



Office of the Auditor-General

Performance Audit
Report of the
Auditor-General



Facilitation of Homeownership for
Civil Servants by the Civil Servants
Housing Scheme Fund

Ministry of Housing

February 2013

Foreword by the Auditor-General

I am pleased to publish and publicize this audit report that examines the performance of the Civil servants Housing Scheme Fund in facilitating civil servants to become homeowners. My Office carried out the audit under the provisions of the Public Audit Act, 2003. Section 29(1) of the Act mandates me to assess the economy, efficiency and effectiveness with which the Government, a state corporation or local authority uses its resources.

Performance audits together with financial and continuous audits form the three-pillar audit assurance framework that I have established to give focus to the varied and wide scope of audit work done by my Office. The framework is intended to give assurance to stakeholders that public resources are not only correctly disbursed, recorded and accounted for but that they also have positive impacts on the lives of all Kenyans. The overriding goal of our performance audits is to promote delivery to Kenyans of public services of outstanding quality.

The report shall be tabled in Parliament in accordance with Article 229(7) of the Constitution. I have, as provided in Section 30 of the Public Audit Act, submitted the original copy of the report to the Minister of Housing to table in Parliament as required of him under Section 31(1) of the Act. In addition, I have remitted copies of the report to the Minister of Finance and to the Permanent Secretary at the Treasury.



EDWARD R.O. OUKO
AUDITOR-GENERAL

19 February 2013

List of Abbreviations

CSHSF	-	Civil Servants Housing Scheme Fund
GED	-	The Government Estates Department
HFCK	-	The Housing Finance Company of Kenya
OAG	-	Office of the Auditor General
PPP	-	Public- Private Partnership
S&L	-	Savings & Loans Company Limited
SMC	-	Scheme Management Committee

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Executive Summary

Background to the Audit

The Civil Servants Housing Scheme Fund

1. The Government established the Civil Servants Housing Scheme in the year 2004 to facilitate qualified civil servants to become homeowners and make affordable rental housing available to others. The Fund provides home mortgage-loan facilities and develops housing units for sale or letting to civil servants. The affairs of the Fund are managed by the Ministry of Housing through the Scheme Management Committee. The members of the Committee include the Accounting Officer in the Ministry and counterparts in the Ministries of Finance, Public Service, Local Government, Public Works, Labour and the Office of the Attorney-General. As concerns provision of residential housing to civil servants, the stated goal of the Ministry of Housing is to build at least 1000 new units every financial year.

Importance of facilitating civil servants to become homeowners

2. Facilitating civil servants to become homeowners has many benefits. Housing is regarded as a basic human need in Kenya and all over the world. Many employers, including Governments, include it among the benefits they provide to their employees to enhance their well-being and facilitate them to be productive at work. In addition, home-construction contributes to national economic activity and creates wealth through employment of both skilled and unskilled labour and is major source of tax revenue collected by the Government. The provision of housing to civil servants also supports the Government's ambition to facilitate decent housing to all Kenyans under the Kenya Vision 2030.

What we examined

3. The objective of the audit was to assess the level of success attained by the Civil Servants Housing Scheme Fund in facilitating homeownership for civil servants. The audit examined whether the Fund had met its targets for number of homes built for sale or letting. In addition, the audit assessed whether the Fund had provided sufficient mortgage-loans to civil servants to buy houses and allocated the loans and the homes it built equitably among various cadres of civil servants. Therefore, the activities of the Fund examined in the audit included planning and implementation of house construction projects, allocation and sale of the houses built, and disbursement of mortgage loans. The focus of the audit was on the activities carried out by the Fund during the nine-year period between September 2004 when it was established, and November 2012. Given the goal set by the Ministry to build 1000 houses for civil servants annually, we expected that the Fund would have built at least 7,000 new housing units and disbursed loans to many more civil servants during the eight-year period under review.

Findings of the Audit

The Fund built and sold homes to civil servants as mandated but its overall performance was unsatisfactory

4. The Civil Servants Housing Scheme Fund attained several significant accomplishments during the period under review. The Fund sold 1,083 old government houses to raise its initial capital for investment as directed by the Cabinet in 2004; built 1,159 new houses at a cost of Kshs.3.14 billion and advanced mortgage-loans totalling to Kshs.1.39 billion to 455 civil servants. By realizing these outputs, the Fund provided ample proof that it could make modern housing available to civil servants at prices lower than the prevailing market rate. However, its overall performance fell far short of the expectations of its stakeholders and the targets set by its managers. As is evident from the data, only 1,159 of the 7,000 homes planned for construction during the period under review were completed and further, only a few hundred civil servants benefited from home-loans financed by the Fund. In addition, the Fund mainly catered for the housing needs of middle and high cadre staff and thus left the vast majority of civil servants unattended.

Why the Fund failed to attain its targets and fulfil stakeholder expectations on its performance

5. The primary cause of the Fund's failure to meet its own performance targets and fulfil the expectations of its stakeholders was lack of sufficient funds for investment in home-construction projects and mortgage financing. The shortage of financial capital resulted from the Fund not having received additional investment capital from the Government; lower than expected rental income; higher than expected house-construction costs and delays in completion of its income-generating projects. These factors created a vicious circle that constrained the Fund from growing its capital base and expanding its home-construction and lending activities. The more severe of the four adverse factors, namely, low rental income receipts and delays in completion of projects, resulted from the failure by the Ministry of Housing to manage the affairs of the Fund in an efficient and effective manner:

The capital available to the Fund for investment in house-construction and lending was not sufficient

6. The Fund obtained its initial share capital totaling to Kshs.1,818 billion from a cash investment amounting to Kshs.300 million made by the Government and a sum of Kshs.1,518 billion obtained from the sale to civil servants of 1,083 Government houses. Although the Legal Notice that established the Fund in 2004 had indicated the Fund would in future years receive money voted by Parliament or raise additional capital from other sources, none of the two expectations was realized. In addition, rental income proceeds due to the Fund fell short of the amounts expected. The shortfalls were caused by the failure of the Government Estates Department (GED) to remit the whole of the Fund's share of rental income collected from Government buildings as directed by the Cabinet in June 2004. For example, remittances over the two-year period to 30 June 2010 were equivalent to only 40.9% of collections contrary to the directive by the Cabinet that the remittances reach 97.5% of collections by June 2007.

7. The Ministry of Housing did not provide any plausible explanation for its failure to pay into the Fund all rental income due and neither did it explain the uses to which it put the unremitted funds. In our estimation, the money withheld from the Fund by the Ministry over the period under review totalled to at least Kshs.1.34 billion. This sum excludes forfeited revenue estimated at Kshs 566 million resulting from failure by the GED to collect rent from all buildings under its care. Also, the Fund forfeited an undetermined amount of rental income because the GED did not to maintain a complete inventory of government-owned houses from which it was entitled to charge rent. In addition to the income shortfalls, high building costs quickly exhausted the money available to the Fund for investment in house-construction and home-loans. Further,the Fund could not use low-cost building technologies because the Building Code did not allow for their use.

Appointment of contractors lacking sufficient capacity and legal suits over land delayed the execution of Fund's projects

8. Award of building contracts to firms that lacked sufficient financial and or technical capacity to execute projects delayed the completion of at least three of the ten projects implemented by the Fund. Two contractors abandoned ongoing projects works while one never reported to the site after winning the respective tender. The projects were re-awarded to new contractors and as a result,the total project costs rose by Kshs.296,006,612 or 165% of the original contract sums. In four other projects, price variations increased projects costs by Kshs. 96,374,047. Also, legal disputes over ownership of plots of land on which two of the projects were to be implemented delayed their completion by at least two months. Overall, delay in completion of projects cost the Fund an estimated Kshs.987million in overexpenditures and foregone mortgage-recovery income.
9. Also, a private-partnership agreement for construction of 1,844 housing units at a cost of 4.25billion signed between the Ministry of Housing and a private home-developer did not work as planned.The project was to be implemented in three phases. In addition to delaying the completion of the project, the partner, whose services were procured through non-competitive single sourcing, failed to finance the works as provided for in the contract agreement. In the end, the firm abandoned the project site after implementing the first phase at a cost that exceeded the contract sum by Kshs.71.05 million. Furthermore, the firm did not use the low-cost building technology agreed with the Ministry in the terms and conditions of the contract agreement. As at 30 November 2012, and four years after the award of the contract, the implementation of the second and third phases of the project expected to supply a total of 1,529 houses had not began.

The Fund mainly catered for the Housing Needs of High Cadre Civil Servants

10. Sale prices for houses built by the Fund were too high relative to the incomes of most civil servants. As a result, the majority did not qualify to buy the houses because they did not meet the liquidity thresholds set by the Scheme Management Committee and partner financial institutions. Out of the 748 houses sold by the Fund as at 30 November 2012, 425 (57%) were bought by upper middle and high cadre employees in Job groups P to U; 273 (36%) by middle cadre officers in Job Groups L, M and N and only 50 (7%) by lower cadre officers in Job groups K and below. High cadre employees constitute less than 10% of the total number of employees in the civil service.

Only a few hundred civil servants benefitted from home-loans financed by the Fund

11. The Fund commenced its lending activities during the 2008/09 financial year, nearly five years after it was established. Out of the 560 civil servants who applied for loans, only 455 were successful. Therefore, the Fund did not meet the mortgage-loan finance needs of at least one-third of the applicants. Due to shortage of cash for lending, the Fund was on several occasions compelled to suspend its lending activities. For example, only 18 new loan applicants were financed during the one-year period to November 30 2012. The Fund's inability to lend to many borrowers meant that it could not expand its loan portfolio and create more credit to attain higher income needed to finance its investments.

Conclusions

12. The performance of the Civil Servants Housing Scheme Fund during the first nine years of its existence did not meet the expectations of its managers and stakeholders and was therefore unsatisfactory.
13. The failure by the Fund to obtain additional capital from the Government or other sources severely constrained its capacity to invest in lending and home construction. However, the main causes for its unsatisfactory performance were internal. The unexplained failure by the Ministry of Housing to remit to the Fund rental income as directed by the Cabinet, appointment of contractors lacking sufficient capacity to implement projects and delays in completion of the projects cost the Fund an estimated Kshs.2.82 billion in lost rental income, over-expenditures and forgone cash inflows. The sum, which excludes revenues forgone due to delay in completing 1,529 units planned under the stalled Shauri Moyo Public-Private Partnership Project, was sufficient to build at least 900 additional houses or lend to an equal number of borrowers. Besides, the lost income and forgone cash inflows would have enabled the Fund to create more credit and earn more income through its lending activities.

Recommendations

14. For the Civil Servants Housing Scheme Fund to meet its targets and fulfill its statutory mandate, the Ministry of Housing and the Fund's Scheme Management Committee should resolve the managerial weaknesses that hinder the Fund from using its resources in an economic, efficient and effective manner. Thus, the factors that cause cost overruns and delay the execution of the Fund's projects should be resolved urgently. In addition, the Ministry should pay all rental income it has withheld from the Fund over the years and commit not to withhold any in future; and further; the Treasury should facilitate the Fund find new sources of capital. The Fund must in addition consciously implement an equitable policy that builds houses the majority of civil servants can afford to buy or rent.
15. More importantly, the ministry should position the Fund management and operations to respond to the likely surge in demand for housing stock as the devolution of government structures and institutions takes its full effect. Furthermore, the ministry may review the definition of "civil servant" with a view to enable the Fund widen its customer base for the future.

16. The complete set of measures that the Auditor-General has recommended to the Accounting Officer, Ministry of Housing for improved performance of the Fund are highlighted in Chapter 6 of the report.

Response of the Accounting Officer to the Findings and conclusions of the report

17. The Accounting Officer and the Scheme Management Committee have read the report and agreed with its findings and recommendations. The response of the Accounting Officer to the findings and recommendations of the report is outlined in Appendix 4 of the report.

Chapter 1

Background to the Audit

Introduction

- 1.1 This audit report examines the activities of the Civil Servants Housing Scheme Fund (CSHSF) in facilitating civil servants to become homeowners. The report follows a performance audit conducted on the operations of the Fund by the Office of Auditor-General.

The Civil Servants Housing Scheme Fund

- 1.2 The Government established the Civil Servants Housing Scheme Fund through Legal Notice No.98 of 15th September 2004. The Notice defines the objectives of the Fund as follows;
- i. To provide housing loan facilities to any qualified civil servant for purchase or construction of a residential house and;
 - ii. To develop residential housing units for sale or rental to civil servants.
- 1.3 The Notice, in addition, outlines the rules and regulations that govern the administration and the operations of the Fund and authorizes its managers to raise capital funds to finance the implementation of its objectives.
- 1.4 The Fund is administered by the Ministry of Housing and managed by the Scheme Management Committee. The Committee defines a 'civil servant' as any employee in the public service working in a Government Ministry. The definition excludes employees of parastatals, the Judiciary and independent Commissions and Offices.

Motivation for the Audit

- 1.5 The Auditor-General authorized the audit after having considered the importance of the mandate assigned to the Civil Servants Housing Scheme Fund as illustrated by the following factors:

Decent housing is a basic human need

- 1.6 Decent housing is regarded as a basic human need all over the world. The Government in its long-term development plan, Kenya Vision 2030, aspires to have the annual production of housing units increase from 35,000 in 2007 to over 200,000 by 2012.

The activities of the Civil Servants Housing Scheme Fund, if implemented well, would contribute much to the attainment of the goal given the large number of Government employees in Kenya.

Decent housing facilities provided to Civil Servants could inspire them to perform better at work

- 1.7 Housing is one among the benefits that employers may use to motivate their workers with a view to improve their well-being and increase their productivity and effectiveness. Therefore, good performance by the Civil Servants Housing Scheme Fund would enhance public interest as well. This would inspire the Civil servants to work better in delivering services to the public and thus impact positively on the attainment of national goals.

Construction projects create employment and wealth

- 1.8 The construction sub-sector in Kenya plays an important role in national wealth creation by generating employment for both skilled and unskilled labour and contributing to government revenues through payment of taxes. The sub-sector has the potential to revitalize and sustain economic growth through linkages to the manufacture and transportation of building materials among other related economic activities.

Chapter 2

Design of the Audit

Objectives of the Audit

- 2.1 The objective of the audit was to establish the level of success attained by the Civil Servants Housing Scheme Fund (CSHSF) in facilitating homeownership by civil servants since its creation in the year 2004. In particular, the audit assessed;
- i. whether the Fund attained its annual targets for number of houses constructed and met the demand for new homes by civil servants ;
 - ii. whether the Fund provided in a timely manner, sufficient amounts of mortgage-loan finance to qualified civil servants who applied for funding to buy or construct homes and;
 - iii. whether the Fund catered equitably for the homeownership needs all cadres of civil servants.

Scope of the Audit

- 2.2 The audit examined the performance of the Civil Servants Housing Fund of the Ministry of Housing in developing residential housing units for sale and rental to civil servants, and in providing them with loans to buy or construct homes. The activities examined included planning and execution of house construction projects, allocation of completed houses and provision of mortgage-loan finance. The focus of the audit was on homes constructed, sold or let and mortgage loans disbursed by the Fund from the start of its operations in September 2004 to November 2012. All the ten house-construction projects implemented by the Fund were located in Nairobi and were examined in the audit.

Limitation of scope

- 2.3 The audit did not examine data on rental income, if any, collected and disbursed to the Fund by the Accounting Officer, Ministry of Housing, during the first three financial years of the Fund's existence (2005/06 to 2007/08) because the Ministry did not submit the respective records for audit when requested to do so.

- 2.4 The Accounts Department of the Ministry explained that officials of the defunct Ministry of Lands and Housing, which was by then responsible for the affairs of the Fund did not hand over the records over to them. Therefore, it has not been possible to confirm the sum of the receipts or the uses to which the Ministry put them.
- 2.5 In addition, the Ministry did not submit for audit tender documents for six of the nine projects implemented by the Fund. Therefore the audit team did not examine the documents and as a result, it has not been possible to establish;
- i. whether the construction firms appointed to execute the six projects were hired through competitive processes that gave due regard to economy, efficiency and effectiveness in the use of the Fund's resources and;
 - ii. whether, the procurement processes applied by the Fund adhered to the requirements of the Public Procurement and Disposal Regulations 2006.
- 2.6 The six projects are; Kilimani I; Gichugu Road; Nyeri Road; Ngara Phase I; Shauri Moyo and Jogoo Road Phase II.

Methods Used to Gather Audit Evidence

- 2.7 The audit was conducted in accordance with Performance Auditing Guidelines issued by the International Organization of Supreme Audit Institutions (INTOSAI) and policies and procedures established by the Office of Auditor-General. The guidelines and policies conform to the requirements of International Standards on Auditing. The methods used to gather audit evidence are outlined in Appendix I of this report.

Audit Criteria

- 2.8 We assessed the performance of the Fund against criteria obtained from the following sources:
- i. Legal Gazette Notice No. 98 of 15th September 2004 through which the Minister of Lands and Housing established and gazetted the Fund and outlined regulations that were to govern its operations;
 - ii. Cabinet Memo No. OP.CAB.58/4A dated 25th June 2004 which defined the mandate of the Fund and how rental income collected from Government houses was to be shared between the Fund and the Government Estates Department;
 - iii. The National Housing Policy issued by the Ministry of Housing;
 - iv. The Strategic Plan of the Ministry of Housing for the period 2006-2011;
 - v. Generally accepted and recommended project management practices.
- 2.9 The actual criteria used to assess the issues examined in the audit are outlined in the respective findings in Chapter 4.0 of the report.

Chapter 3

Description of the Audit Area

Statutory mandate for Provision of Housing to Civil Servants

- 3.1 Presidential Circular No. 1 of 2008 bestows upon the Ministry of Housing the responsibility for facilitating, developing and managing quality and affordable housing for Kenyans. The Circular also defines the responsibilities of the Ministry to include provision and management of government buildings including offices and residential housing for civil servants. The Ministry provides residential housing to civil Servants through two of its Departments namely, the Civil Servants Housing Scheme Fund (CSHSF) and the Government Estates Department (GED).
- 3.2 The Civil Servants Housing Scheme Fund finances the construction of residential houses for sale or rental to civil servants. In addition, the Fund provides mortgage-loans to civil servants to buy or construct homes. The borrower may choose to buy a house built by the Fund, build one privately, or buy from the market place. The Government Estates Department is the managing agent for all buildings owned by the Central Government. It provides rent-collection and maintenance services on the buildings.
- 3.3 The functions and process descriptions of the two departments are outlined in paragraphs 3.5 to 3.8 below:

Functions and Responsibilities of the Civil Servants Housing Scheme Fund

- 3.4 The Government established the Civil Servants Housing Scheme Fund (CSHSF) through Legal Notice No.98 of 15th September 2004. The Fund provides home-mortgage loan facilities to any qualified civil servant for purchase or construction of a residential house and, in addition, builds residential housing units for sale and for rental by civil servants.
- 3.5 The Fund is a Department of the Ministry of Housing. It is managed by the Accounting Officer in the Ministry. Its operations are administered by the Scheme Management Committee whose members include the Accounting Officer and counterparts in the Ministries of Finance, Public Service, Labour, Public Works, Local Authorities, and the Office of the Attorney General. The Commissioner of Lands is an ex-official member of the Committee.

Functions and Responsibilities of the Government Estates Department

- 3.6 The Government Estates Department (GED) is responsible for managing all buildings owned by the Government. The Strategic Plan of the Ministry of Housing for the period 2006-2011 defines the functions of the GED as follows:
- i. To collect rent and Appropriations-in-Aid (A-I-A) from the Government pool and institutional houses;
 - ii. To maintain Government houses;
 - iii. To allocate Government houses and buildings to tenants;
 - iv. To update and maintain the Government buildings register;
 - v. To acquire title deeds for land on which Government houses, including office buildings, are located and;
 - vi. To manage houses and office buildings allocated to the disciplined forces.

Key Processes in the Operation of Fund

- 3.7 The Fund carries out three main activities spelt out in its mandate namely- building of and sale of residential houses, letting-out some of the houses built, and lending to civil servants to buy or build homes. The house-construction and sale functions of the Fund are managed by Ministry of Housing and administered by the Scheme Management Committee. The Fund carries out its lending function in partnership with two banks namely the Housing Finance Company of Kenya and the Savings and Loan Limited, a subsidiary of the Kenya Commercial Bank. The activities and processes of the Fund are outlined in Figure 1 below:

Figure 1: Key Activities and Operational Processes of the Fund



Source: KENAO Analysis of the CSHSF operations

The operations of the Fund occur through three main processes namely house construction and Sale, mortgage financing and, letting out of houses:

Sources of Funding for the Civil Servants Housing Scheme Fund

3.8 The regulations of the Civil Servants Housing Scheme Fund provide that the capital of the Fund shall consist of the following:

- i. An initial capital contribution amounting to Kshs.300 million paid out of the vote of the Ministry of Lands and Housing during the 2004/2005 financial year and such other funds as may be voted in subsequent years;
- ii. Proceeds from the sale of non-strategic Government houses;
- iii. All monies paid into the account operated by the Officer administering the Fund.

- 3.9 The Government, through Cabinet Memo No.OP.CAB.58/4A of 25 June 2004, further directed that for the first three financial years (2004/2005 – 2006/2007) after the establishment of the Fund, 60% of the rent collected by Government Estates Department from residential Government houses be remitted by the Ministry of Housing to the Fund to enhance its capital. The balance (40%) was to be dedicated to repairs and maintenance of the houses. The Cabinet directed that to strengthen its capital-base of the Fund it was to retain, 97.5% of the total rent collections made by the GED in the years to follow.
- 3.10 In addition to rental revenue, the Fund received income in the form of mortgage-interest recoveries paid by the homebuyers it advanced loans. The proceeds received by the Fund from the three sources namely, the initial capital outlay, proceeds from the sale of non-strategic houses and rent revenue collected between July 2004 and November 2012 totalled to Kshs.3.69 billion as shown in Table 1 below:

Table 1: Income of the Fund between the 2004/05 and 2012/13 Financial Years

Financial Year	Source of Funding- Amount (KShs.)			Total (KShs.)
	Initial Government Contribution	Sale of Houses in Nairobi	Rental Income from GED	
2004/2005	300,000,000	-	-	300,000,000
2004/2005	-	1,518,238,000	-	1,518,238,000
2005/2006	-	-	197,876,468	197,876,468
2006/2007	-	-	363,706,150	363,706,150
2007/2008	-	-	333,250,000	333,250,000
2008/2009	-	-	196,730,676	196,730,676
2009/2010	-	-	170,542,741	170,542,741
2010/2011	-	-	195,035,546	195,035,546
2011/2012	-	-	215,000,000	215,000,000
July-Nov 2012	-	-	200,000,000	200,000,000
Total	300,000,000	1,518,238,000	1,872,141,581	3,690,379,581

Source: CSHSF Records

The Fund received a total of Kshs.3,690,379,581 during the nine-and-a-half years period under review. However, the audit could not confirm the accuracy of the balance since the Auditor-General issued qualified audit certificates on the Financial Statements of the Fund in several of the years preceding our audit.

Chapter 4

Findings of the Audit

The Fund built homes and provided mortgage loans to Civil Servants as mandated but its overall performance fell far below expectations

- 4.1 The Civil Servants Housing Scheme Fund began to implement its mandate soon after it was established in the year 2004. Nine-and-a-half financial years later in November 2012, the Fund had accomplished the following:
- i. Sold to civil servants 1,082 old Government houses previously owned by the defunct Ministry of Lands and Housing;
 - ii. Disbursed loans totalling to Kshs.1,394,072,616 to 455 Civil Servants;
 - iii. Built 1,137 residential houses in Nairobi out of which 748 were sold to civil servants ;
- 4.2 The houses built by the Fund are modern and attractive and therefore offer their civil servant owners with a good living environment. They are, in addition, cheaper than similar ones built by private-sector developers. In view of its accomplishments, the Fund has provided ample proof of its potential to provide decent housing to civil servants as expected of it under its mandate. However, in spite of its notable achievements, the overall performance of the Fund was unsatisfactory when assessed against the targets set by its management and demand for its services during the period under review. The Fund;
- i. did not construct sufficient numbers of housing units for sale or rental to civil servants;
 - ii. only managed financed a small number of civil servants with affordable mortgage-loans for home construction or purchase and
 - iii. mainly built homes suited for the minority middle and upper cadres of civil servants.
- 4.3 The performance of the Fund and the reasons for its failure to achieve its own targets and fulfil the expectations of its stakeholders, are discussed in detail in the remainder of this chapter of the report:

I. The number of houses built by the Fund fell far below its target for the period under review

- 4.4 Among the strategic goals of the Ministry of Housing is to increase housing stock available to civil servants for purchase and rental countrywide. The Ministry specified the in its strategic plan for the financial years 2006/07 to 2010/2011. The Civil Servants Housing Scheme Fund was expected to build 5000 new housing units during the five-year period. To attain the goal, the Fund would have had to build an average of 1,000 new houses in each of the five financial years. However, the audit revealed that six years later as at 30 November 2012, the Fund had only initiated construction of 1,159 houses in Nairobi and none in other parts of the country. Out of the 1,159 units, the Fund built 1,137 units to completion. The balance of 22 were still under construction at the time of the audit. As a result, the Fund attained just 16.5% of its target of at least 7,000 new housing units for the seven-year period between the 2006/07 and 2012/13 financial years.

Table 2: Number of Houses Built by the Fund as at 30 November 2012

Estate	Area	Project Status		Total No. of Houses
		Complete	Ongoing	
Kilimani	Phase 1	30	0	30
	Phase 2	20	0	20
Kileleshwa	Nyeri Rd	40	0	40
	Mokena Rd	0	22	22
	Gichugu Rd	26	0	26
Jogoo Road	Jogoo Rd phase 2	50	0	50
Ngara	Ngara 1	130	0	130
	Ngara 2	526	0	526
Shauri Moyo	Decanting site	315	0	315
Total		1137	22	1159

Source: KENAO analysis of CSHSF data

The CSHSF built to completion only 1137 housing units in the first eight years after it was established. All the units were built in Nairobi.

- 4.5 Having completed only a small portion of the units it had set out to build, the CSHSF was unable to meet demand for new houses from civil servants. Records maintained by the Fund indicated that 2,408 civil servants had by 30 November 2012 applied to buy houses from the Fund but as shown in Table 3 below, only 708 (29%) were successful:

Table 3: Successful and Unsuccessful House Purchase Applicants

Estate	No. of Applicants	No. of Successful Applicants	Unsuccessful Applicants	
			No.	%
Jogoo Road	409	50	359	88%
Ngara I (2BR)	349	76	273	78%
Ngara I (3BR)	347	54	293	84%
Ngara II (2BR)	193	149	44	23%
Ngara II (3BR)	316	242	74	23%
Gichugu Rd Site I	60	10	50	83%
Gichugu Rd Site II	92	12	80	87%
Gichugu Attic	35	4	31	89%
Nyeri Rd	232	40	192	83%
Kilimani I & II	293	50	243	83%
Makueni Rd	82	21	61	74%
Total	2408	708	1700	
%	100%	29%	71%	

Source: KENAO analysis of MH data:

For lack sufficient units to sell, the Fund sold homes to only 708 (29%) of the 2,408 Officers who applied to purchase the houses it built during the period under review.

- 4.6 The reasons for the Fund's failure to meet its target for number of houses built during the period under review are highlighted in paragraphs 4.7 to 4.38 below:

The Fund lacked sufficient capital for investment

- 4.7 Construction of modern housing units and investment in mortgage lending requires a large capital outlay. Therefore, the Civil Servants' Housing Scheme Fund needs sufficient amounts of investment capital and other factors of production to execute its plans. The initial capital of the Fund totalling to KShs.1,818,238,000 was obtained from the sale of 1,082 Government-owned residential houses and a budgetary allocation totalling to Kshs.300 million made by Parliament to the Ministry of Housing. Other sources of capital to the Fund included a portion of rental income collected by the Government Estates Department and income from mortgage-interest recoveries on home-loans advanced to civil servants.
- 4.8 However, data examined during the audit revealed that the capital available to the Fund for investment was far much less than the large size and value of its planned activities and demand shown by civil servants for its services. Apparently, the Fund did not receive as much income or investment capital as it had expected to during the period. The income shortfalls experienced by the Fund resulted from three main factors namely;

- i. Failure by the Fund to receive new capital for investment;
 - ii. Failure by the Ministry of Housing to remit to the Fund its share of rental income collected from Government-owned houses;
 - iii. Erosion of the Fund's capital due to high and rising house-construction costs and;
 - iv. Delays in completion of the Fund's house construction projects.
- 4.9 The four factors and their causes and effects are discussed in detail in paragraphs 4.10 to 4.38 below:

Contrary to expectations, the Fund did not receive any new capital for investment

- 4.10 The regulations of the Fund (Legal Notice No 98 of 15 September 2004) provide that the investment capital of the Fund shall consist of the initial capital voted to the Ministry and other funds raised or voted in future. However, the Fund did not receive any additional voted funds or raise any new capital on its own in the years that followed. Therefore, the Fund financed all its activities from its initial capital and from mortgage recoveries and rental income received in each of the financial years. Clearly, the receipts were not sufficient to build the strong capital-base that the Fund required to finance the large construction and home-financing projects envisioned in its mandate and the strategic plan of the Ministry of Housing.

The rental income of the Fund fell short of the level expected

Examination of records maintained by the Fund and interviews conducted with its managers and officials of the Ministry of Housing revealed that the yearly rental income of the Fund failed to reach the levels expected due to the following factors:

- i) **The Ministry of Housing failed to remit the whole portion of rental income collected by the Government Estates Department on behalf of the Fund**
- 4.11 Cabinet Memo No. OP.CAB.58/4A of 25 June 2004 had directed that the Fund would, during the first three years of its existence (2004/2005-2006/2007) receive 60% of the share of the annual rent charges collected by Government Estates Department of the Ministry of Housing rising to 97.5% proportion by the fourth financial year and thereafter. However, data obtained from the Ministry indicated that the sums that it remitted to the Fund in each of the six financial years to 30 June 2010 were below the ratio set by the Cabinet. For example, the aggregate sum remitted to the Fund by the Ministry during the 2008/2009 and 2009/10 financial years was equivalent to only 40.9% of the expected collections as opposed 97.5% as directed by the cabinet. The Ministry has not explained why it failed to remit all the collections due to the Fund.

Table 4: Rental Revenue Collected By the Fund:

Financial Year	Amount Collected	Amount Disbursed		97.5% of Amount Collected	Disbursement Shortfall	
	KShs.	KShs.	%	KShs.	KShs.	%
2008/2009	488,750,323	199,667,428	40.9%	476,531,565	(276,864,137)	-56.6%
2009/2010	403,905,852	165,351,502	40.9 %	393,808,206	(228,456,704)	-56.6%

*Source: OAG analysis of Ministry of Housing data:
The GED remitted to the CSHSF only 41% of the total rental income it collected in 2008/09 and 2009/10 instead of the 97.5% proportion set by the Cabinet.*

4.12 In spite of the Ministry of Housing having failed to adhere to the directive issued by the Cabinet, the Scheme Management Committee did not provide evidence to show that it had petitioned the Ministry to release the withheld funds. On its part, the Ministry did not submit to the audit team evidence to show how it spent the collections that it failed to remit to the Fund. The failure by the Ministry to pay to the Fund all the rental income due worsened the vicious circle of low income and investment experienced by the Fund. Our estimate of rental income withheld by the Ministry from the Fund over the eight-year period under review totalled to Kshs.1,343,132,600.

ii) **The GED did not collect rent from all tenants of Government-owned houses**

4.13 The Strategic Plan of the Ministry of Housing for the financial years 2006/07 to 2010/11 identified under-collection of rent from Government houses to be one of the main problems that the Ministry needed to address during the period in order to enhance its income. The plan sought to increase collections of rent by the Government Estates Department(GED) from 85% to 100% of potential receipts by the end of the 2008/09 financial year.

4.14 Records maintained by the GED indicated that during the 2009/2010 financial year, Government houses leased to tenants countrywide totalled to 21,176. The Ministry estimated that the gross rental income receivable from the houses each month totalled to Kshs.44,712,290 or Kshs.536,547,480 per year. However, the actual collections fell short of projections for the period under review. For example, collections during the 2009/10 financial year totalled to Kshs.423,692,007 and were therefore short of the expected sum by Kshs.112,855,473, a 21% income deficit.

4.15 Even then, the Ministry may have understated its targets. Other evidence obtained during the audit confirmed that the GED (please see paragraph 4.17 below) did not have under its control all the Government houses it was supposed to manage. Going by the Ministry’s estimate that at least 15% of potential annual rental revenue was not collected by the GED, we estimated that during eight-year period under review the Department forfeited revenue totalling to Kshs.643,856,976 out of which a sum of Kshs.567,398,959 was payable to the Fund.

- 4.16 The Ministry had in its strategic plan for the years 2006/07-2010/11 stated its intention to improve the management of its asset records by among other changes conducting quarterly updates of the records to reflect the numbers and status of Government houses countrywide. However, the Department had not updated the records by the end of November 2012. The Ministry attributed the failure to lack of an integrated property management system and shortage of staff in the Department.
- 4.17 Audit review of documents maintained by the GED indicated that not all Government houses were on record in the register of Government houses maintained by the Department. Those omitted from the register included units that were not captured in a survey carried out by the Ministry of Lands and Housing in 2001 and those built by local communities through public programmes in several rural and urban areas. Among the omissions were residential houses built for staff working in health centres under the Constituencies Development Fund Programme.
- 4.18 Others were built under various Government infrastructure projects but were not handed-over to the GED by the respective Ministries and Departments after the completion of the projects. For example, out of the 28 houses built in Vihiga County under a Government project, only four were registered with the GED. A road contractor was reportedly collecting rent from the rest.
- 4.19 In the absence of a complete property inventory, the GED could collect or account for all rental income due from Government houses.
- iii) Rent charges set by the GED were below market-rates
- 4.20 Proper valuation of any building would help ensure that the rental value assigned to the building reflects its true value. Circular No OP.18/2/1A issued by the Office of the President's on harmonization of terms and conditions of service in the public service directed that rental charges on government-owned houses would reflect the market rates with effect from July 1, 2001. However, the audit revealed that the GED did not re-value Government houses under its management after the Office of the President issued the Circular in spite of the Ministry of Housing having indicated in its 2006/07-2010/11 strategic plan that it would revalue 6,000 residential housing units and adjust the respective rental charges as appropriate.
- 4.21 The GED instead opted to carry out a general market survey on rental charges in Kenya in 2009. The survey revealed that in most locations, the charges were significantly higher than in 2001. The rise in the charges in various locations surveyed had risen by between 50% and 125% over the ten-year period. Therefore, the rental charges paid by tenants of Government houses in 2009 were below the rates prevailing in the housing market that year. The Ministry has not explained why it abandoned its plan to review the charges.

iv) The Stock of rentable Government Houses decreased after some were sold or allocated to private parties

4.22 The records of the Ministry of Housing showed that many houses owned by the Government were in previous years alienated and taken over by private parties after the parties obtained titles to the properties. The takeovers and transfers were subject of previous reports by the Auditor-General. Among these were several houses in the high-income residential areas of Upper hill, Parklands and Kileleshwa in Nairobi. Records maintained by the GED further indicated that at least 125 houses were taken over by various private parties in many parts of the country in the late 1990's and early 2000's as shown in Table 5 below. The GED thus lost the right to charge and collect rent from the houses:

Table 5: Transfer of Government-owned Houses to Private Parties

District	No of Government Houses Alienated to Private Parties
Kitui County	3
Narok County	1
Meru County	1
Nyeri County	4
Machakos County	3
Nakuru County	86
Laikipia County	8
Kericho County	13
Kisii County	2
Kilifi County	4
Total	125

Source: KENAO analysis of GED data: *Nakuru District alone lost 86 houses to various firms and individuals. However, in the absence of an asset register, it was not possible to confirm the actual number of Government-owned houses and land taken over by private parties.*

4.23 In addition to providing valuable information for decision-making and financial reporting, a comprehensive and updated asset inventory helps assert ownership and safe custody of organizational assets. The organizational structure of the Ministry of Housing places the responsibility maintaining the register of Government-owned buildings and acquiring title deeds for plots of land on which the houses are built on the GED. However, we did not see any evidence showing that the Ministry ever petitioned the Ministry of Lands to register plots of land on which the Government houses stood. The lack of action on the part of the Ministry may have encouraged alienation of government houses and properties by private parties. In the absence of legal titles to the lands on which its houses are built, the Government's claim to ownership of the houses is not assured.

v) Some of the Government houses did not attract tenants

- 4.24 The Ministry of Housing in its Strategic Plan (revised) for the years 2006/07-2011/12 outlined its intention to increase occupancy rates in residential houses let out by the GED from 70% to 100% by the end of the 2007/08 financial year. However, records held by the GED indicated that low occupancy rates were common during the period under review. For example, the records of the Ministry indicated that at least 1,046 houses (5% of the total number of government-owned houses on record) had no tenants as at 31 December 2010. For example, our analysis of the records revealed that the Ministry lost potential rental income totalling to Kshs.17,186,400 due from the vacant houses during the 2009/2010 financial year alone. Most of the vacant houses were located in rural areas where demand for rental housing from civil servants was low.

High Construction Costs Eroded the Fund's Investment Capital

- 4.25 The National Housing Policy document prepared by the Ministry of Housing acknowledges that house construction costs in Kenya are high and need to be controlled. The document seeks to encourage research on low-cost building technologies and persuade investors to use building materials that are locally available to reduce construction costs. However, in its policy paper titled *Proposed Housing Sector Incentives & Market Re-engineering Measures (2007)*, the Ministry acknowledges that not much has been done in researching on low-cost building materials and construction techniques in Kenya. Therefore, the information available to stakeholders on low-cost building technologies is not sufficient to provide good guidance on the development of the sector.
- 4.26 Sale records for the houses built by the Fund indicated that 77% of the houses were valued at Kshs.2,000,000 or more. The managers of the Fund explained that house prices are a function of construction costs, cost of land and anticipated margin of not more than 20%. However, the Fund did not purchase any of the pieces of land on which it built its houses since the Government owned these. The Ministry attributed the high prices to high costs of building materials and labour. Further, the Fund was unable to use low-cost construction technologies to build its houses because the Building Code did not provide for their use. Although the sale prices set by the Fund were still lower than those charged by private developers for similar housing units, the mortgage repayments were too high for the majority of civil servants to afford. Therefore, only civil servants in the upper-middle and high cadres bought the houses.
- 4.27 In the absence of the relevant legal framework allowing homebuilders to use low-cost construction technologies, the prices of houses built by the Fund are likely to remain higher than most civil servants can afford to pay. Therefore, the Fund may only benefit civil servants in the upper cadres. Thus, the ambition of the Fund to grow into a large homeownership venture that enjoys economies-of-scale in its operations and serves the majority of civil servants may not be attained.

Delays in Completion of Projects constrained the Fund's capacity to grow its rental and mortgage-interest income

4.28 Good project management practices call for efficient implementation of projects including their completion within the agreed time-scales. However, the Fund did not complete any of its projects within the contracted periods. The length of the delays ranged from three months to four-and-a-half years. The delays, which are highlighted in Appendix 2 of this report, were mainly caused by the following factors:

i) Some of the contractors appointed by the Ministry lacked sufficient financial and technical capacity to undertake large construction projects.

4.29 Section 31(1) (a) of the Public Procurement and Disposal Act 2005 requires firms that bid for public sector contracts to possess the qualifications, capability, experience, resources, equipments and facilities needed to deliver in an efficient and effective manner the goods and services that they bid to supply. However, examination of the relevant records indicated that at least four out of the twelve contractors hired by the Ministry of Housing to implement its house-construction projects might not have possessed the competencies required to undertake the projects awarded to them.

4.30 The Ministry hired the four to provide house- construction services for the projects implemented at Nyeri Road, Makueni Road, and Ngara Phase I. The contractor appointed to undertake the Ngara Phase I project did not report to the site at all.

4.31 The Ministry has indicated that it awarded the contracts to the lowest qualified bidders. However, we were unable to confirm the Ministry's assertion since some of the tender and other documents used in procuring the services of the contractors were not made available for audit review. However it looks more likely that the Ministry did apply the provisions of the Public Procurement Regulations on tendering well enough to detect the flaws and weaknesses of some of the bidders who went on to win the respective tenders in spite of lacking capacity to implement the works awarded to them.

4.32 The Ministry terminated the contract for the Kileleshwa (Nyeri Road) in March 2008 after the original contractor failed to complete it. The aggregate payments made to the contractor at the time of the termination totalled to Kshs. 61,331,490. The sum was equivalent to 49% of the contract price amounting to Kshs.125,996,622 and yet the project records indicated that the contractor had only completed 35% of contracted works. It was not clear whether the Ministry thereafter assessed the work done by the contractor and demanded a refund of any overpayment it may have made in relation to the contract. After terminating the three contracts, the Ministry floated tenders inviting new contractors to complete the works. The new contracts were made at the prices shown in Table 8 below:

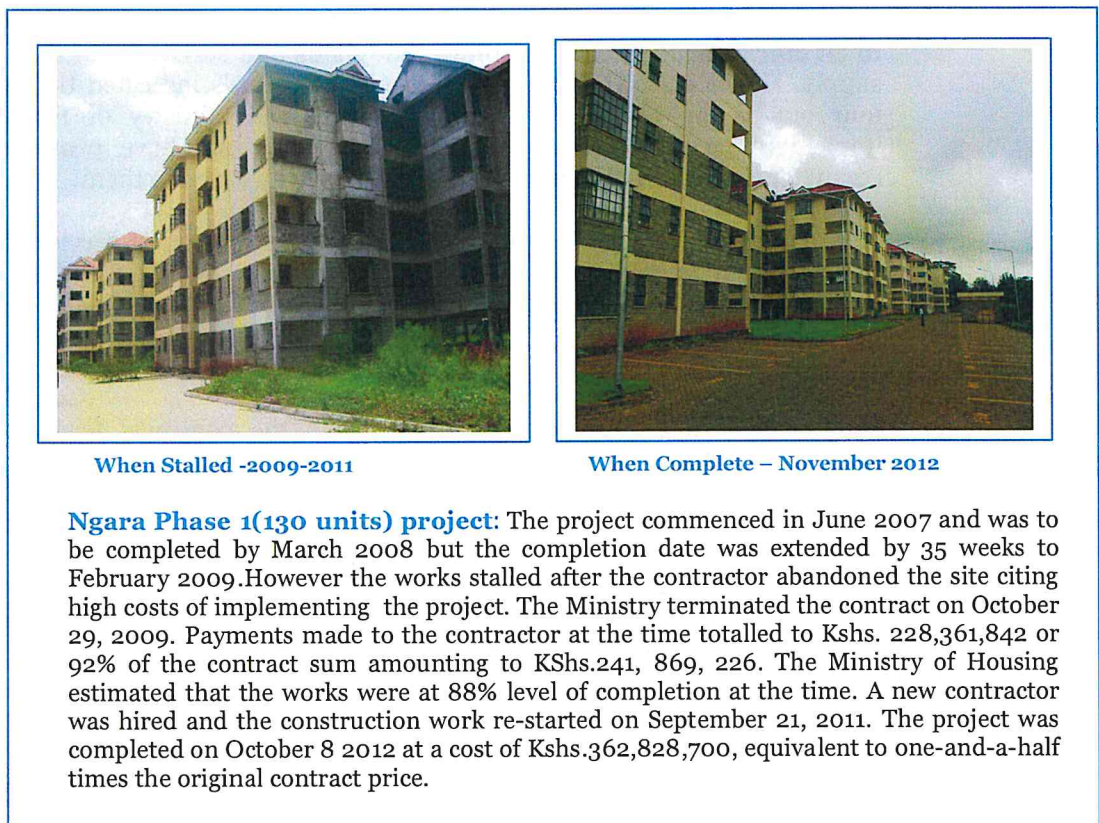
Table 6: Re-award of Three Projects to New Contractors

Project Name	Original Contract price KShs.	New Contract Price KShs.	3rd Contract Price KShs.
Nyeri Road	125,996,622	199,909,101	-
Makueni Road	103,850,462	57,707,000	-
Ngara I	241,869,226	248,137,208	170,000,000

Source: Ministry of Housing

Three projects stalled after the Ministry of Housing terminated the contracts or the contractors abandoned the works. New contractors were hired to complete the works resulting in the final project costs exceeding the budgeted contract sums.

Figure 2: Ngara Phase 1 Project: When Stalled and When Completed



4.33 The failure by the original contractors to complete construction works as planned increased the project costs by Kshs.296,006,212 or 167% of the initial costs of the projects as shown in Table 7 below.

Table 7: Over-expenditures (Loss) incurred by the CSHSF on reward of abandoned /terminated Contracts to new Contractors

Contracting Stage	Project Name			
	Nyeri Road	Makueni Road	Ngara I	Total
	Payments to Contractors			
	Kshs.	Kshs.	Kshs.	Kshs.
1 st Contractor	61,331,491	85,960,000	-	147,291,419
2 nd Contractor	199,895,731	57,707,000	242,153,000	499,755,731
3 rd Contractor	-	-	120,675,700	120,675,700
Total	261,227,222	143,667,000	362,828,700	767,722,922
Less: Original Contract price	125,996,622	103,850,462	241,869,226	471,716,310
Over-expenditure	135,230,600	39,816,538	120,959,474	296,006,612
Proportion of final cost over the original contract Price	208%	138%	150%	167%

Source: OAG Analysis of CSHSF Data

Completion of the projects delayed and the costs of their implementation rose by Kshs.296,006,612 after the original contractors abandoned the projects and the Ministry appointed new ones to complete stalled works.

- 4.34 Four of the Fund's nine projects were implemented by the original contractors to the end but still recorded over-expenditures totalling to Kshs.96,374,047 or 12% of the original contract costs. Among the reasons given by the Ministry for varying the contract prices was change in the scope of works said to have become necessary after the implementation of the projects began. However, two other projects were completed on budget. The records of the Fund indicated that Kilimani II was implemented at the contracted cost while Ngara II's final costs were 7% below the budget.

Table 8: Expenditures on the Rest of the Fund's Projects

Project Name	Original Contract price (Kshs)	Payments made to Completion (Kshs)	Payments in Excess of contract Price	
			(Kshs)	%
Kilimani I	111,909,101	126,230,529	14,321,428	13%
Kilimani II	132,909,101	132,909,101	-	0%
Gichugu Rd Phase 2	43,382,193	47,652,130	4,269,937	10%
Ngara II	1,619,909,101	1,504,337,000	(115,572,101)	-7%
Jogoo Road Phase 2	56,800,000	63,507,682	6,707,682	12%
Shauri Moyo Phase 1	470,925,000	542,000,000	71,075,000	15%

Source: OAG Analysis of CSHSF Data: For projects implemented by the original contractors to the end, the final total costs exceeded the original contract sums by an average of 15%. However, Ministry implemented two other projects namely Kilimani II and Ngara II within the contracted cost.

ii) Disputes over ownership of plots of land delayed commencement of works

- 4.35 Among the standard requirements for Government construction contracts is that the procuring entity shall hand over the site to the contractor free of any encumbrances. However, examination of records on two projects revealed that the start of construction work delayed due to legal disputes over ownership of land on which the houses were to be built.
- 4.36 The delays affected Kilimani 1 (House No. HG/640 LR 209/2802) and the Gichugu Road (Kileleshwa) projects where civil applications were filed in the High Court by third parties claiming ownership of the plots of land on which the two projects were to be implemented. The project completion periods increased by eight and twenty-one weeks respectively.

iii) The Fund's largest project was not managed in an effective manner

- 4.37 The Ministry of Housing, acting for the Fund, partnered with a private construction company to build 1,844 housing units and a commercial complex at Shauri Moyo in Nairobi at a total cost of KShs.4.25 billion. The units were to be built using Lemma Technology, which was said to be an internationally patented building construction system. The system reportedly makes use of plastic shutters and specially designed concrete mixes to create entire concrete structures reinforced with steel. The structures are thereafter cast on foundations designed in the conventional manner. The technology reportedly reduces construction costs and shortens the time required to implement projects.
- 4.38 Records on the project indicate that the Ministry appointed the contractor without following a competitive procurement process. The Ministry and the contractor signed the contract agreement in October 2008 but by the time of the audit four years later in November 2012, only the first phase of the project comprising of 315 units (or 17% of the 1844 units due) was complete. The Government spent KShs.542,000,000 on the first phase thus exceeding the contracted cost amounting to Kshs.470,925,000 by KShs.71,075,000 or 115% of the contracted sum.

Table 9: Scope of the Public- Private Partnership Contract

Project Phase	Scope	Unit Size	Units	Total Contract Cost KShs.	Actual amount Paid KShs.	Over expenditure KShs.
Phase I	Build Decanting Site	1 Bedroom	315	470,925,000	542,000,000	71,075,000
Phase 2	9 blocks of 12 floors	2&3 Bedrooms	801	1,900,000,000	-	-
Phase 3	8 blocks of 12 floors & commercial complex	2&3 Bedrooms	728	1,876,450,000	-	-
Total			1,844	4,247,375,000	542,000,000	71,075,000

Source: OAG Analysis of CSHSF data:

Phase I of the Shauri Moyo Project exceeded the contracted sum by Kshs.71,075,000 or 115% of the contracted cost. The contractor completed the Phase in 25 months (2 years and one month) instead of the seven-month period agreed in the contract agreement. As at 30 November 2012, works on the 2nd and 3rd Phases had not commenced and neither was the contractor on Site. The Ministry indicated that it was exploring ways of implementing the two remaining phases of the project.

- 4.39 The partner failed to fulfil three critical provisions of the contract agreement:
- i. Although the contract was to run for 30 months between October 2008 and March 2011, the contractor abandoned the project after completing the first phase in November 2010.
 - ii. Although the provisions of the contract had stated that the contractor was to provide all the funds needed to implement the project after receiving an advance payment amounting to Kshs.47,092,500 from the Ministry of Housing- the Ministry was to buy-back the houses on their completion- the Ministry, contrary to the provisions of the project agreement, made additional payments totalling to Kshs.494,907,5000 to the contractor. The payments raised the total public contribution to the project to Kshs.541,563,750 and practically changed the nature of the project from a public-private-partnership (PPP) agreement to an ordinary arms-length procurement contract between a principal (the Ministry of Housing) and an agent (the partner) but which contract was not procured in a competitive manner as required by the Public Procurement Regulations 2006.
 - iii. Although the contractor was under the terms of the partnership agreement required to use the *Lemna Building Technology* that would reduce both the time, cost of building the houses, and facilitate transfer of the technology to Kenya, the contractor did not use the technology in the project.
- 4.40 As at 30 November 2012, works on the second and third phases of the project expected to supply a total of 1,529 additional housing units to the Fund had not begun. The delay in completing the project caused the Fund to forfeit a significant amount income that it would otherwise have received from the sale of the 1,529 houses had the project been undertaken as planned.

II. Only a few hundred civil servants benefitted from home-purchase loans financed by the Fund

- 4.41 To implement its home-loan financing function, the CSHSF partnered with two mortgage-finance banks namely Savings and Loan Limited which is a subsidiary of the Kenya Commercial Bank, and the Housing Finance Company Limited. Each of the two banks receives and vets loan applications and disburses loans to applicants that qualify for funding, subject to availability of funds. The banks thereafter manage the recovery of the loan as provided for in the respective financing agreement.
- 4.42 The Fund only began its lending activities in 2008, four years after it was established. Its records indicate that between June 2008 and November 2012, 560 civil servants applied for loans from the two mortgage banks but only 455(81%) were successful. As at 30 December 2010, the Fund had disbursed loans totaling to Kshs.1,394,072,616 to 455 civil servants against loan applications valued at Kshs.1,718,966,124 received from 560 applicants as shown in Table 9 below:

Table 10: Successful and Unsuccessful Loan Applications

Bank	Loan Applications		Successful Applicants		Proportion of Successful Applicants	
	No.	Amount (Kshs)	No.	Amount Lent(Kshs)	No.	
KCB (S& L)	327	975,857,947	279	829,487,770	48	85%
HFCK	233	743,108,177	176	564,584,846	57	76%
Total	560	1,718,966,124	455	1,394,072,616	105	81%

Source: KENAO analysis of CSHSF data:

The Fund advanced loans to only 455 civil servants during the nine-year period under review.

- 4.43 Clearly, the money available to the Fund for lending was not sufficient to meet the financing needs of all loan applicants. The cash shortage facing the Fund was so severe that over the one-year-and a half period to 30 November 2012, lending activities were as good as suspended as only about 15 persons received loans from the Fund. There were 105 pending loan applications valued at Kshs.324,893,506 as at that date.
- 4.44 The decision of the Scheme Management Committee to exclude from the Scheme public sector workers in semi-autonomous government, parastatals and independent Offices also meant that the Fund could not widen its customer-base by tapping on the demand for homeownership from this category of public servants.

III. The minority senior-cadres of civil servants were the main beneficiaries of the Fund's projects

- 4.45 As a Government entity financed through public funds, the Civil Servants Housing Scheme Fund should manage its affairs in an equitable manner by designing and running its operations to cater for the homeownership needs of all cadres of civil servants. However, the Fund implemented eight out of its ten projects in the upper-middle and high-income residential areas of Nairobi and as a result, the prices of the houses built were beyond the reach of the majority of civil servants.

Figure 3: Apartments Earmarked for High- cadre Staff



Source: OAG

Left, Kileleshwa Nyeri Road (40 units) and right, Kilimani 1&2 (50 units):

Houses built under the two projects were intended for upper- cadre staff and cost the Fund Kshs.261,227,222 and Kshs.259,139,630 respectively to implement. The estimated sale price for each units at Nyeri Road was 7.6m while at Kilimani 1 and 2 it the price was Kshs.4.8m and Kshs.7.3m respectively.

- 4.46 Out of the 1,137 housing units built and completed by the Fund as at 30 November 2012, 50 and 66 were priced high for their quality and location in the upper middle-income areas of Kilimani and Kileleshwa respectively, 656 were located in the middle income areas of Ngara and Jogoo Road (50) and Shauri Moyo(315). An additional 22 units were under construction at Kileleshwa, another upper middle-income residential area. The picture above shows some apartments built by the Fund for purchase by middle and upper-cadre officers.
- 4.47 Out of the 748 housing units developed for sale by the Fund, 425 (57%) were allocated to high cadre officers in Job groups P to U and 273 (36%) to middle cadre officers in Job groups L, M and N. Only 50 (7%) were allocated to junior officers in Job group K. Overall, approximately 94% of the apartments went to officers in the middle and upper cadres of the Service and only 6% to the lower cadre. Therefore, the Fund spent a disproportionately high share of its capital on construction of houses that most civil servants could not afford to buy or rent. Indeed, the Fund's project expenditure records confirm the disparities. The records indicate that as at 30 November 2012, 24% of the total house-construction expenditure incurred by the Fund financed the building of 112 units that benefited only high cadre officers.
- 4.48 Overall, the costs of building houses for the middle and upper cadre staff made-up 97.5 % of the total cost of the Fund's completed projects. Only 2.5% of the total costs were incurred on the 50 units meant for officers in the lower cadres of the service. An outline on the allocations is shown in Table 11 below:

Table 11: How the Houses Built and Sold by the Fund Fit the Civil Service Cadres

Estate	Area	Number of Units Built		Construction Costs (KShs)	% of total Expenditure Incurred by the Fund on construction Projects
		No.	% of Total Built		
High Income Cadre					
Kilimani	Phase 1	30		126,000,000	
	Phase 2	20		132,909,101	
Kileleshwa	Nyeri Road	40		260,391,731	
	Makueni Road	22		99,600,000	
Total		112	13%	618,900,832	24%
Cumulative		112	13%	618,900,832	24%
Middle Income Cadre					
Kileleshwa	Gichugu Road	26		47,652,130	
Ngara 1	Ngara	130		362,828,700	
Ngara 2	Ngara	526		1,504,337,000	
Total		682	81%	1,914,817,830	74%
Cumulative		794	94%	2,533,728,662	97.5%
Low Income Cadre					
Jogoo Rd	Jogoo Road Phase 2	50		63,507,682	
Total		50	6%	63,507,682	2.5%
Grand Total		844		2,597,226,344	100%

Source: KENAO analysis of CSHSF data:

The largest portion of the Fund's investment (97.5%) catered for the needs of civil servants in the middle and higher cadres.

4.49 Legal Notice No. 98 of 15 September 2004 which regulates the affairs of the Fund provides that the Scheme Management Committee assigned to administer the affairs of the Fund shall consist of six Accounting Officers (Permanent Secretaries) and the Attorney-General. Therefore, all bona-fide members of the Scheme Management Committee are high-cadre officers. The Regulations do not require that middle and lower cadre officers be represented in the Committee even though they constitute the majority of civil servants.

4.50 The Scheme Management Committee did not disclose the criteria it used to arrive at the portfolio of the Fund's investment projects and it was not therefore certain whether the Committee had drawn and documented objective criteria for the purpose. Further, in the absence of the criteria, it has not been possible to confirm that the nature of the projects undertaken by the Fund during the first nine years of its existence was not influenced by the lopsided composition of its executive organ.

Chapter 5

Conclusions

- 5.1 The performance of the Civil Servants Housing Scheme Fund in facilitating homeownership by civil servants during the first eight years of its existence fell below the expectations of its managers and stakeholders. The Fund attained only modest success in its core mandate areas of home construction and mortgage-loan financing.
- 5.2 On home construction, the Fund's stated ambition would have seen it build at least 7000 homes over the period under review but it only built 1,159 units out of which it had completed 1,137 units as at 30 November 2012. The number of units completed was only 16.5% of the target set by the Ministry of Housing for the period under review. Similarly, the Fund did not do as well as expected in its lending activities. It only commenced lending to civil servants four years after it was established and as at 30 November 2012 had provided loans to 455 civil servants only.
- 5.3 The main cause of the Fund's modest achievements was shortage of capital for investment. Its total cash receipts during the period were made up of the initial capital contribution from the Government, mortgage-loan recoveries and rental income remitted yearly by the Government Estates Department. The absence of voted provisions, lower than expected remittances of rental income proceeds collected for the Fund by the Government Estates Department and high house-construction costs constrained the capacity of the Fund to build a large, growing and sustainable capital base.
- 5.4 Furthermore, success for the Fund was severely hampered by delays in completion of its projects. The delays mainly resulted from award of construction contracts to firms lacking capacity to undertake large projects and legal disputes over plots of land earmarked for some of the projects. The delays caused project costs to escalate, ensured that the Fund's capital remained held-up in unproductive ventures for long periods, and postponed the receipt of much-needed cash inflows due to the Fund from mortgage-loan recoveries and rental income.
- 5.5 In our estimation, the delays in completing the Fund's projects and under-collection of rent by the Government Estates Department and failure by the Department to remit all the collections cost the Fund at least Kshs.2.82 billion in revenues and cash inflows. Had the Fund received this sum, it would have created more credit and increased its income by building 900 more houses than it did or lending to a similar number of house-buyers.

- 5.6 The Fund also did not record much success in meeting the home-ownership needs of lower cadre civil servants because it priced the houses that it built higher than they could afford. Therefore, it was the senior civil servants workers in the relatively small upper-middle and high cadres that benefited most from the activities of the Fund. In addition, the firm concentrated its activities in Nairobi only and thus left other urban centres and counties unattended.
- 5.7 In spite of its modest achievements, the Fund has proved that it can provide good housing facilities to civil servants at prices lower than they could access in the open housing market. The experience gained so far should provide the Fund with useful lessons on what it needs to do to perform better in future. For the Fund to attain success on a wide scale in the coming years, it will have to build and sell far many more housing units each year and increase its borrowers many times more. In addition, the Fund must use its resources in an efficient and effective manner and address the housing needs of workers in the middle and lower cadres of the Civil Service countrywide.
- 5.8 Chapter 6 of this report outlines the measures that the Auditor-General has recommended for action by the Accounting Officer, Ministry of Housing, for improved performance of the Fund.

Chapter 6

Recommendations

- 6.1 In view of the findings and conclusions of the audit, the Auditor-General would like to make the following recommendations to the Accounting Officer, Ministry of Housing, concerning the management of the Fund:

To ensure that the Fund has sufficient funds for investment;

1. The Ministry of Housing should;
 - i. Review and update the inventory of Government houses and re-value the houses to their market values before setting new rental charges that tenants occupying the houses would pay.
 - ii. Carry out internal audits regularly to ensure that all rental income due to the Fund is collected in a timely manner.
 - iii. Improve the efficiency of the Government Estates Department in collecting rents on Government houses to reach 100% of rental income due;
 - iv. Remit to the Fund the withheld balance of its share of rental revenue collected by the Government Estates Department since the 2004/05 financial year and undertake to remit the full share of future collections in the year they are made;
 - v. Seek from the Treasury money for re-capitalisation of the Fund to enable it to sufficiently meet the large and growing demand for its services from civil servants;
 - vi. Seek the assistance of the Treasury in raising long-term capital using such as bonds or public-private partnerships.
 - vii. Widen its customer-base by reviewing its strict definition of 'civil servant' to allow public servants in semi-autonomous government agencies, independent offices and parastatals interested in joining the Scheme to enrol.

To reduce construction costs and make houses built by the Fund affordable to the majority of civil servants

2. The Ministry of Housing should;
 - i. Propose relevant changes to the Building Code to allow for the use of proven low-cost house construction technologies;
 - ii. Partner with public or other organizations that own land or other assets on which the Fund could leverage its own resources to generate outcomes beneficial to civil servants.

To ensure that the Fund's projects are completed in due time and at budgeted cost

3. The Ministry of Housing should;
 - i. Improve the methods it uses to evaluate firms that bid for its building contracts so that only contractors having sufficient technical and financial capacity in construction work are appointed to implement the Fund's projects;
 - ii. Enhance the capacity of the Fund to manage, including planning, monitoring and controlling, the implementation of all projects that it undertakes;
 - iii. Liaise with the Ministry of Lands to ensure that all plots of land earmarked by the Scheme Management Committee for development of houses are free from all legal and or other impediments.

To achieve fairness and equity in meeting the homeownership needs of all cadres of civil servants

4. The Ministry of Housing should;
 - i. Effect changes in rules of the Fund to allow officers in lower cadres of the Civil Service to become members of the Scheme Management Committee;
 - ii. Develop, document and follow objective criteria in allocating the resources of the Fund between its lending and house construction functions as well as in sharing the resources among projects meant to meet the needs of various cadres of civil servants;

To avoid loss of public funds invested in the Fund's stalled projects

5. The Ministry of Housing should immediately take administrative and legal steps to protect its financial and other interests in the stalled Shauri Moyo project.

To reduce financial and other risks faced by the Fund due to its heavy involvement in construction projects;

6. The Scheme Management Committee should invest the larger portion of the Fund's capital in lending to civil servants to build or buy houses on their own.

To enable the Fund respond well to the changed Governance Structure in the country

7. The Ministry of Housing should re-align the operations of the Fund to meet the expected surge in demand for housing stock as devolution to county-level governance and administration structure takes full effect.
8. The Accounting Officer and the Scheme Management Committee have read and accepted the findings and recommendations of the report. The response of the Accounting Officer on the findings and recommendations is outlined in Appendix 6.

Appendices

Appendix 1: Methods Used To Gather Audit Evidence

- 1.1 To acquire knowledge and understanding of the mandate, organization and operational procedures and activities of the Fund, the audit team examined various records maintained on the Fund by the Scheme Management Committee and the Ministry of Housing. The documents included the following:
 - i. The Civil Servants (Housing Scheme Fund) Regulations, 2004 Legal Notice No. 98 of 15 September 2004;
 - ii. Ministry of Housing Strategic Plan for 2006-2011;
 - iii. Ministry of Housing circulars on Government Housing;
 - iv. Kenya Vision 2030;
 - v. National Housing Policy for Kenya – Sessional Paper No. 3;
 - vi. The Service Charter of the Ministry of Housing;
 - vii. Civil Servants Housing Department Procedures Manual;
 - viii. Minutes of the Scheme Management Committee;
 - ix. Mortgage Status Reports from the Fund’s financial partners namely Savings and Loan Limited and the Housing Finance Company of Kenya Limited;
 - x. Minutes of the meetings of the Scheme Management Committee;
 - xi. Files on Projects undertaken by the Fund ;
 - xii. The Proposed Housing Sector Incentives and Market Re-engineering Measures (2007);
 - xiii. The Public Procurement and Disposal Act-Public Private Partnerships Regulations, 2009,
 - xiv. Legal Notice No. 38 of 15 September 2004.
- 1.2 In addition, the team interviewed the Principal Accounts Controller, Ministry of Housing and several of his staff in order to understand the procedures, and processes that the Government Estates Department uses to account for and remit to the Fund the rental income it collects. The team in addition examined records on the expenditures incurred on the Fund’s projects and on the allocation of the completed houses to civil servants. We compared the evidence collected against the audit criteria to arrive at the findings and conclusions of the audit.
- 1.3 To verify the status of the Fund’s projects, the audit team visited and inspected all ten project sites and interviewed the Fund’s managers assigned to the projects. All of the sites are located in Nairobi County. Except as mentioned in the scope of the audit paragraph (Chapter 2 Paragraph 2.3) all the records on the activities of the Fund were examined during the audit.
- 1.4 To obtain information on the status of Government houses let-out by the Government Estates Department throughout the country, the audit team interviewed the Assistant Director-in-charge of estates at the Government Estates Department.

Appendix 2: Delays in Completion of Projects

Project Name		Commence-ment Date	Initial Contract Period (weeks)	Completion date/ Time of Final Verification	Total Time spent on Project (weeks)	Delay in Weeks	Delay in Months	
Completed Projects								
1.	Kilimani	Phase 1	23 May 07	54	2 Dec 08	78	24	6 months
		Phase 2	16 Jan 09	62	22 April 10	74	12	3 months
2.	Kileleshwa	Gichugu Road 1	6 Nov 06	26	15 Oct 08	81	55	13months (1 year)
		Gichugu Road 2	1 Aug 06	30	19 Feb 08	99	69	23months (2 years)
3.	Shauri Moyo	Jogoo Road Phase 2	1 Aug 06	42	22 Jan 08	77	35	9 months
4.	Shauri Moyo	Decanting Site	24-Apr-09	30	25-Mar-11	100	70	18months 1 1/2 years
5.	Ngara	Ngara 1	04-Jul-07	56	08-Oct-12	275	219	55 months 4(1/2)yrs)
6.		Ngara 2	30-Mar-08	140	08-Oct-12	236	96	24months 2years
7.	Kileleshwa	Nyeri Road	11-Dec-06	50	01-Apr-11	225	175	32 months (2 3/4 years)
Incomplete Project								
8.	Kileleshwa	Makueni Road	01-Aug-08	58	03-Dec-12	226	168	42 months (3 1/2 years) and growing

Source: OAG Analysis of CSHSF Data:

None of the projects implemented by the Fund during the period under review was completed within the initial contract period. The delays ranged from three months to four years.

Appendix 3: Rental Income Forgone Due to Delays in Completing Projects

Project Name		Size (No of Bed-rooms)	Number of Units	Expected Minimum Monthly Repayment Kshs	Delay in Completing Project		Forgone Revenue (Mortgage Repayment) Kshs.
					Weeks	Months	
Kilimani	Phase 1	4 Br	30	30,371	24	6	5,466,780.00
	Phase 2	4 Br	20	46,189	12	3	2,771,340.00
Kileleshwa	Nyeri Road	4 Br	40	48,088	175	44	84,154,000.00
	Makueni Road	4 Br	22	43,658	168	42	40,339,992.00
	Gichugu Road Site 1	4 Br	4	25,309	55	14	1,391,995.00
	Gichugu Road Site 2	4 Br	6	24,044	69	17	2,488,554.00
	Gichugu Road Site 2	2 Br	16	16,451	69	17	4,540,476.00
	Jogoo Road	Jogoo Road phase 2	2 Br	50	9,491	35	9
Ngara	Ngara I	2 Br	76	21,513	219	55	89,515,593.00
	Ngara I	3 Br	54	26,575	219	55	78,568,987.50
	Ngara II	2 Br	238	21,513	96	24	122,882,256.00
	Ngara II	3 Br	288	26,575	96	24	183,686,400.00
Total Revenue Foregone							619,958,686.00

Appendix 4: Allocation of Completed Houses among Various Cadres of Civil Servants

Estate	Area	Category	Income Level	No. of Applicants	No. of Successful Applicants		Deficiency	
					No.	%	No.	%
Jogoo Road Phase II	Jogoo road	1 Bedrooms	High	0	0	0%	0	0.0
			Middle	31	1	3%	30	97%
			Lower	369	49	13%	320	87%
Kilimani	Dennis Pritt rd	4 Bedrooms	High	152	50	33%	102	67%
			Middle	80	0	0%	80	100%
			Lower	12	0	0%	12	100%
Ngara I	Desai Road	2 Bedrooms	High	223	0	0%	223	100%
			Middle	53	26	49%	27	51%
			Lower	67	48	72%	19	28%
		3 Bedrooms	High	25	1	4%	24	96%
			Middle	207	46	22%	161	78%
Ngara 2	Desai Road	2 Bedrooms	High	14	11	79%	3	21%
			Middle	73	64	88%	9	12%
			Lower	102	73	72%	29	28%
		3 Bedrooms	High	124	116	94%	8	6%
			Middle	138	102	74%	36	26%
Kileleshwa	Makueni Road	4 Bedrooms	High	61	19	31%	42	69%
			Middle	9	1	11%	8	89%
			Lower	5	0	0%	5	100%
	Gichugu Road	4 Bedrooms	High	65	12	18%	53	82%
			Middle	70	10	14%	60	86%
			lower	14	0	0%	14	100%
	Nyeri Road	2 Bedrooms	High	8	1	13%	7	88%
			Middle	17	3	18%	14	82%
			Lower	10	0	0%	10	100%
	Nyeri Road	4 Bedrooms	High	117	40	34%	77	66%
			Middle	100	0	0%	100	100%
			Lower	15	0	0%	15	100%
	Total				2318	697	30%	1621
		Summary of Successful Applicants						
		High Grade	250	36%				
		Middle Grade	253	36%				
		Low Grade	194	28%				
		Total	697	100%				

Appendix 5: Comparison of House Allowances for Civil Servants with Minimum Monthly Mortgage Repayments for Houses Sold by the Fund

Project Name & Location in Nairobi		Size (No of bedrooms)	Final Sale Price	Expected Minimum Monthly repayments Kshs.	Cadre that May Afford the Payments based on Monthly House allowance	
					Cadre/(Job Group Kshs.)	Monthly House Allowance (Kshs).
Kilimani	Phase 1	4 Br	4,800,000	30,371	P to U	40,000 to 80,000
	Phase 2	4 Br	7,300,000	46,189	P to U	40,000 to 80,000
Kileleshwa	Nyeri Rd	4 Br	7,600,000	48,088	P to U	40,000 to 80,000
	Makueni Rd	4 Br	6,900,000	43,658	P to U	40,000 to 80,000
	Gichugu Rd Site 1	4 Br	4,000,000	25,309	P to U	40,000 to 80,000
	Gichugu Rd Site 2	4 Br	3,800,000	24,044	N to U	24,000 to 80,000
	Gichugu Rd Site 2	2 Br	2,600,000	16,451	L to U	20,000 to 80,000
Jogoo Road	Jogoo Rd phase 2	2 Br	1,500,000	9,491	K to U	10,000 to 80,000
Ngara	Ngara I	2 Br	3,400,000	21,513	N to U	24,000 to 80,000
	Ngara I	3 Br	4,200,000	26,575	P to U	40,000 to 80,000
	Ngara II	2 Br	3,400,000	21,513	N to U	24,000 to 80,000
	Ngara II	3 Br	4,200,000	26,575	P to U	40,000 to 80,000

Source CSHSF data:

The prices for the majority of houses built by the Fund are only affordable to civil servants in job group N (Upper middle) and above. Only a few houses (50) were within the means of civil servants in job group K L M (middle cadre) and none to lower cadre staff in job group J and below.

Appendix 6: Response of the Accounting Officer, Ministry of Housing, to the Findings and Recommendations of the Audit

Audit Finding and Recommendation	Accounting Officer's Response	Comments of the OAG on the Accounting Officer's Response
<p>Audit Finding: The number of houses built by the Fund fell far short of the target for the period under review mainly due to lack of sufficient funds and delays in completion of projects .All the Projects were implemented in Nairobi.</p> <p>Recommendation: To ensure that the Fund has sufficient funds for investment;</p> <p>The Ministry of Housing should;</p> <p>viii. Update the inventory and the valuation of all residential and other buildings owned by the Government, and undertake internal audits regularly to ensure that all rental income due is collected in a timely manner.</p> <p>ix. Improve the efficiency of the Government Estates Department in collecting rents from Government houses.</p> <p>x. Remit to the Fund its share of rental revenue collected by the Government Estates Department but which have been with-held</p>	<p>Agreed: However, the Fund expects to have achieved the 5000 units target by 2013. The original strategic plan (2004-07) was revised in 2008 to become the 2008-2013 Plan whose target is to complete 5,000 units by 2013. It would be unfair and inaccurate to report and conclude that the Fund has fallen short of expectations midway through the plan period.</p> <p>Agreed</p> <p>Agreed</p> <p>Agreed</p>	<p>Since the 2013 target is a re-statement of the one set for 2007, the audit finding remains relevant. Attainment by the Fund of the 2013 target will be assessed in the follow-up audit to be conducted on a timetable agreed between the Office and the Ministry</p> <p>The Office will assess the implementation of the recommendations during the follow-up audit</p>

Audit Finding and Recommendation	Accounting Officer's Response	Comments of the OAG on the Accounting Officer's Response
<p>since the 2004/05 financial year and undertake to remit to the Fund all the collections made in future years ;</p> <p>xi. Seek from the Treasury money for re-capitalization of the Fund to enable it to sufficiently meet the large and growing demand for its services from civil servants;</p> <p>xii. Seek assistance from the Treasury on how to access other means of raising long-term capital such as bonds or public-private partnerships;</p> <p>xiii. Widen its customer-base by reviewing its strict definition of 'civil servant' to allow public servants in semi-autonomous government agencies, independent offices and parastatals interested in joining the Scheme to enrol.</p> <p>To enable the Fund respond well to the changed Governance Structure in the country</p> <p>xiv. The Ministry of Housing should re-align the operations of the Fund to meet the expected surge in demand for housing stock as devolution to county-level governance and administration structure takes full effect.</p>	<p>Agreed</p> <p>Agreed</p> <p>No comments</p> <p>No comments</p>	

Audit Finding and Recommendation	Accounting Officer's Response	Comments of the OAG on the Accounting Officer's Response
<p>Audit Finding: The prices for the houses built by the Fund were high relative to the financial capabilities of most civil servants.</p> <p>Audit Recommendations: To reduce construction costs and make houses built by the Fund affordable to the majority of civil servants, the Ministry of Housing should;</p> <p>iii. Propose relevant changes to be made to the Building Code to allow for the use of proven low-cost house construction technologies;</p> <p>iv. Partner with public or other organizations that own land or other assets on which the Fund could leverage its own resources to generate outcomes beneficial to civil servants.</p>	<p>Agreed: The Ministry has written a new Building Code that will allow the use of low cost building technologies. The Ministry has submitted the draft code to the Attorney General for finalization.</p> <p>Agreed. This will be done once relevant legal framework is established.</p>	<p>The Office will assess the implementation of the recommendations during the follow-up audit.</p>
<p>Audit Finding: There were delays in completion of the Fund's Projects because some contractors lacked sufficient financial and technical capacity to undertake projects awarded to them by the Ministry; disputes over ownership of plots of land on which some houses were to be built and ineffective project implementation systems used by the Ministry.</p>	<p>Agreed: The Ministry followed the Public Procurement Regulations in awarding the contracts. All the contracts were awarded to the lowest, most responsive bidders. However, some contractors failed to meet the Ministry's expectations.</p>	

Audit Finding and Recommendation	Accounting Officer's Response	Comments of the OAG on the Accounting Officer's Response
<p>To ensure that the Fund's projects are completed in due time</p> <p>The Ministry of Housing should;</p> <ul style="list-style-type: none"> iv. Improve its application of tender evaluation procedures so that only contractors having sufficient technical and financial capacity are appointed to implement the Fund's construction and other projects; v. Enhance the capacity of the Fund to monitor and control the implementation of all projects that it undertakes. vi. Liaise with the Ministry of Lands to ensure that all plots of land earmarked for development of houses are free from all encumbrances. 	<p>Agreed: Some projects were completed behind schedule and at costs that were in excess of the respective contract prices. Differences with the contractors over scope of works delayed the commencement of works.</p> <p>Agreed: In future, the Ministry will only invite contractors registered under Categories A and B of the Government's certification system for building contractors. The Ministry shall, in addition conduct due diligence assessments on all new contract bidders.</p> <p>Agreed: The Ministry will in future include engineers and quantity surveyors in the Fund management team.</p> <p>Agreed: However, on many occasions support expected from the Ministry of Lands has not been forthcoming.</p>	<p>The Office will assess the implementation of the recommendations during the follow-up audit.</p>
<p>To avoid loss of public funds invested in the Fund's stalled Shauri Moyo projects;</p> <p>The Ministry of Housing should immediately take administrative and legal steps to protect its financial and other interests in the project.</p>	<p>Agreed</p>	<p>The Office will assess the implementation of the recommendations during the follow-up audit.</p>
<p>Audit Finding: Only a few Civil Servants have benefitted from house purchase and development loans financed by the Fund.</p>	<p>Agreed: However, most of the land available for</p>	

Audit Finding and Recommendation	Accounting Officer's Response	Comments of the OAG on the Accounting Officer's Response
<p>Audit Recommendations: To achieve fairness and equity in meeting the home-ownership needs of all cadres of civil servants;</p> <p>The Ministry of Housing should;</p> <ul style="list-style-type: none"> i. Effect changes in the rules of the Fund to allow for representation of officers in lower cadres of the Civil Service in the Scheme Management Committee. iii. Develop, document and observe objective criteria for allocating the resources of the Fund between its lending and house construction functions and for the houses, it builds. iv. Allocate houses and lend only to those who qualify to benefit from the Fund as prescribed in its regulations. 	<p>construction of houses was in the upper and middle class residential areas and further, due to high costs of house construction in Kenya, civil servants in the lower cadre may not afford to repay back mortgages within the maximum repayment period of 18 years.</p> <p>Agreed</p> <p>Agreed</p> <p>Agreed</p>	<p>The Office will assess the implementation of these recommendations during the follow-up audit.</p>

Audit Finding and Recommendation	Accounting Officer's Response	Comments of the OAG on the Accounting Officer's Response
<p data-bbox="316 286 679 405">To reduce the risk of loss of public funds but still achieve the objectives of the Fund</p> <p data-bbox="308 472 683 703">The Scheme Management Committee should invest the larger portion of the Fund's capital in lending to civil servants to build or buy houses on their own as opposed to having them buy those constructed by the Fund.</p>	<p data-bbox="759 528 858 555">Agreed.</p>	<p data-bbox="1064 510 1342 629">The Office will assess the implementation of the recommendation during the follow-up audit.</p>

Appendix 7: Pictorial - The Civil Servants Housing Scheme Fund Projects in Pictures



1. Ngara I: Two and three bedroom units.



2. Ngara II Project: 238 two-bedroom and three 288 three-bedroom Units.



3. Ngara II: Some of the high-rise blocks were retained by the Fund for letting to Civil Servants



4. Nyeri Road Project: 40 four-bedroom at Kileleshwa



5. Makueni Road Project: 22 four-bedroom apartments at Kileleshwa- the project was due for completion in early 2013.



6. Shari Moyo Project 315 one-bedroom Units: The units were built under the first phase of the three-phase public-private partnership project. However, the project stalled in 2008. The one-bedroom apartments were meant to act as a decanting units for staff relocated from the old government houses demolished for construction of the balance of 1529 units.



Kilimani Project: 50 Four-bedroom Apartments at Kilimani



Gichugu Road Project: 10 Four-bedroom and 16 Two-bedroom Apartments at



Jogoo Road Project: 50 Two-bedroom Apartments

