REPORT OF THE AUDITOR-GENERAL ON NATIONAL HOUSING CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Housing Corporation set out on pages 47 to 113, which comprise the statement of financial position as at 30 June, 2018, and the statement of profit or loss and other comprehensive income, the statement of changes in equity, the 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 effects 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 National Housing Corporation as at 30 June, 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Housing Act Cap 117 of the laws of Kenya.

Basis for Qualified Opinion

1.0 Property Plant and Equipment

1.1 Land

As disclosed in note 12 in the Financial Statements and as previously reported, the Corporation owned land valued at Kshs.2,452,126,202 as at 30 June 2018. Excluded from this balance are 50 parcels of land which had not been valued and had no ownership documents as at 30 June 2018. Consequently, the ownership and value of these properties could not be confirmed as at 30 June 2018.

1.2 Unquoted Investments in Research Development Co. Ltd - Kshs.99,457,797

As previously reported, the investment of the Corporation in Research Development Co. Ltd, a wholly owned subsidiary, under note 16 totaled Kshs. 99,457,797 as at 30 June 2018. Share certificates to support this investment were not availed for audit thus it was not possible to confirm the propriety of this investment. The explanation given by the management is that RDU is a wholly owned subsidiary of NHC and therefore no share certificate has been issued to the Corporation. Despite the decision by the Board of Directors to wind-up the company, there was been no progress made as at 30 June 2018. Although management has explained that the former Directors of the Corporation holding the shares in trust for the Corporation have not transferred the same to the current Directors and that Management has engaged its lawyers to move to Court as at 30 June 2018, no evidence of such action taken was seen. It was therefore, not possible to confirm the propriety of the investment of Kshs.99,457,797.

2.0 Tenant Purchase Schemes

2.1 Staff Debtors – Tenant Purchase Schemes Kshs.20,422,982

Included in the loan amount receivable balance of Kshs.2,414,360,790 as at 30 June 2018 are ex staff debtors amounting to Kshs.20,422,982. As per the ageing analysis provided, a substantial amount is not being serviced as some of the staff have exited the organization. As such, recoverability of the debts is doubtful.

2.2 Tenant Purchase Scheme Debts – Kshs.332,681,670

The financial Statements reflect a balance of Kshs.332,681,670 in respect of tenant purchase scheme debts as at 30 June 2018 while the supporting schedule provided for audit reflects an amount of Kshs.344,539,048 resulting to a variance of Kshs.11,857,378 which has not been explained/reconciled.

3.0 Trade and Other Receivables Kshs.417,247,188

Included in the trade and other receivables balance of Kshs.417,247,188 as at 30 June 2018 is rent arrears of Kshs.241,309,717. Although the Corporation has provided schedules in support of rent arrears, no explanation has been provided as to why rent has remained unpaid for a long period without recoveries being made. It was noted that although the Corporation has guidelines and a formal framework on the management and recovery of rent arrears, these have not been effected to recover the debts. On analysis of the rent schedule provided for the audit, it was observed that the amount reflected in the financial statements is a net off credit balances of Kshs.53,316,553. In addition, debtors balance include provision of loss of investment of Kshs.82,316,553 which management has not explained/supported.
In the circumstance, it has not been possible to ascertain the correctness and completeness of trade and other receivables balance of Kshs.417,247,188 as at 30 June 2018.

4.0 Sundry Debtors

Included in the in trade and other receivables balance of Kshs.417,247,188 as at 30 June, 2018 are sundry debtors amounting to Kshs.115,579,523 owed by Housing Finance of Kenya and Ministry of public works of Kshs 87,201,499 and Kshs 28,378,026 respectively. There was no movement in these debtors during the year. Management has not provided any measures being taken to recover the said debts.

In addition, a figure of Kshs.765,741 also included in sundry debtors which has been explained as a deposit to the Ministry of Public Works for the supply of fuel to NHC vehicles has not been recovered. The petrol station contracted by the Ministry to supply the fuel burned down and nothing was salvaged. No explanation was provided by the management on how the amount will be realized.

In the circumstance, the accuracy and completeness of trade and other receivables balance of Kshs.417,247,188 as at 30 June 2018 could not be confirmed.

5.0 Opening Balances for Taxation

The opening balances for the following items which are reflected in the 2017/2018 Financial Statements differ with the balances reflected in the audited financial statements for 2016/2017 as follows:

Item Variance	**Amount as per 2017/2018 Financial Statements**	**Amount as per 2016/2017 Audited Financial Statements**	
Profit before taxation	355,975,260	329,561,497	26,413,763
Tax applicable rate of 30%	106,792,578	98,868,449	7,924,129
Tax effect of losses from previous period	(74,889,458)	(79,889,458)	(5,000,000)
Variance			**29,237,892**

The tax is therefore overstated by Kshs.29,237,892.

6.0 Cash and Bank Balances

Bank Reconciliation Statement for the Month of June 2018

6.1 Receipts in Bank Statement not in Cashbook

The bank reconciliation statements for Kenya Commercial Bank Account No. 1107394899 and Co-operative Bank of Kenya Account No.01136006210301 reflect receipts in bank statement not posted to the cashbook totaling to Kshs.26,348,720 and Kshs.23,995,931 respectively as at 30.06.2018. Further the above figure of Kshs.26,348,720 and Kshs.23,995,931 comprises of an amount Kshs.12,277,475 and Kshs.9,130,767 respectively relating to receipts in bank statement not recorded in cash book for 2017 and earlier years. As such the accuracy and correctness of cash and bank balances of Kshs.373,080,753 as at 30 June 2018 could not be confirmed.

7.0 Construction of Lang'ata Court Mall

7.1 The contract was awarded to M/S Concordia Building and Civil Engineering on 29 December, 2014 at a contract sum of Kshs.527,407,286 and contract duration of 52 weeks starting on 25 February, 2015 and expected completion date of 24 February, 2016. On 9 February, 2015 the contractor issued a performance bond of Kshs.52,740,729 from M/S Takeful Insurance Company contrary to the contract terms which required a performance bond from a reputable banking institution.

Though the Contractor took possession of the site on 11 February, 2015, the work progress was too slow. After five (5) months of commencing work, the Corporation realized that the Contractor submitted a performance bond from an Insurance company and not a bank as per the contract terms. On 6 July 2015, the Contractor was requested to submit the required performance bond. The Contractor wrote back asking for release of the first bond for ease of replacement to which the Corporation accepted.

The Contractor abandoned the site after performance bond was surrendered. The amount of work done by then was 10% against 42.5% of time lapsed.

The Corporation terminated the contract siting;

i. Submitting wrong performance bond

ii. Slow work progress and non-performance

7.2 Retendering

The same work was re-tendered and awarded to M/S China Gansu International Corporation at a contract sum of Kshs.468,255,940 for contract duration of 52 weeks starting 6 March,2017 and ending 6 March,2018.
After expiry of the contract period, the Contract period was expended to 17 January 2019.

A site inspection on 18 January 2019 revealed that the Contractor was still on site with only 45% of works completed and 9 certificates of payments submitted amounting to Kshs.352,844,305 of which Kshs.280,180,277 had been paid being 40% of the contract sum.

The contract is far behind schedule despite the fact that the approved extension has elapsed which may lead to escalation of Project costs.

8.0 Boundary wall and Civil Works at Stoni Athi-Nhc/Tech/Bwsa/002/2016-2017

8.1 Lack of Performance Bond

As reported in the previous year, and as per the contract agreement signed between the Contractor and the employer, a performance security was to be provided within 14 days of contract award and before taking site possession or commencement of the works. Failure to provide and maintain the security as stated was to lead to contract termination and Corporation was to proceed to award the contract to another tenderer.

However, it was observed that the Contractor did not furnish National Housing Corporation with a performance bond of Kshs.5,850,222 from a reputable commercial Bank being 10% of the contract sum but the Contractor was given certificate of possession of site on 18 November 2016 before complying with terms of the signed contract.

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

8.2 As per the contract agreement signed between the Contractor and the employer, the project completion date should have been 19 May 2017 with a revised completion date of 2 August 2017 and the Project had not been completed as at April 2018. A review of the Project during the year revealed that some sections of the wall were washed away by floods and as at 31 March 2019, the same had not been repaired.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Housing Corporation in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my Qualified Opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no Key Audit Matters to communicate in my report.

Other Matter

Prior Matters from Previous Year

1. Long Term Loans Advanced

The statement of financial position as at 30 June 2017 reflected Long Term Loans Advance of Kshs.3,139,348,913. Included in this balance is Rural Housing Loans amount of Kshs.386,501,471. The Corporation provided supporting schedules in support of this item totaling Kshs.386,802,998 resulting in a difference of Kshs.301,527 and which the management has not reconciled or explained.

Further, the Corporation did not explain how an un-reconciled balances of Kshs.2,966,194 reported in the year (2015/2016) and 2016/2017 respectively were cleared.

2. Procurement of Enterprise Resource Planning System (ERP)

As reported in the previous year, the Corporation on 10 December 2012 advertised for supply, implementation and commissioning of an integrated Enterprise Resource Planning (ERP) system tender number NHC/ERP/345/2012. Out of the 8 firms that returned their bids, only two firms M/S Twenty Third Century and M/S Attain Enterprise Solutions qualified at the technical level and the finance bids were Kshs.90,937,930 and Kshs.127,728,433 respectively. The evaluation committee recommended the award to M/S Twenty Third Century but the tender committee subsequently cancelled and ordered for a re-tender.

The tender was re-advertised on 16 May 2013 and evaluated between 28 June 2013 and 30 June 2013. Out of the nine (9) firms that responded, only two: M/S Seven Seas Technologies Group and M/S Deloitte Consulting qualified at the technical evaluation stage, and their financial bids were Kshs.129,748,418 (USD 1,509,922) and Kshs.220,675,971 (USD 2,568,073) respectively. The tender committee awarded the tender to M/S Seven Seas Technologies at their bid price of Kshs.129,748,418 (USD 1,509,922). Consequently, the corporation and M/S Seven Seas Technologies group entered into a formal contract which was signed on 13 August 2013, and contract period was for 12 months. However, the following issues were observed in the procurement of the Enterprise Resource Planning (ERP) system.

2.1 User Requirements

There was no gap analysis which was done on the existing ICT Systems to justify the procurement of the ERP System. In addition, user requirements were not gathered for the intended ERP. A follow-up of this issue in the current year audit (2015-2016), revealed that the Board vide full board minute No.14/17.11.2016 directed the corporation management to seek expert services from the ICT Authority through a full automation audit to determine gaps in the existing ICT systems and advice accordingly. Though the ICT Authority submitted its report, it is not clear how the report would assist the corporation at this stage, to conclude the procurement of ERP system within the contract provisions originally entered into with M/S Seven Seas Technologies Group. By the conclusion of the audit, the propriety of the expenditure of Kshs.129,748,417 on the ERP could not be confirmed.

2.2 Procurement Process

In contravention of Regulation 16(4) of the Public Procurement and Disposal Act, 2005, the Chairman of the Evaluation Committee was a member of the Tender Committee. In addition, there is no evidence that he disqualified himself from the deliberations to award the tender to M/S Seven Seas Technologies Group. During the evaluation, it was noted that there were two consultants who were actively involved in the tender evaluation and also signed the evaluation report dated 2 July 2013. There was no evidence to indicate how the consultants were procured and how they were appointed to the evaluation committee. Further, the Consultants were paid Kshs. 596,298 which was an avoidable expenditure given that the Corporation has qualified ICT personnel. The budgeted amount of an ERP for the year 2012/2013 was Kshs.100 Million. The tender committee however awarded the tender of Kshs.129 Million in contravention of

Section 26 (3) (a) of the Public Procurement and Disposal Act, 2005 which states that all procurement shall be within the approved budget of the procuring entity.

2.3 Awarding the Contract

From the signed contract, the following was noted:

i. The Contract period was for 12 months, which was the warranty period after the systems go live. At the time of our audit in March 2017, the system had not gone live and no commissioning certificate was availed for audit review.

ii. The vendor had not provided a valid performance bond and prior implementation checklist which were tender requirements.

iii. The vendor did not provide a valid manufacturer's authorization form and end-user license agreement. Instead, the documents availed were for another contractor. The contract document had however not provided for sub-contracting. It was further noted that the General Manger and Operations Manager for Twenty third Century Solutions, the firm that had won in the first tender at a price of Kshs.90,937,930, were the same officials who had signed for M/S Seven Seas Technologies Group which had won the re-advertised tender at a price of Kshs.129,748,418.

iv. The tender had not provided for the procurement of the hardware but the contract mentioned that the vendor will provide a loan server for a period of 3 months at no cost. Available information indicates that the Corporation had not budgeted for the hardware in the financial year 2013/2014. It was not explained why the management had sought to purchase software without the necessary hardware which is critical in the implementation of any system.

2.4 Payment

As previously reported, during 2013/2014 financial year, the Corporation paid two instalments of USD 926,020 (Kshs.80,678,519) which was contrary to the payment terms as per the contract. The contract provided for 30% upon execution of the contract and 15% upon completion of the project preparation phase which is USD452,977 (Kshs.38,924,525) and USD226,488.28 (Kshs.19,462,263) respectively. The corporation therefore overpaid by USD246,555 (Kshs.21,186,579) at Kshs.85.93 exchange rates as per the contract value. According to the contract, all payments to the vendor were to be made in US Dollars to Bank of Africa (K) Limited, Westland's Branch Account Number 03007430015 and Swift Code AFRIKENX. Examination of the payment vouchers however revealed that the two payments made to the vendor were paid to Kenya Commercial Bank Kshs. 52,498,000 and Co-operative Bank of Kenya Kshs.28,180,509. The anomaly had not been explained to date.

2.5 Disclosure

The total amount paid for the ERP Software amounting to Kshs.81,274,818 is shown under Current Assets as a scheme in progress contrary to IAS 39 which requires that for each class of intangible asset, a disclosure on useful life, amortization rate and gross carrying amount be made.

As a follow up to this issue in this current year, it has been observed that the Corporation still shows this figure under current assets as a scheme in progress contrary to IAS 39.

Further, documents obtained in the current year revealed that the Board directed management to authorize the ICT team to visit the provider and obtain the software and all related documents and information on behalf of the Corporation. By the conclusion of the audit, it had not been confirmed whether the Corporation managed to obtain the software. Consequently, the propriety of the expenditure of Kshs. 129,748,417 on the ERP could not be confirmed as at the time of this audit the issue remained unresolved as at 30 June 2018.

3.0 Electronic Database Management System (EDMS)

As previously reported, the Corporation acquired a data conversion System through M/S Digital Scope Ltd and paid Kshs.13,250,000 in the financial year 2011/2012. This system was to help improve the Corporation's records by digitizing its records and make retrieval of records faster. However, during the audit for the year it was noted that records were still manually processed. The software and resultant infrastructure (hardware) could not be physically verified and by the conclusion of the audit, it was not possible to confirm existence of the system. In the circumstances, it has not been possible to confirm whether the Corporation got value for money from the expenditure of Kshs. 13,250,000 for digitizing of records and the issue remained unresolved as at 30 June 2018.

4.0 Trade and Other Payables

Trade and other payables included in the statement of financial position as at 30 June 2017 amounted to Kshs.993,293,798. Included in this amount was Kshs.373,131,890 received from prospective house buyers as deposits from three (3) schemes namely; Tenant Purchase deposits, House Rental deposits and House Mortgage Deposits but no supporting schedules were availed for verification. Further, the Corporation did not explain how an unreconciled balance of Kshs.78,152,844 reported in prior year (2014/2015) was cleared. In addition, the Corporation has also indicated that Kshs.1,383,027 (2015/2016 – Kshs.13,511,819) was prepaid rent as at 30 June 2017. Although the Corporation provided names and amounts of rental payments, it was not possible to establish the actual dates when such payments were made. Consequently, it has not been possible to confirm the accuracy and validity of the balance for trade and other payables of Kshs.993,293,798.00 in the statement of financial position as at 30 June 2017.

5.0 Trade and Other Receivables

5.1 Rent Arrears

Included in the trade and other receivables balance of Kshs.357,957,079 as at June 2017 was rent arrears of Kshs.147,166,374 (Kshs.144,553,153 in 2014/2016). Although the Corporation provided a record of its tenants, monthly rent receivable and total rental arrears in the specific areas, it did not explain why the arrears has accumulated for long periods without any recoveries being made. In addition, it was also noted that the Corporation lacks guidelines or a formal framework on the management of rental arrears. Without such guidelines, or policy in place it is difficult to establish whether any efforts to recover the rent would be effective or whether the arrears would be fully recovered. Further, the Corporation did not explain, or provide a breakdown of the credit balance of Kshs.12,412,536 described as rent arrears in the supporting schedule of trade and other receivables in 2015/16. Consequently, it was not possible to establish whether trade and other receivables of Kshs.357,957,079 as at 30 June 2017 is fairly stated.

6.0 Loan Amounts Receivable

Note 18 to the financial statements reflected loan amount receivable of Kshs.2,349,013,010(2015/16 – Kshs.1,954,446,830) as at 30 June 2017. Included in this balance are Rural Housing Loans of Kshs.592,197,948 (2015/2016 – Kshs.543,467,635) and outright sales debtors of Kshs.254,740,062. However, the management provided support schedules of Kshs.505,544,084 and Kshs.84,281,414 for rural housing loans and outright sales debtors respectively resulting in unreconciled difference of Kshs.37,923,551 and Kshs.179,601 respectively. Further, the Corporation lacks a policy on debt management especially as regards determination and management of bad debts. In addition, it was noted that the outstanding loans portfolio was quite significant and in the absence of debt management policy, recoverability of loan amounts receivable of Kshs.2,349,013,010 as at 30 June 2017 is doubtful.

7.0 Schemes in Progress

7.1 Makande Estate – Mombasa (Estate Purchased Through a Debt Swap)

As previously reported, the Corporation took over the Makande estate (in Mombasa) from the defunct Mombasa Municipal Council through a debt swap to off-set the loan debt of Kshs.260 million owed to the Corporation by the council. The estate was then valued at Kshs.310 million. The Corporation paid the excess value of Kshs.50 million to the council and took over the estate. When the Corporation started some developments on the acquired estate, some individuals claimed ownership of the parcels of land within the estate and filed cases in Mombasa High Court. The Corporation could not continue with its planned development due to the pending court cases. When the audit team visited the site for inspection, it was noted that within the estate, some individuals have fenced some plots and into the agreement for the debt swap without establishing the true ownership of the land and whether the land had any encumbrances. In addition, it has not explained how it is dealing with the issue of encroachment into the estate. In the circumstance, the Corporation may not have attained value for money in the purchase of the disputed property and the matter remained unresolved as at 30 June, 2018.

7.2 Kanyakwar II – Kisumu

As reported in the previous year, Note 17 to the financial statements reflects schemes in progress of Kshs.1,848,868,430. Included in the figure is Kanyakwar II project in Kisumu amounting to Kshs.207,330,708 which has stalled due to some disputes with the contractor. Although this project had stalled since the beginning of the financial period, it has continued to attract costs amounting to Kshs.13,854,373. It was noted that out of these charges; Kshs.12,579,377 relates to "interest on construction cost" and Kshs.436,350 relates to "supervisory costs". It is not clear how the project which is already stalled attracted supervisory costs of Kshs. 436,350. In addition, it was not explained to the audit team, how a turnkey project fully funded by the contractor could attract interest on construction of Kshs.12,579,377. It was therefore difficult to establish if the indicated payments were justified. Effectively, the Corporation may not have obtained value for money in this contract totaling Kshs.207,330,708 and the issue remained unresolved as at 30 June 2018.

7.3 Dormant Schemes

Included in the figure for schemes in progress of Kshs.1,848,868,430 as at 30 June 2017 are dormant schemes amounting to Kshs.196,709,492 (2015/16 – Kshs.251,099,767) and which have remained dormant for over one year. Although he dormant schemes continue to tie up the corporation funds, management has not explained what it is planning to do with the schemes to release the tied-up capital.
As per the contract agreement signed between the Contractor and the employer, the project completion date should have been 19 May 2017 with a revised completion date of 2 August 2017. However as at April 2018 the project was still in progress and this may lead to escalation of Project costs.

8.0 Proposed Stoni Athi Housing Scheme Phase I at Athi River River – NHC/TECH/424/2013

8.1 Project Period and Extension of Time

The Housing Scheme Phase I was awarded to M/S N.K. Brothers Ltd on 29 December 2014 at their tender sum of Kshs. 633,909,101 for a contract period of 101 weeks. The contractor was given possession of site on 26 January 2015. The works commenced on 04 February 2015 with an expected completion date of 16 January, 2017. However, the contractor did not complete the works on schedule and on 31 January 2017 an extension of 18 weeks was awarded revising completion date to 24 May 2017.

However, as at April 2018 there was no evidence of completion of the project and no evidence of extension of contract period was provided.

8.2 Irregular Payment of Advance

Clause xiv of Instructions and Conditions of Tendering states categorically that no advance or mobilization payments shall be made either for construction plant, tools and materials or any other purpose. In addition, according to Appendix B – Amendments/Deletions to Conditions of Contract, Clause 23.7 of Conditions of Contract on payment of advance was deleted entirely implying that no advance payment was too be granted. Further, Regulation 98 of Public Financial Management (National Government) regulations, 2015 states that advance payment shall not be paid to suppliers unless provided for in the contractual terms and conditions contained in a valid contract signed between the procuring entity and the supplier.

However, examination of payment records revealed that despite the above instructions to bidders and conditions of contract, the Contractor was paid irregularly advance payment amounting to Kshs. 63,390,910 being 10% of the Contract Sum.

8.3 Written Contract Agreement

According to Section 68 of the Public Procurement and Disposal Act, 2005 the person submitting the successful tender and the procuring entity shall enter into a written contract based on the tender documents, the successful tender, any clarifications and any corrections and that no contract is formed between the person submitting the successful tender and the procuring entity until the written contract is entered into. Despite the above provisions the Corporation paid for the advance, issued instructions and gave possession of site before the written contract agreement was entered into between the corporation and the Contractor which was later signed on 17 February 2015.

8.4 Payments for Illegal Squatters

The contractor was instructed to liaise with M/S Naikuni Ngaah & Company Advocates, relocate any and all squatters who may be occupying or laying Claim on LR No.10426/81 including making appropriate arrangements for their settlement elsewhere. Further, the contractor was requested to document any and all costs including taxes and overheads that may arise from the above instruction.

Further, although it has been explained that M/S Naikuni Ngaah & Company Advocates represented the interests of the illegal squatters who were laying claim on the land, it has not been explained who was representing the interests of the Corporation in the negotiations and why National Land commission was not involved in the process. It is also not clear how the amount of Kshs.91,600 compensations to each of the 300 members of the Osiligi Association totaling to Kshs.27,500,000 was arrived at. Also included in the compensation is Kshs.1,500,000 plaintiff advocate fees inclusion and payment of which is contrary to High Court of Kenya order dated 04 March 2015 which required each party to bear its own costs.

9.0 Procurement of Intangible Assets

Included in the schedule for Intangible Assets is an expenditure of Kshs.2.197,620 being additions to intangible assets during the financial year 2016/2017. However, the tender committee minute's No.91/2015/2016 were never signed by the chairperson but the management went ahead and procured the systems. This contravenes Section 135 of the Public Procurement Act, 2015 which states that existence of a contract shall be confirmed through the signature of a contract document incorporating all agreements between the parties and such contract shall be signed by the accounting officer or an officer authorized in writing by the accounting officer of the procuring entity and the successful tenderer.

Although management has explained that the Chairman declined to append his signature, no explanation was provided as to why the assets were acquired before the minutes were signed and confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

Conclusion

As required by Article 229(6) of the Constitution, except for the matters discussed in the Basis for Qualified Opinion section of my report, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirement and plan and perform the review so as to obtain assurance as to whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance with ISSAI 1315. The standard requires that I plan and perform the audit so as to obtain assurance as to whether effective processes and systems of internal control, risk management and government was maintained in all material respect.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International 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.

In preparing the financial statements, management is responsible for assessing the ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the or to cease operations, or have no realistic alternative but to do so.
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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity 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 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 review is planned and performed to express a conclusion with limited assurance as to 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the National Housing Corporation to cease to continue as a going concern or to sustain its services.

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

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the 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.

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

Nairobi

08 May 2019