PREAMBLE

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

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Housing Corporation set out on pages 1 to 57, which comprise the statement of financial position as at 30 June, 2022 and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the National Housing Corporation as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Housing Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unauthenticated Inventory Listing of Houses

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

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

2. Unrecorded Land Parcels

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

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

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

3. Loan Amounts Receivable

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

(i) Doubtful Rural Housing Loans

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

(a) Scrutiny of the ledgers supporting the balance revealed that Kshs.694,039,284 or 90% of the loan remained outstanding for more than one year. It was not clear why the Corporation had not made efforts to collect the loans.

(b) Out of the Kshs.770,347,150 rural housing loans reported, Kshs.431,113,600 equivalent to 56% were unsecured loans.

(ii) Doubtful Outstanding Loans from Various Counties

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

(iii) Long Outstanding Staff Loans

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

(iv) Long Outstanding Tenant Purchase

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

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

4. Inaccuracies in Trade and Other Receivables

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

(i) Unsupported Provision for Bad Debts

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

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

(ii) Unsupported Sundry Debtors

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

a. Supporting documents including invoices and statements for sundry debtors totalling to Kshs.251,656,852 were not provided for audit review.

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

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

5. Unsupported Investment in Research Development Company

The statement of financial position and as disclosed in Note 16 to the financial statements reflects unquoted investments of Kshs.104,657,797, which further includes Kshs.99,457,797 as investment to Research Development Company Limited, a subsidiary company wholly owned by the Corporation. As previously reported, the balance was however, not supported by a certificate of registration and share certificates. In addition, the financial statements for the subsidiary were not submitted for audit review.

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

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

Emphasis of Matter

Deteriorating Expanded Polystyrene Panels (EPS) Factory Operations

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

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

i. Erratic availability of raw materials and long procurement method since two out of the three raw materials are imported leading to unreliable production and failure to meet the few orders made. Supply of beads were received on 26 November, 2022 after nine months of stock out from March to November, 2022. The Corporation ordered132 metric tons but received 50 metric tons leaving a balance of 82 metric tons not supplied. At the time of the audit, the stock of the beads was running out and no reorder had been done.

ii. The cost of production of the EPS panels has continued to rise compared to their income hence resulting to the factory operating on losses.

iii. The factory was facing a low production capacity due to regular stock outs.

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

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

Key Audit Matters

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

Other Matter

1. Unresolved Prior Year Matters

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

2. Budgetary Control and Performance

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

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Schemes in Progress

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

1.1 Stalled Implementation of Enterprise Resource Planning (ERP) System

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

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

1.2 Projects not Implemented During the Year

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

Project Name	Amount Incurred on Feasibility Study (Kshs.)	Budget Allocated (Kshs.)
Nakuru Commercial	937,758	135,000,000

Meru Commercial	5,666,126	255,000,000
Kericho Housing	1,163,527	165,000,000
Jomo Kenyatta Makande	60,210,594	10,000,000
Kakamega Amalemba	464,000	125,000,000
Changamwe III	928,000	100,000,000
Eldoret Bondeni Office Block & Apart	807,575	50,000,000
Total	**70,177,580**	**840,000,000**

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

1.3 Delayed Implementation and Completion of Projects

1.3.1 Proposed Construction of NHC Stoni Athi Economy Phase II

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

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

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

1.3.2 Proposed Construction of Makande Project

The contract was awarded at a contract sum is Kshs.26,102,820. The project started on 19 April, 2019 and was to be completed on 9 August, 2019 but later extended to 26 October, 2020. However, the contract was terminated on 2 February, 2021. As at the time of audit in February, 2023, a total of 62% of the contract sum amounting to Kshs.16,265,293 were certified and paid. The progress of work as at 30 June, 2022 was at 90%. Physical verification done in February, 2023 revealed that the project had stalled and the contractor was not on site. The Corporation did not provide plans to complete the stalled project.

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

1.3.3 Proposed Construction of NHC Voi Infill Housing Scheme

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

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

1.3.4 Proposed Construction of Changamwe Infill II

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

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

1.3.5 Proposed Construction of Nyeri Mixed Use Development

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

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

ii. According to the program of works submitted by the contractor and the contract signed, the project was to be implemented within 52 weeks effective 18 April, 2019 and to be completed by 21 May, 2019. However, it was noted that the contract had over time been granted eight (8) extensions of time with the revised completion time being 15 March, 2023 translating to 248 weeks project time. The completion of the project has delayed by 196 weeks, equivalent to 377%. Consequently, every extension of time, the employer gave a rider that any contract over run beyond the requested extension of time shall attract a penalty. Review of the contractor accounts did not show any liquidated damages being charged.

iii. At the time of audit verification, it was noted that there was low demand and sales for the units given that out of the 91 units for sale, only 22 units had either been booked or sold while the project was at 98% completion.

iv. Cost benefit analysis of the project revealed that from the expected sales of the units and development cost, the amount so far spent is way more than the expected revenue that will be generated from the sales of the units, thus may be an uneconomical venture to the Corporation as analyzed below:

Expected Sales Revenue

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

Estimated Development Cost

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

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

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

2. Boundary Wall and Civil Works at Stoni Athi

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

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

3. Stock of Unsold Houses

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

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

4. Staff in Acting Positions for a Prolonged Period

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

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

1. Ineffective Controls Over Property, Plant and Equipment

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

i. Physical verification of assets additions during the year indicated that they were not tagged.

ii. The Corporation for a long time has not cleaned up its assets register since some computers bought in in 2008 and 2009 are still maintained in the register.

iii. The Corporation had a standing appointment for inspection and acceptance committee against the provisions of Regulation 35(I) of the Public Procurement and Disposal Regulations, 2020, that requires an ad hoc appointment of such committees.

iv. There were general delays in the inspection and acceptance of items supplied in some cases a duration of more than one month after delivery.

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

2. Under-Establishment of Staff in Key Departments

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

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

3. Recurring Casuals Throughout the Year

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

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

4. Failure to Develop Risk Management Policy

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

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

Responsibilities of the Management and the Board of Directors

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date

of my audit report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

14 June, 2023