,971,182,756 is staff loans amounting to Kshs.28,087,352 whose supporting schedule reflected a balance of Kshs.28,087,352 resulting in an unexplained variance of Kshs.5,281,561. Further, staff loans totalling to Kshs.26,714,558 have been outstanding for a period of over one year. In the circumstances, the accuracy and full recoverability of staff loans balance of Kshs.28,087,352 could not be confirmed.</p>	<p>The loan amount receivable under staff loans are amounts owed by ex-staff.</p> <p>Unexplained Difference of Kes. 5,281,561.40; The differences arose from migration from the old system to the current system. However we have reduced to Kshs. 350,208 as at 30th June 2022. Reconciliation of the accounts is currently ongoing and we expect to resolve this by end of the financial year 2022/2023.</p> <p>Steps Taken To Recover the Debts; The Corporation reviewed its staff car loan policy to incorporate guarantors (staff members) who are pursued to assist recover the debt in the event the borrower exits the Corporation before settling the debt.</p> <p>In addition to the above, the following efforts have been put in place to recover arrears owed by staff include;</p> <p>i) Issuance of demand and statutory notices.</p> <p>ii) Recovery of debt from final dues.</p>	<p style="text-align: center;">Martin Shiveere Ag. Credit Control Manager</p>	<p style="text-align: center;">Not Resolved</p>	<p style="text-align: center;">30th June 2023</p>

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<p>1.4 Variance in Tenant Purchase Loans</p>	<p>Included in the loan amounts receivable balance of Kshs.2,971,182,756 is tenant purchase balance of Kshs.500,081,378 which was an increase of Kshs.24,173,948 from the balance of Kshs.475,907,430 as at 30 June, 2020. However, the ledgers provided in support of the balance showed a balance of Kshs.480,570,813 resulting in an unexplained variance of Kshs.19,510,565. Further, despite the Corporation's loan policy requiring invoices to be paid within twenty-one (21) days after they become due, tenant purchase loans amounting to Kshs.500,081,378 remained outstanding as at 30 June, 2021. In the circumstances, the accuracy and full recoverability of tenant</p>	<p>We highlight that the bulk of the arrears Kshs. 269 million emanate from the Pumwani scheme which accounts for 54% of the total arrears.</p> <p>Over the period, the Corporation has had challenges collecting the arrears amount from the Pumwani beneficiaries. The borrowers have engaged a number of government offices to intervene including our parent Ministry which directed the Corporation to extend the repayment period to 25 years. This reduced the repayment to Kes. 9,960.00 per month (exclusive of service charge).</p> <p>In addition, the Pumwani II purchasers have also gone to court three times to restrain the Corporation from eviction or enforcing the repayment of loan. In all cases, they have lost.</p> <p>All efforts to enforce collection have proved futile due to intervention by politicians, who have in several instances stopped the Corporation from repossessing houses of defaulting tenant purchasers. This notwithstanding, we continue to pursue the tenant purchasers in Pumwani. On 23rd February 2022, the Corporation held a meeting with the representatives of Pumwani at NHC house where it was unanimously agreed as follows:</p>	<p>Ongoing</p> <p align="center">Martin Shiveere Ag. Credit Control Manager</p>	<p>30th June 2023</p>
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	<p>purchase loans balance of Kshs.500,081,378 could not be confirmed.</p>	<p>i)Accrued arrears to be cleared within three years. ii)Charging of interest on arrears to be stopped on 31st March 2022. iii)Tenant Purchasers to make a minimum monthly loan payment of Sh. 6,500 inclusive of service charge. iv)Monthly payments are to be submitted by the 7th day every month. Non-compliance to the aforementioned directive will result in legal enforcement. v)NHC to report to the Board on progress within six months.</p>			
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<p>1.5 Un-Settled Outright Sale Debtors</p>	<p>Included in the loan amounts receivable balance of Kshs.2,971,182,756 as at 30 June, 2021 is outright sale debtors' balance of Kshs. 153,661,071. However, the outstanding balance of Kshs. 153,661,071 was not settled within ninety (90) days from date of signing the sale agreements as provided in the signed contracts.</p> <p>In the circumstances, full recoverability of outright sale debtors' balance of Kshs.153,661,071 as at 30 June, 2021 could not be confirmed.</p>	<p>The slow sales in the housing scheme are attributed to the depressed Kenyan property market that was affected by the current credit crunch facing the economy whereby lenders adopted a conservative approach to lending. This strategy has led to a decline in amount advanced in the sector leading to a fall in prices of 0.5% in Nairobi and its environs. This fall in prices, the first of its kind, shows that investors are holding off buying decisions, a defensive strategy taken when there is economic uncertainty.</p> <p>The sales had been slowing down since 2019 and the onset of the Covid – 19 pandemic further exacerbated the sale of houses. In order mitigate the slow sales and to preserve the values of the property, the Corporation opted to have the houses occupied, by extending the sale terms to include tenant purchase and provision of rental option.</p> <p>Ownership of the units do not transfer to the buyer/purchaser until the Corporation receives full payments thus no exposure to the Corporation.</p>	<p>Anne Saruni Senior Estate Officer</p>	<p>Not Resolved</p>	<p>30th June 2023</p>
<p>2. Variance in Long-Term Loan Advanced</p>	<p>The statement of financial position and as disclosed in Note 15 to the financial statements reflects long-term loans advanced of Kshs.2,561,491,373. However, the supporting schedules provided for audit reflected a balance of</p>	<p>Variance of Kshs. 55,856,269</p> <p>The differences arose from migration from the old system to the current system. This has since been reconciled hence no difference.</p>	<p>Leah Kemboi Senior Accountant Loans</p>	<p>Resolved</p>	

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	<p>Kshs.2,476,828,231 resulting in an unexplained variance of Kshs.84,663,142. In the circumstances, the accuracy and completeness of the long-term loans advanced balance of Kshs.2,561,491,373 as at 30 June, 2021 could not be confirmed.</p>				
<p>3. Outstanding Trade and Other Receivables</p>	<p>Included in the trade and other receivables balance of Kshs.511,779,936 and as disclosed in Note 20(a) to the financial statements is rent arrears of Kshs.204,678,788 which is net of provision for bad debts of Kshs.99,244,512 and which has been outstanding for over one (1) year. In addition, trade and other receivables includes a balance of Kshs.307,101,148 in respect of debtors out of which an amount of Kshs.290,982,157 has been outstanding for over one</p>	<p>Rent Arrears We wish to clarify that, the Corporation has put in place a rigorous program of levying distress for rent. Some of the bad tenants have been evicted in a bid to have new and responsible tenants. These past tenants are being pursued by the debt recovery program of civil debts The efforts being made include:- i) Locking of the houses with rent arrears ii) Issuance of statutory notices. iii) Engaging auctioneers to assist in recovering the arrears. Sundry Debtors The Corporation has employed different strategies with aim of recovering all the outstanding arrears. The strategies include i) NHC revised its credit and debt management policy in a bid to strengthen the loan appraisal and debt recovery processes.</p>	<p>Martin Shiveere Ag. Credit Control Manager</p>		<p>30th June 2023</p>

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	<p>(1) year.</p> <p>In the circumstances, full recoverability of trade and other receivables balance of Kshs.511,779,936 as at 30 June, 2021, could not be confirmed.</p>	<p>ii) Issuance of statutory notices. iii) Engaging auctioneers to assist in recovering the arrears. iv) Pursuing recovery of debts by suing some of the debtors. v) Contacting debtors through telephone, emails, Whatsapp etc.</p>		
<p>4. Parcels of Land without Title Deeds</p>	<p>The statement of financial position and as disclosed in Note 12 to the financial statements, reflects land balance of Kshs.2,296,227,001 as at 30 June, 2021. As previously reported, the balance excludes forty-three (43) parcels of land measuring approximately ninety-two (92) hectares of undetermined value but without title deeds. Some of these properties have developments on them. Included in the land without titles are two (2) parcels of land in Kakamega-Amalemba Kakamega County which have ownership disputes.</p>	<p>Land Without Ownership Documents The titling process at lands office is extremely slow and impacts the rate at which we are able to obtain ownership documentation for our parcels. Our team has however made significant strides in obtaining the requisite documentation by employing the following strategies in fast tracking on the process of titling.</p> <ol style="list-style-type: none"> 1. Establishment of a land desk at the Ministry of Lands 2. Outsourcing titling activities to consultants 3. Mapping and updating records of all untitled land 4. Close and regular consultations with County Governments and Ministry of Lands 5. Adequate budgeting to support survey and titling of the various parcels of land. <p>The current status of the titling process is as follows:</p> <ol style="list-style-type: none"> i) 7 Part Development Plans (PDP) have been approved 2. 18 Cadastral Surveys have been approved ii) 6 Cadastral surveys have been completed iii) letters of allotment have been obtained 	<p>Joshua Sanduk Ag Senior Land Surveyors</p>	<p>Not Resolved</p>

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	<p>Further, title deeds for five (5) parcels of land measuring approximately five (5) hectares located in Nairobi and Nakuru were not provided for audit. In addition, the land valuation schedule provided excludes three (3) pieces of land with a total value of Kshs.360,358,358. In the circumstances, the accuracy, ownership and completeness of the land balance of Kshs.2,296,227,001 as at 30 June, 2021 could not be confirmed.</p>	<p>The 22 parcels were allocated to NHC by the National Government at zero cost. However, due to lack of title documentation which is a requirement for valuation purposes, we are not able to carry out valuations to determine their fair market value and hence not included in our Property, Plant and Equipment balance. This is in line with the requirement of IAS 16 on recognition of Property, Plant and Equipment.</p>			
<p>5. Unsupported Unquoted Investment</p>	<p>The statement of financial position and as disclosed in Note 16 to the financial statements reflects unquoted investment balance of Kshs. 104,657,797. The balance includes investment in Research and Development Limited at a cost of Kshs.99,457,797. However, and as previously</p>	<p>Investment of Kshs. 99,457,797 in RDU Co. Ltd. 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.</p> <p>RDU Share Certificate; RDU is a wholly owned subsidiary of NHC and therefore no share certificate</p>	<p>William Keitany Corporation Secretary</p>	<p>Not Resolved</p>	<p>30th June 2023</p>

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<p>reported, the investment in the company, a wholly owned subsidiary, was not supported by a certificate of registration and share certificates</p> <p>In the circumstances, the accuracy and validity of unquoted investment value of Kshs. 104,657,797 as at 30 June, 2021 could not be confirmed.</p> <p>The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Housing Corporation Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to</p>	<p>has been issued to the Corporation. The Corporation only holds the Certificate of Incorporation, company search, Memorandum and Articles of Association.</p> <p>Current Status; In an effort to ensure transfer shares held in trust for names of the former Directors to NHC, the following has been undertaken: -</p> <p>i) Nairobi CMCC Miscellaneous Application No. 297 of 2020; National Housing Corporation -Versus- Abok James Odera has been filed seeking orders compelling Abok James Odera (former NHC Managing Director) to sign the Transfer of share forms for Research Development Unit Company (RDU) in favour of current Managing Director of the Corporation. The prosecution of the said Application is being pursued by the Corporation's advocates. A mention of the case will be on 16th March 2022.</p> <p>ii) The Corporation is in communication with the advocate for the estate of the late Zephania Mogunde Anyieni (former NHC Board Chairman). The said advocate has previously promised to facilitate execution of the transfer of share forms for Research Development Unit Company (RDU) by the administrators of the deceased's estate in favor of current Chairperson of the Corporation or any other nominee. However, one of the administrators of the</p>		
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	<p>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.</p>	<p>deceased's estate also passed on and the process of appointment of a replacement administrator is ongoing, to facilitate Transfer the share certificate aforesaid. NHC is consistently following up on the matter.</p>			
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APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Status of Projects completion

Project	Project No.	Total project Cost (Kshs.)	Total expended as at 30 th June 2022, (Kshs.)	Completed on % as at 30 th June 2022	Budget (Kshs.)	Actual amount expended (Kshs.)	Sources of funds
Changamwe infill Ph III (84 units)	NHC/TECH/CRE/021/16-17	384,167,878.00	335,932,842.24	80%	384,167,878.00	335,932,842.24	NHC
Nyeri Mixed Use Development (80 units)	NHC/TECH/008/17-18	330,000,000.00	305,595,334.15	96%	330,000,000.00	305,595,334.15	NHC/Bank Loan
Voi Infill (80 units)	NHC/TECH/009/17-18	224,574,140.00	102,521,397.00	66%	224,574,140.00	102,521,397.00	NHC
Stoni Athi Sector IIA (160 units)	NHC/TECH/012/20-21	769,976,976.00	66,503,462.66	10%	769,976,976.00	66,503,462.66	NHC/Bank Loan