REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

NATIONAL HOUSING CORPORATION

FOR THE YEAR ENDED 30 JUNE, 2025

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REPORT OF THE AUDITOR-GENERAL ON NATIONAL HOUSING CORPORATION FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

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

A. Report on 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 the 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 the Government achieves value for money and that such funds are applied for the intended purpose; and,

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, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

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 36, which comprise of the statement of financial position as at 30 June, 2025 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of National Housing Corporation as at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Housing Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Property, Plant and Equipment

The statement of financial position and as disclosed in Note 14(a) and (b) to the financial statements reflects property, plant and equipment balance of Kshs.4,215,171,246. However, the amount excludes thirty- nine (39) parcels of land of unknown value which had no title deeds.

Further, two (2) of parcels of land did not have ownership documents while one had been alienated and title deed fraudulently obtained. Management explained that the matter of the two (2) plots had been reported to the Ethics and Anti-Corruption Commission and the matter was still under investigation.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance Kshs.4,215,171,246 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 the 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

1. Loss-Making EPS Factory

The statement of profit or Loss and other comprehensive income reflects EPS sales of Kshs.22,081,452 as disclosed in Note 10(b) to the financial statements. However, Note 10(c) to the financial statements reflects EPS expenditure of Kshs.76,196,081, resulting to factory trading loss of Kshs.54,114,628. The factory loss increased by Kshs.45,957,340 from loss of Kshs.8,157,288 in the previous year. The continued operation of the loss-making EPS may deplete Corporation's capital reserves and expose the Corporation to financial crisis

2. Long outstanding Rent Arrears

The statement of financial position and as disclosed in Note 22 to the financial statements reflects trade and other receivables balance of Kshs.451,660,403. Included in the balance is rent arrears amount of Kshs.356,806,218 that increased by Kshs.12,858,538 from the previous year balance of Kshs.343,947,680 during the year under review. However, rent arrears balance of Kshs.291,194,353 has been outstanding for a long time. Management did not demonstrate efforts to recover the amount and the recoverability of the amount of Kshs.291,194,353 is doubtful.

My opinion is not modified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the effects of the matters described in the basis for qualified opinion section, there are no other key audit matters to communicate in my report.

Other Matter

Unresolved Prior Year Matters

In the prior year audit, three issues were raised under Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. The issues include stalled implementation of Enterprise Resource (ERP) System, Delayed implementation of the proposed National Housing Stoni Athi Economy phase II and inadequate staff establishment. Review of the issues during the 2024/2025 audit revealed that the issues remained unresolved.

Other Information

The Management is responsible for the Other Information set out on page vi to lvi which comprise of Key Corporation's Information and Management, The Board of Directors, Key Management Team, Chairman's Statement, Report of the Chief Executive Officer/MD, Statement of Performance Against Predetermined Objective, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors, Statement of Directors Responsibilities, The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Corporation's, financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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. Delayed Project Implementation

Review of projects records and audit inspection carried out on sampled on-going projects revealed the following anomalies:

1.1 Proposed NHC Nakuru Bondeni Mixed Use Development (MUD) Affordable Housing Project

Management entered into a contract for construction of Proposed NHC Nakuru Bondeni Mixed Use Development (MUD) Affordable Housing Project with a company vide Contract Number: NHC/TECH/NKR/025/2022-2023 at a contract sum of Kshs.587,042,245. The project commenced on 30 October, 2023 with completion period of 78 weeks and expected completion date of 28 April, 2025. However, the project progress report indicated that the project period time had lapsed by 35% against certified works of Kshs.174,657,209 or 30% of the contract sum an indication that the project is behind schedule. The project completion date has been extended to 29 October, 2025 but field inspection conducted on 8 July, 2025, showed low activities on site.

1.2 Proposed Regional Offices and Residential Development at Bondeni- Eldoret Municipality

Management entered into the contract for the construction of Proposed Regional Offices and Residential Development at Bondeni- Eldoret Municipality with a company vide Contract Number:NHC/TECH/ELD/012/2022-2023 at a contract sum of Kshs.72,530,520. The project was expected to commence on 23 October, 2023 but changed to 23 November 2023 with completion period of 52 weeks and completion date of 24 November, 2024. However, the progress report of 10 July, 2025 revealed that the project status was at 55% completion with certified works at Kshs.39,246,809 or 54% of total contract sum. Further, field inspection conducted on 10 July,2025, revealed that the contractor had abandoned site and works had stalled. The project revised completion date of 2 February, 2025 had lapsed and no further extension was provided for audit review.

1.3 Proposed Residential Development at Kakamega, Amalemba Infill Apartments

Management entered into a contract for the construction of a Residential Development at Kakamega, Amalemba Infill Apartments with a company vide Contract Number: NHC/TECH/KKG/022/2022-2023 at a contract sum of Kshs.178,786,368. The project commenced on 23 November, 2023 for a period 90 weeks with expected completion date of 9 July, 2025. However, the progress report of 10 July, 2025 revealed that the project status was at 62% complete with certified works at Kshs.104,834,550 or 58% of contract sum while the initial contract period had expired. The project completion date was extended by one month to 9 August 2025.

1.4 Proposed National Housing Corporation (NHC) Kericho Housing Scheme

Management entered into a contract for the construction of National Housing Corporation Kericho Housing Scheme in Kericho County with a company vide Contract Number: NHC/TECH/KRC/042/2022-2023 at a contract sum of Kshs.283,445,144. The project original commencement date was on 12 October, 2023 with completion date of 11 October, 2024 for a period of 52 weeks. However, the project commenced six (6) months later on 3 April, 2024 with completion on 3 April 2025 and the delay was not explained. Further, the project status as at 10 July, 2025 was at 41% completion with certified works of Kshs.124,170,458.00 or 43.8% of the contract sum while contract period had expired. The project completion period was further extended to 26 September.

1.5 Proposed Kisumu Highrise Housing Scheme Phase III at Kanyakwar Kisumu County.

Management entered into a contract for construction of Kisumu Highrise Housing Scheme Phase III at Kanyakwar Kisumu County with a company vide Contract Number: NHC/TECH/KNYR/011/2022-2023 at a contract sum of Kshs.446,613,927. The project commenced on 28 May, 2023 with a completion period of 58 weeks and with expected completion date of 27 July, 2024. However, the date when contract was signed was not indicated on the contract document, the project had been extended three times (first extension from 27 July, 2024 to 27 October, 2024, second extension from 28 October, 2024 to 25 February, 2025 and third extension from 26 February, 2025 to 18 June, 2025).

Further, field inspection conducted 10 July,2025 revealed that although works were on-going, the contract period had expired and no period extension was provided for audit.

1.6 Proposed NHC Stoni Athi Economy Phase II Mavoko Municipality Block-Machakos County

Management entered into a contract for the construction of Proposed National Housing Corporation Stoni Athi Economy Phase II 2A -On Plot LR No. 94/3 Mavoko Municipality Block- Machakos County with a construction company vide Contract Number: NHC/TECH/KKG/012/20-21 at a contract sum of Kshs.769,976,976 on 30 September,

2021. The project commenced on 9 December, 2021 with a completion period of 78 weeks with expected completion date of 8 June, 2023. However, the project status as at 10 July, 2025 indicate 60% completion with certified works of Kshs.380,877,229 or49% of the total contract sum. The initial project period had expired. Further,the project had been stopped for five months by National Environmental Management Authority (NEMA) due to failure to acquire relevant NEMA approvals before the project commenced. The project completion date was revised to 15 November, 2023 which had lapsed at time of audit (October,2025) and had not been extended. Field inspection conducted 10 July, 2025 revealed that project works were on-going despite the fact that the contract period had lapsed.

1.7 Stalled Construction of Voi Infill Housing Scheme - Taita Taveta County.

Review of the project status report for Voi infill Housing Scheme - Taita Taveta County showed that the project started in July, 2013 at a contract sum of Kshs.224,574,140 and actual payments to-date was an amount of Kshs.173,277,844. However, field inspection carried out in the month of July, 2025 revealed that the project was incomplete and the contractor was not on site. Further, it was noted that the contract was later terminated and Management had not re-tendered the project works for completion.

In the circumstance, delayed projects completion denied the public services that could have accrued from completed project.

2. Non-Compliance with Public Finance Management Act, 2012- Collector of Revenue.

The statement of financial position and as disclosed in Note 22 to the financial statements reflects trade and other receivables balance of Kshs.451,660,403. The balance included an amount of Kshs.8,840,531 in respect of receivables due from E-Citizen. However, review of revenue records revealed that the eCitizen platform is managed and operated under Government Digital Payments Directorate at The National Treasury contrary to the provision of Section 78 of the Public Finance Management Act, 2012, which states that the Kenya Revenue Authority, shall be the collector of National Government revenue for the purposes of this Part. The Act vests the mandate of collector of Government revenue to Kenya Revenue Authority. No evidence has been provided that the Receiver of Revenue for National Government had authorised the Government Digital Payments Director as a collector of revenue in line with Section 76(1) of the Public Finance Management Act, 2012 which states that a Receiver of National Government revenue may authorise a public officer employed by the National Government or any of its entities to be a collector of revenue for the National Government and remit it to the receiver and that such collector has complied with Section 76(2) of the Public Finance Management Act, 2012 which states that any public officer, other than a receiver or collector of revenue for the National Government, who collects revenue for that National Government shall, not later than three days after receiving it, deliver the revenue to a receiver or collector of revenue for the National Government.

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

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 comply 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 effects of the matter 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 governance were not effective.

Basis for Conclusion

Inadequate Staff Establishment

Review of the Corporation's human resource records revealed that the Corporation had an approved staff establishment of three hundred and seventy-six (376) employees against in-post staff of one hundred and fifty (150) resulting in understaffing by two hundred and twenty-six (226) employees. This may negatively affect the operations of the Corporation and may affect efficiency in delivery of service to the public.

Further, review of the Human Resource Documents revealed that seventy-seven (77) or 51% of staff in-post staff were on acting capacity indicating Management slow action on promotions and recruitment to fill vacant position. As a result, four (4) employees have remained in acting positions for more than six months, in violation the Human Resource Policy Manual.

In the circumstances, failure to recruit and retain required number of employees may hinder the effectiveness on services delivery to the public.

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 controls, 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 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 controls 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Corporation's, ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention 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 comply 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 governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. 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 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 conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

19 December, 2025