REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

THE NATIONAL ASSEMBLY
PAPERS LAID
DATE 16 FEB 2021 DAY Tuesday
TABLED BY: Leader of Majority
CLERK-AT THE-TABLE: Moses Lemuna

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA SLUM UPGRADING LOW COST HOUSING AND INFRASTRUCTURE TRUST FUND (KENSUF)

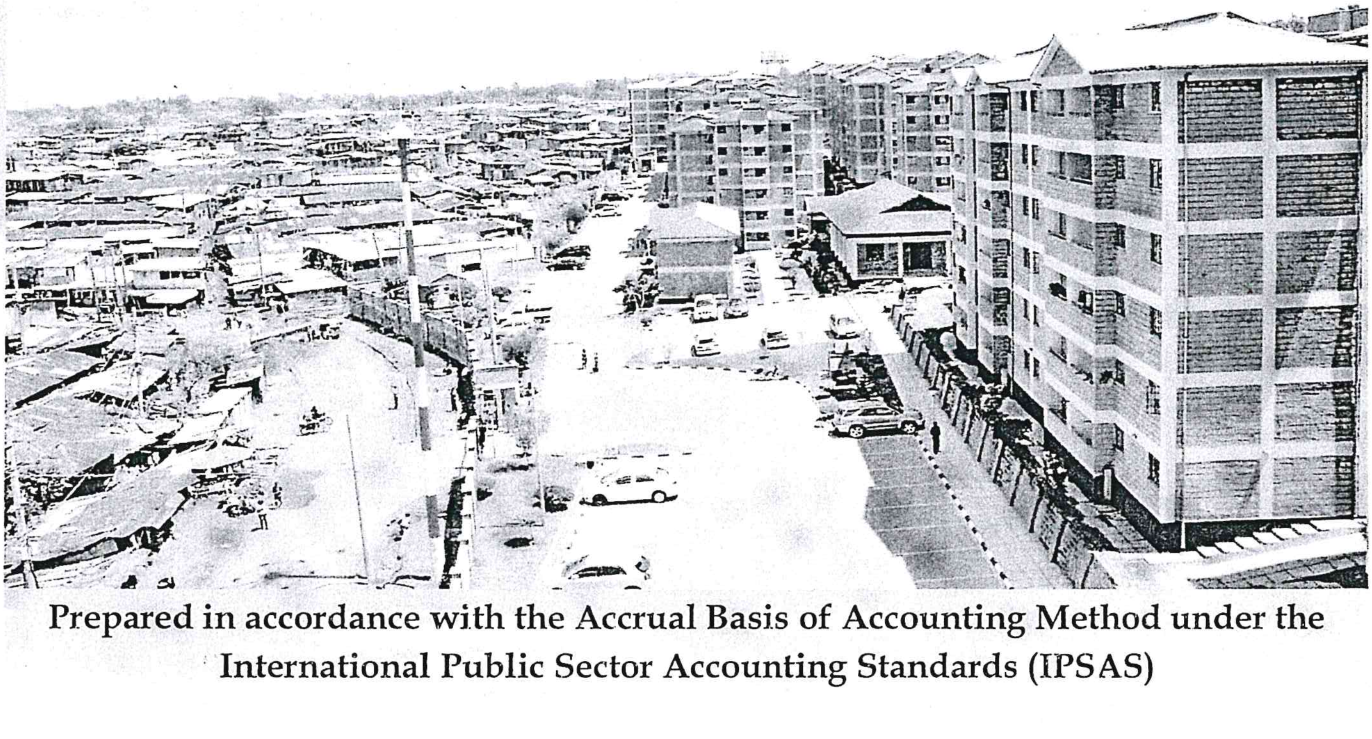
FOR THE YEAR ENDED 30 JUNE, 2019

STATE DEPARMENT FOR HOUSING AND URBAN DEVELOPMENT

KENYA SLUM UPGRADING, LOW COST HOUSING AND INFRASTRUCTURE TRUST FUND (KENSUF)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING JUNE 30 2019



Prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)

CONTENTS

KEY INFORMATION AND MANAGEMENT

a) Background information

Kenya Slum Upgrading, Low cost Housing and Infrastructure Trust Fund (KENSUF) was formed on 22nd December 2006, through a gazette notice no. 51, by legal notice no. 168 under the Government Financial Management Act no. 5 of 2004.

At Cabinet level, the Trust Fund is represented by the Cabinet Secretary for Transport, Infrastructure, Housing Urban Development and public works who is responsible for the general policy and strategic direction of the fund.

b) Principal activities

The principal activity of Trust Fund is to provide funds for slum upgrading, low cost housing and infrastructure programmes to support housing development.

c) Key Management

The Trust Fund's day to day management is under the following key organs;

1. Trustees
2. Senior management led by Principal Secretary state department of housing and urban development who is the accounting officer.

d) Fiduciary Management

The key management personnel who held office during the year ended 30th June 2019 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Principal Secretary	Charles Hinga Mwaura
2.	Director Slum Upgrading Department	Charles Wafula Sikuku
3.	Deputy Director Slum Upgrading Department	Gladys Ndogoh
4	Head of Accounting.	Fred Muhul

e) Fiduciary Oversight Arrangements

The Trust Fund relies on Internal Audit Department of the line ministry which reports directly to the National Treasury. The National Treasury performs the Trust Fund's oversight duties as far as Internal Controls and Risk Management is concerned.

f) Headquarters

ARDHI House, 2nd Floor
Ngong Road.
P.O. Box 30119-00100
Nairobi, Kenya
Telephone: (254) 20-2718050
E-mail: PS@ardhihouse.co.ke
Website: www.ardhi.go.ke

g) Bankers

Cooperative Bank of Kenya,
Parliament Road Branch
P.O. Box 48231-0010
Nairobi, Kenya

h) Independent Auditors

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

i) Principal Legal Adviser

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

TRUSTEES

The Trustees consist of representatives from Public and private sector as set out in section 10(1) of the Government Financial Management (Kenya Slum Upgrading, Low cost Housing and Infrastructure Trust Fund) regulations 2006. The members who held the office during the year under review up to the date of this report were as follows:

Mr. Charles Hinga Mwaura
Principal Secretary
State department of Housing and Urban Development

Mr. Mwaura was born in 1975.He is a Chartered Accountant (CA) and holds a Bachelor of Commerce (Accounting) degree from Kenyatta University in addition to Bachelor of Accounting Science (Honors) from University of South Africa. His core competencies include project and structured finance, deal structuring and business development. Until the time of his appointment as the Principal Secretary of Housing and Urban Development he was the Group Chairman of an advisory boutique with presence in South Africa and Kenya.

Charles W. Sikuku
Director, Slum Upgrading Department

Mr. Sikuku was born in 1963. A quantity surveyor by profession, Mr Sikuku holds Master of Arts degree in Public administration and Bachelor of Arts degree in building economics. He has over 28 years' experience in public service and is currently the director Slum Upgrading department.

MANAGEMENT TEAM

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

Charles W. Sikuku
B.A.(Building Economics)
Master of Public Administration
Director, Slum Upgrading Department

Gladys Ndogoh
Deputy Director, Slum Upgrading Department

FACTS AND FIGURES AT A GLANCE

822

No of housing units completed in Kibera Soweto Zone 'A'

462

No. of housing units under development in Mavoko

1,282

Total Number of Housing units developed by the Trust Fund

7,125

No. of proposed housing units in Kibera Soweto Zone 'B' and Mariguini

Ksh 10,687,500,000

Total funds required for the proposed housing units and associated infrastructure

REPORT OF THE PRINCIPAL SECRETARY

The Kenya Slum Upgrading, Low Cost Housing and Infrastructure Trust Fund (KENSUF) implements programmes, projects and activities aimed at improving the lives and livelihood of people living and working in slums/informal settlements countrywide. In its pursuit of this core mandate, the Programme is fulfilling the constitutional mandate under Article 43 (1) (b) of the Constitution of Kenya 2010 which emphasizes the right of every person to accessible and adequate housing and to reasonable standards of sanitation.

Project implementation

The Programme seeks to fulfill two key strategic objectives namely: - To facilitate access to adequate housing and to improve livelihoods of people living and working in slums and informal settlements.

Towards this goal, the Trust Fund has two mega projects that have been part of the Ministerial Performance Contract. These include redevelopment of 822 houses and infrastructure in Kibera Soweto Zone A at a total cost of 2,908,440,769 and construction of 462 houses at Mavoko SNP Athi River at a total cost of 1,102,264,208.The Kibera housing project is 99% complete with the housing units having been completed and fully occupied. The Project has also delivered other social infrastructures such as Social Hall, Youth centre and markets stalls. The Mavoko project on the other hand is 90% and is being used in piloting the concept of sustainable neighborhoods. The progress has been hampered by the inadequate funding from the National Treasury

Impact on the community

The programme was initiated with a core poverty mandate to upgrade, prevent and eradicate slums in Kenya. The projects supported through this programme are geared towards the provision of social and physical infrastructure to the residents living and working in slums and informal settlements.

On a pilot basis, the programme has managed to construct a total of 1,284 No. of housing units and provided them at subsidized costs to slum residents which are at various levels of completion. Under this arrangement, a total of 822 households have been allocated decent houses through the Kibera Soweto East Zone 'A' project while the Mavoko Sustainable Neighborhood Programme will deliver a further 462 no of housing units. These projects have brought positive impact to the slum communities who are perceived to be marginalized by the mainstream housing market and thus served to uplift their welfare.

Planned projects

The Trust Fund has planned to develop an additional 7,125 housing units and associated infrastructure. These include 4,435 houses in Kibera Soweto East Zone 'B', Nairobi and 2,690 units in Mariguini Informal Settlements. Additional infrastructure comprising of mass lighting projects, roads and school construction as well as other social amenities has been scheduled in various counties. The projects are estimated to cost Ksh 10, 687,500,000

Challenges

The Trust Fund is wholly dependent on government budgetary allocation for its funding requirements, as such inadequate budgetary allocation remains a major challenge. In the Financial Year 2018/19, the programme was not funded fully leading to challenges in meeting contractual claims. This negatively impacted on projects implementation. This further resulted in stalling of the two major projects and accumulation of pending bills amounting to Kshs. 89,152,457

The Delays in settling contractual claims increases interest penalties from project contracts Protracted court cases affected completion of Langas Market in Eldoret, Uasin Gishu County and market stalls in Kibera Soweto East Zone 'A'. The Langas market has since been handed over to the County government of Uasin Gishu for their eventual completion and use.

Way Forward

As noted, inadequate funding is the major challenge facing the Trust Fund. There is need for the government to seek other sources of funds including engaging development partners to enable the Trust Fund discharge its mandate more effectively.

Charles Hinga Mwaura
Principal Secretary

REPORT OF THE TRUSTEES

The Trustees submit their report together with the audited financial statements for the year ended 30th June 2019, in accordance with the provisions of section 81 of the Public Finance Management Act, 2012.

Principal activities

The Trust Fund is to implement programmes, projects and activities aimed at improving the lives and livelihood of people living and working in slums and informal settlements countrywide

Results

The results for the Trust Fund for the financial year ended 30 June 2019 are set out on page 13.

Trustees

The trustees who held office during the year and to the date of this report are set out on page 4

Auditors

The Auditor General is responsible for the statutory audit of the Trust Fund's books of account in accordance with the provisions of Article 229 of the Constitution of Kenya and the Public Audit Act, 2015

By order of the Trustees

Charles Hinga Mwaura

Principal Secretary

STATEMENT OF TRUSTEES' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and Government Financial Trustees Act no.5 of 2004, require the Trustees to prepare financial statements in respect of the Trust Fund, which give a true and fair view of the state of affairs of the Trust Fund at the end of the financial year and the operating results of the Trust Fund for that year. The trustees are also required to ensure that the Trust Fund keeps proper accounting records which disclose with reasonable accuracy the financial position of the Trust Fund. The trustees are also responsible for safeguarding the assets of the Trust Fund.

The Trustees are responsible for the preparation and presentation of the Trust Fund's financial statements, which give a true and fair view of the state of affairs of the Trust Fund for and as at the end of the financial year ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Trust Fund; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Trust Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Trustees accept responsibility for the Trust Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and the Government Financial Trustees Act . The Trustees are of the opinion that the Trust Fund's financial statements give a true and fair view of the state of Trust Fund's transactions during the financial year ended June 30, 2019, and of the Trust Fund's financial position as at that date. The Trustees further confirm the completeness of the accounting records maintained for the Trust Fund, which have been relied upon in the preparation of the Trust Fund's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Trustees to indicate that the Trust Fund will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Trust Fund's financial statements were approved by the Trustees on _______________ 2019 and signed on its behalf by:

Trustee **Trustee**

REPORT OF THE AUDITOR GENERAL

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E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA SLUM UPGRADING LOW COST HOUSING AND INFRASTRUCTURE TRUST FUND (KENSUF) FOR THE YEAR ENDED 30 JUNE, 2019 - STATE DEPARMENT FOR HOUSING AND URBAN DEVELOPMENT

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Kenya Slum Upgrading Low Cost Housing and Infrastructure Trust Fund (KENSUF) set out on pages 13 to 39, which comprise the statement of financial position as at 30 June, 2019, statement of financial performance, statement of changes in net assets, statement of cash flows and the 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, the financial statements present fairly, in all material respects, the financial position of the Kenya Slum Upgrading Low Cost Housing and Infrastructure Trust Fund as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Slum Upgrading Low Cost Housing and Infrastructure Trust Fund 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 opinion.

Key Audit Matters

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

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, I confirm that nothing 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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit so as to obtain assurance as to whether effective processes and systems of internal control, risk management and overall governance was maintained 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 Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) 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 Fund's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund 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.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Fund 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 control 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 control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

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

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

- Conclude on the appropriateness of the Management's use of the applicable 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 Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.

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

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

Nancy Gathungu
AUDITOR-GENERAL

Nairobi

08 December, 2020

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2019

	Note	2018-2019 Kshs	2017-2018 Kshs
REVENUE			
Revenue from exchange transactions			
Finance income	7	22,118,985	20,697,686
Other Income	8	2,650,375	-
		24,769,360	20,697,686
EXPENDITURE			
Administrative and other operating costs	9	40,805,560	40,480,550
Depreciation and amortization costs	10	78,986,639	78,126,460
Total expenditure		**119,792,198**	**118,607,010**
Deficit for the year		**(95,022,838)**	**(97,909,324)**

The significant accounting policies and the notes on pages 18 to 38 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Note	2018-2019 Kshs	2017-2018 Kshs
ASSETS			
Current assets			
Cash and cash equivalents	11	40,306,428	7,888,182
Receivables from exchange transactions	12(a)	28,559,990	28,559,990
Receivables from non-exchange transactions	12(b)	7,673,747	1,454,310
Total Current asets		**76,540,165**	**37,902,482**
Non-current assets			
Receivables from exchange transactions	12(a)	617,284,378	644,994,380
Receivables from non-exchange transactions	12(b)	2,451,244,088	73,431,361
Work In Progress	13	948,143,093	806,394,226
Property, plant and equipment	14	2,914,121,961	2,975,880,500
Total non-current assets		6,930,793,520	4,500,700,467
Total Assets		**7,007,333,685**	**4,538,602,949**
LIABILITIES			
Current liabilities			
Payables from exchange transactions	15(a)	89,152,457	262,028,211
Payables from non- exchange transactions	15(b)	1,157,090	19,340,490
Total current liabilities		**90,309,547**	**281,368,701**
Non-current liabilities			
Payables from exchange transactions	15(a)	74,244,088	73,431,361
Total liabilities		**164,553,635**	**354,800,062**
Net assets		**6,842,780,049**	**4,183,802,887**
REPRESENTED BY:			
General Reserves		333,254,018	428,276,856
GOK Development Reserve		6,509,526,031	3,755,526,031
Total Nets Assets and Liabilities		**6,842,780,049**	**4,183,802,887**

The significant accounting policies and the notes on pages 18 to 38 form an integral part of these financial statements. The financial statements on pages 13 to 38 were approved by the trustees ------------------------and were signed on their behalf by:

Charles Hinga Mwaura	Charles Wafula Sikuku	Fred Muhul
Principal Secretary	**Director**	**Head of Accounting**

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2019

		General reserve	GOK Development reserve	Total
		Kshs	Kshs	Kshs
As at 1st July 2017		526,186,180	3,723,000,000	4,249,186,180
Deficit for the year		(97,909,324)	-	(97,909,324)
Grants from Exchequer	6	-	32,526,031	32,526,031
As at 30th June 2018		**428,276,856**	**3,755,526,031**	**4,183,802,887**
As at 1st July 2018		428,276,856	3,755,526,031	4,183,802,887
Deficit for the year		(95,022,838)	-	(95,022,838)
Grants from Exchequer	6	-	2,754,000,000	2,754,000,000
As at 30th June 2019		**333,254,018**	**6,509,526,031**	**6,842,780,049**

The significant accounting policies and the notes on pages 18 to 39 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

		2018-2019 Kshs	2017-2018 Kshs
Cash flows from operating activities			
Receipts			
Mortgage installments		47,898,308	43,567,325
Government grants and subsidies		377,000,000	32,526,031
Finance income		22,118,985	20,697,685
Total Receipts		**447,017,293**	**96,791,041**
Payments			
Goods and services		39,466,338	38,725,200
Purchase of assets		17,228,100	-
Finance cost		182,132	185,300
Contractors		337,534,171	50,308,906
Total Payments		**394,410,741**	**89,219,405**
Mortgage interest		(20,188,306)	(20,636,307)
Net cash flows from operating activities		**32,418,246**	**(13,064,670)**
Cash flows from financing activities			
Proceeds from borrowings		-	18,183,400
Net cash flows used in financing activities		-	**18,183,400**
Net increase/(decrease) in cash and cash equivalents		32,418,246	5,118,730
Cash and cash equivalents at 1 July		7,888,182	2,769,452
Cash and cash equivalents at 30 June	11	**40,306,428**	**7,888,182**

The significant accounting policies and the notes on pages 18 to 39 form an integral part of these financial statements.

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT

	Original budget	Final budget	Actual on comparable basis	Performance difference	
	2018-2019 Kshs	2018-2019 Kshs	2018-2019 Kshs	2018-2019 Kshs	
REVENUE					
Government grants and subsidies	2,754,000,000	2,754,000,000	2,754,000,000	0	a)
Finance Income	22,000,000	22,000,000	22,118,985	-118,985	b)
Other incomes	3,000,000	3,000,000	2,650,375.00	349,625	c)
Total income	**2,779,000,000**	**2,779,000,000**	**2,778,769,360**	**230,640**	
EXPENDITURE					
Finance cost	200,000	200,000	182,132	17,868	d)
Use of goods and services	40,000,000	40,000,000	40,623,428	-623,428	e)
Depreciation and amortization	80,000,000	80,000,000	78,986,639	1,013,361	f)
Total expenditure	**120,200,000**	**120,200,000**	**119,792,198**	**407,801**	
Surplus for the year	**2,658,800,000**	**2,658,800,000**	**2,658,977,162**	**-177,161**	
RECONCILIATION					
Deficit as per statement of budget and actual amounts			2,658,977,162		
Less: Transfer to Development Reserve			(2,754,000,000)		
Deficit as per statement of financial performance			**(95,022,838)**		

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Kenya Slum Upgrading, Low cost Housing and Infrastructure Trust Fund (KENSUF) was formed on 22nd December 2006, through a gazette notice no. 51, by legal notice no. 168 under the Government Financial Management Act no. 5 of 2004. At Cabinet level, the trust Fund is represented by the Cabinet Secretary for Transport, Infrastructure, Housing and Urban Development and public works who is responsible for the general policy and strategic direction of the fund.

2. Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, and financial instruments at fair value, impaired assets at their estimated recoverable amounts.

The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Trust's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Trust.

The Financial Statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) issued by International Public Sector Accounting Standards Board (IPSASB), the Public Financial Management Act, 2012, Public Audit Act, 2015 and Kenya Roads Act 2007. The accounting policies adopted have been consistently applied to all the years presented.

3. Adoption of new and revised Standards

Several new and revised standards and interpretations were effective during the year. The directors have evaluated the impact of the new standards and interpretations and none of them had an impact on the Authority's financial statements.

i. **Relevant new standards and amendments to published standards effective for the year ended 30 June 2019**

Standard	Impact
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019 The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3(applicable to acquisitions only). Business combinations and combinations arising from non-exchange transactions are covered purely under Public Sector

<table>
<tr><th>Standard</th><th>Impact</th></tr>
<tr><td></td><td>combinations as amalgamations. This has no impact on the Trust</td></tr>
<tr><td>IPSAS 41: Financial Instruments</td><td>Applicable: 1st January 2022:

The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:

▪ Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;

▪ Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and

▪ Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.This has no Impact on the Trust</td></tr>
<tr><td>IPSAS 42: Social Benefits</td><td>Applicable: 1st January 2022

The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:

(a) The nature of such social benefits provided by the entity;

(b) The key features of the operation of those social benefit schemes; and

(c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.

This has no Impact on the Trust</td></tr>
</table>

ii. **Early adoption of standards**

The Trust did not early – adopt any new or amended standards in year 2019.

4. Summary of significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of Preparation

The financial statements have been prepared under the historical cost convention, unless otherwise stated. The Financial Statements are presented in Kenya Shillings which is the functional and reporting currency of the Trust Fund.

(b) Presentation of Financial Statements

The financial statements comprise of statement of financial performance, statement of financial position, statement of changes in net assets/reserves, the ~~statement of cash flows and statement of~~ comparison of budget and actual amount and the notes to the financial statements.

The Trust Fund classifies its expenditure by the nature of expense methodology.

The disclosure on risks are presented in the financial risk management objectives and policies contained in note 24.

(c) Budget Information

The original budget for FY 2018-2019 was approved by the National Assembly on 9th June 2018. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities.

The Trust Fund's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

(d) Taxation

The Trust Fund is an appointed tax agent for Kenya Revenue Authority with the mandate to withhold tax and remit to Kenya Revenue Authority. The withheld taxes are recognized as current liabilities until paid to the relevant Authority.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Trust Fund operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(e) Translation of foreign currencies

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Payables or receivables denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

(f) Revenue recognition

Revenue comprises the fair value of consideration received or receivable in the ordinary course of business. In accordance with Government Financial Management (Kenya Slum Upgrading, Low cost Housing and Infrastructure Trust Fund) regulations 2006 Revenue comprises Grants, Loans and donations from Central Government and Development partners, and such moneys, sums or assets that may accrue to the Trust Fund. The Trust Fund recognizes revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Trust Fund.

i) Transfers from Government and other entities

Grants from Government and other entities are recognized as they accrue in the period in which the transfer becomes binding at fair value, in the Statement of Financial Performance and Development reserves, unless the collectability is in doubt. The fair values can be determined by reference to the market rate.

Where a transfer is subject to conditions that if unfulfilled require a return of the transferred resources they are recognized as a liability until the condition is fulfilled.

ii) Interest Income

Interest income and expense, including interest income from non-derivative financial assets are recognized at fair value through the Statement of Financial Performance using the effective interest method. Interest income is accrued on a time basis and is calculated on call and fixed deposits held with approved banking institutions.

iii) Fees, Penalties and Other income

Other income is accounted for on receipt basis

(g) Financial Instruments

(i) Financial assets

Financial assets within the scope of IPSAS 29 are classified as financial assets at fair value through surplus or deficit, receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Trust Fund determines the classification of its financial assets at initial recognition.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Trust Fund provides money or services directly to a debtor with no intention of trading the receivable. Receivables mainly arise from non-exchange transactions which accrue in the ordinary course of business and there is no intention of trading the receivable.

Receivables are recognized initially at the fair value. They are subsequently measured at amortized costs using the effective interest method less provision for impairment.

A provision for impairment of receivables is made when there is objective evidence that the Trust Fund will not be able to collect all amounts due according to the original terms of receivables.

The carrying value less discounts and any impairment provision of impairment is assumed to approximate their fair values. For financial instruments such as short term receivables, no disclosure of fair value is required when the carrying amount is a reasonable approximation of fair value. Receivables are classified as current assets if payment is due within one year or less. If not, they are presented as non-current assets.

(ii) Financial Liabilities

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Trust Fund determines the classification of its financial liabilities at initial recognition.

Payables

Payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Payables also include payments in respect social benefits where formal agreements for specific amounts exist.

Payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. The historical cost carrying amount of payables subject to the normal credit terms usually approximates fair value. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of business if longer). If not, they are presented as non-current liabilities.

(h) Provisions

Provisions are recognized when the Trust Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that the Trust Fund will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting period end, taking into account the risks and uncertainties surrounding the obligation.

Contingent Liabilities

The Trust Fund does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

The Trust Fund does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Trust Fund in the notes to the financial statements.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs

(i) Leases

i) Finance Lease

Leases of property, plant and equipment including Mortgage contracts where the beneficiaries assumes substantially all the risks and rewards incident to ownership are classified as finance leases. Finance leases are recognized as an asset at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The interest rate implicit in the lease is used as the discount factor in determining the present value. Each lease payment is allocated between the asset and finance income using the interest rate implicit in the lease. The finance income is credited to the statement of financial performance t in the year in which it is received.

ii) Operating leases

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made/received under operating leases are charged/credited to the statement of financial performance on a straight line basis over the lease period. Prepaid operating lease rentals are recognized as assets and are subsequently amortized over the lease period.

(j) Provision for liabilities and charges

Provisions are recognized when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(k) Property, plant and equipment

All categories of property, plant and equipment are initially recognized at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure directly attributable to the acquisition of the assets. Computer software, including the operating system that is an integral part of the related hardware is capitalized as part of the computer equipment. All other items of property, plant and equipment are subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. Repairs and maintenance expenses are charged to the statement of financial performance in the year in which they are incurred.

Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value

Depreciation is calculated using the reducing balance method to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

	Rate - %
Land and Buildings	2.5%

Computer Equipment and software	33.3%
Furniture and Fittings	12.5%

As no parts of items of property, plant and equipment have a cost that is significant in relation to the total cost of the item, the same rate of depreciation is applied to the whole item.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating surplus.

(l) Construction contracts

A construction contract is defined as a contract specifically negotiated for the construction of an asset. Contract costs are recognized as assets in the period in which they are incurred.

Where the outcome of a construction contract can be estimated reliably, costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its payment is considered probable.

The Trust Fund uses the 'percentage-of-completion method' to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

Progress billings not yet paid to the contractors and retention are included within 'Payables' in the statement of financial position.

Costs incurred on maintenance contracts are charged in the statement of financial performance in the period in which they are incurred.

(m) Impairment of Non-Financial Assets

At each reporting period end, based on internal and external sources, the Trust Fund reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Trust Fund estimates the recoverable value of the asset.

Impairment losses are recognized as an expense in the Statement of Financial Performance whenever the carrying amount of an asset exceeds its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of impairment loss is limited to the assets carrying amount that would have been determined had no impairment loss been recognized in prior years. A reversal of an impairment loss is credited to the Statement of Financial Performance in the year reversals are recognized.

(n) Work In Progress

Work in progress comprises of incomplete housing and infrastructure projects and is measured at cost upon initial recognition. Costs incurred in developing the project is accounted for, based on purchase cost using the weighted average cost method.

After initial recognition, Work In Progress is measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

(o) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the various commercial banks at the end of the financial year.

(p) Nature and purpose of reserves

The Trust Fund creates and maintains reserves in terms of specific requirements.
The net assets are made of up of designated funds and accumulated reserve which are explained as follows:

i. **GOK development reserve funds** which relates to cumulative exchequer and development partners' funds received for development projects. This represents the Trust Fund's Investment in Low cost housing and infrastructure to 30 June 2019.

ii. **General reserve** relates to accounting surplus/deficit which accrues from unutilised funds, interest income and other miscellaneous income as well as subsidies provided by the government to the beneficiaries of the housing scheme.

(q) Changes in accounting policies and estimates

The Trust Fund recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

(r) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation of the Financial Statements as required by International Public Sector Accounting Standards and any amendment whenever necessary in the current year

(s) Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2019.

5. Critical Accounting Estimates, Judgements and Assumptions

In the process of applying the Trust Fund's accounting policies, the trustees have made estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on the trustees' knowledge of current events and actions, actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Critical Judgments in Applying the Trust Fund's Accounting Policies

In the process of applying the Trust Fund's accounting policies, judgments have been made in determining:

- Whether the assets are impaired;
- The classification of financial assets;
- The going concern.

(b) Critical Accounting Estimates and Assumptions

The key areas of judgments and sources of uncertainty in estimation are as set out below:

(i) Contingent Liabilities

As disclosed in these financial statements, the Trust Fund is exposed to various contingent liabilities in the normal course of business. The trustees evaluate the status of these exposures on a regular basis to assess the probability of the Trust Fund incurring related liabilities. However, provisions are only made in the financial statements where, based on the trustees' evaluation, a present obligation has been established.

(ii) Provision for Doubtful Debts

The Trust Fund reviews its receivables to assess the likelihood of impairment. Provision for impairment of receivables is established when there is objective evidence that the Trust Fund will not be able to collect all amounts due. Where necessary, an estimation of the amounts irrecoverable is made in that year. Provision for impairment shall be recognized upon approval by the trustees.

(iii) Other Provisions

Other provisions are recognized when the Trust Fund has legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(iv) Impairment Losses

At each reporting period end, the Trust Fund reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Trust Fund estimates the recoverable value of the asset. Any impairment losses are recognized as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss is recognized as income immediately.

6. Government Grants and Subsidies

	2018-2019	2017-2018
	Kshs	Kshs
GOK Development Funds	2,754,000,000	32,526,031
Transfer to Development Fund	(2,754,000,000)	(32,526,031)
Total Revenue	-	-

Name of the Entity sending the grant	Amount recognized to Statement of	Amount deferred under	Amount recognised in capital fund.	Total grant income during the year	2018-2019
MOTIHUD	-	-	2,754,000,000	-	-
Total	-	-	2,754,000,000	-	-

	2018-2019 Kshs	2017-2018 Kshs
7. Finance Income		
Mortgage Interest	20,188,306	20,636,307
Interest on call deposits	1,930,679	61,379
	22,118,985	20,697,685
8. Other Income		
Grants	2,650,375	-

9. Operating and other administrative costs

Administrative and other operating expenses		
Advertising	357,000	785,700
Salaries and wages	375,000	-
Admin fees	1,718,900	1,668,900
Conferences and delegations	2,587,732	2,994,900
Consumables	1,978,815	2,134,087
Electricity	2,550,000	2,653,666
Fuel and oil	12,000	512,036
Insurance	2,777,262	2,912,225
Legal expenses	-	43,925
Licenses and permits	60,000	60,000
Postage	8,500	8,300
Printing and stationery	1,915,652	1,561,014
Hire charges	1,050,000	1,073,400
Security costs	1,648,000	1,553,750
Telecommunication	431,034	368,144
Travelling and Subsistence	21,484,195	20,213,964
Training	884,338	895,800
Bank Charges	182,132	185,300
Miscellanous expenses	785,000	855,439
Total Administrative and other operating expenses	**40,805,560**	**40,480,550**

	2018-2019 Kshs	2017-2018 Kshs
10. Depreciation and amortisation costs		
Property plant and equipment	78,986,639	78,126,460

11. Cash and cash equivalents		
Current accounts	19,633,687	7,888,182
Call Deposits	20,672,741	-
	40,306,428	7,888,182

The cash in hand and at bank is held with the following approved commercial banks in Kenya.

Co-operative Bank of Kenya	40,306,428	7,888,182

12. Receivables		
a) Receivables From Exchange Transactions		
Current		
Mortgage Receivable	28,559,990	28,559,990
Non current		
Other receivables	617,284,378	644,994,380
b) Receivables From Non-Exchange Transactions		
Current		
Staff Imprest	7,673,747	1,454,310
Non Current		
Mortgage Receivable	74,244,088	73,431,361
a) Receivables From Exchange Transactions		
Mortgage Loans-current	28,559,990	28,559,990
Mortgage Loans-Noncurrent	617,284,378	644,994,380
	645,844,368	673,554,370
Mortgage account		
At start of the year	673,554,370	696,485,388
Interest for the year	20,188,306	20,636,307
Recoveries during the year	(47,898,308)	(43,567,325)
As at 30th June 2019	**645,844,368**	**673,554,370**

	2018-2019 Kshs	2017-2018 Kshs
b) Receivables From Non-Exchange Transactions		
Contract retention money	74,244,088	73,431,361
Grants Receivable	2,377,000,000	-
Total Receivables From Non-Exchange Transaction	2,451,244,088	74,885,671
Total Receivables	**3,097,088,456**	**748,440,040**

Receivables constitute both short term and long term liquid assets which are recoverable. Mortgage loans represent funds due from beneficiaries for the sale of the low cost houses and are recoverable in accordance with the contract terms. Contract retention money represents funds retained from the contractors which are held by the parent ministry. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. Mortgage loans are secured by the title to the houses which are only surrendered on full recovery of the loan. The Trust Fund does not hold any collateral as security for the retention receivable. The aged analysis of receivables is as follows:

	Less Than 1 Month Ksh	Between 1-3 months Ksh	Between 3-12 Months Ksh	Over One Year Ksh	Total Ksh
Other Receivables	-	-	28,559,990	617,284,377	645,844,367
Staff Imprest	7,673,747	-	-	-	7,673,747
Total	7,673,747	-	28,559,990	617,284,377	653,518,114

13. Work In Progress

At 1st July 2018	806,394,226	788,591,059
Additions	141,748,867	17,803,167
At 30th June 2019	948,143,093	806,394,226

Work In progress comprise of incomplete houses and infrastructure. In the opinion of the Trustees the carrying amounts of the work in progress approximate to their fair value.

14. Property Plant and equipment

	Land and Buildings	Furniture and Fittings	Computers and Technical Equipment	Total
	Ksh	Ksh	Ksh	Ksh
Cost/ Valuation				
As at 1st July 2017	3,125,721,982	3,506,000	20,129,262	3,149,357,244
As at 30 June 2018	**3,125,721,982**	**3,506,000**	**20,129,262**	**3,149,357,244**
Additions during the year	-	11,317,600	5,910,500	17,228,100
As at 30 June 2019	**3,125,721,982**	**14,823,600**	**26,039,762**	**3,166,585,344**
Depreciation				
As at 1st July 2017	78,143,050	2,518,691	14,688,543	95,350,284
Charge for the Year	76,189,473	123,414	1,813,573	78,126,460
As at 30 June 2018	**154,332,523**	**2,642,105**	**16,502,116**	**173,476,744**
Charge for the Year	74,284,736	1,522,687	3,179,215	78,986,639
As at 30 June 2019	**228,617,259**	**4,164,792**	**19,681,331**	**252,463,383**
Net Book Value				
As at 30 June 2018	**2,971,389,459**	**863,895**	**3,627,146**	**2,975,880,500**
As at 30 June 2019	**2,897,104,723**	**10,658,808**	**6,358,431**	**2,914,121,961**

15. Payables

	2018-2019	2017-2018
	Kshs	Kshs
a) Payables From Exchange Transactions		
Trade payables	89,152,457	258,886,886
Other Payables	-	3,141,325
	89,152,457	262,028,211
Contract retention money	74,244,088	73,431,361
Total Payables From Exchange Transactions	163,396,545	335,459,571
b) Payables From Non -Exchange Transactions		
Life insurance claims payable	1,157,090	1,157,090
Civil Servants Housing Fund	-	18,183,400
Total Payables From non Exchange Transactions	**1,157,090**	**19,340,490**
Total Payables	**164,553,635**	**354,800,061**

16. Financial risk management objectives and policies.

The Trust Fund has an integrated risk management framework/ strategy. The Trust Fund's approach to risk management is based on risk governance structures, risk management policies, risk identification, measurement, monitoring and reporting. The risk management policies and systems are reviewed regularly to ensure they are in tandem with the micro and macro environment, regulatory guidelines, industry practice, market conditions as well as the services offered.

The Trust Fund recognizes the critical role the risk management will continue to play in its endeavor to carry out its business in a dynamic environment. The Trustees are committed to ensure that corporate governance and risk management are deeply entrenched in the Trust Fund's strategy and culture. An elaborate risk management strategy that will provide direction on matters of policy and guide the implementation and control has been developed.

The Trust Fund core business involves major engagements with financial transactions and processes which pose certain risks. Three types of risks are reported as part of the risk profile namely operational, strategic and business continuity risks.

(i) **Operational risks** are events, hazards, variances or opportunities which could influence the achievement of the Trust Fund's compliance and operational objectives.

(ii) **Strategic risk** is a significant unexpected or unpredictable change or outcome beyond what was factored into the organization's strategy and business model which could have an impact on the entity's performance.

(iii) **Business continuity risks** are those events, hazards, variances and opportunities which could influence the continuity of the entity.

Trustees have the overall responsibility for the establishment and oversight of the Trust Fund's risk management framework. The Trust Fund has delegated its risk management to the Audit and Risk Committee of the parent ministry. One of the responsibilities of this committee is to review risk management strategies to ensure that an effective efficient and transparent system of risk management is maintained for sustainable management of the Trust Fund.

The Trust Fund's exposure to risks, its objectives, policies and processes for managing the risk and the methods used to measure it have been consistently applied in the years presented, unless otherwise stated. The Trust Fund aims therefore to achieve an appropriate balance between the risk and return and minimize potential adverse effects on its financial performance.

The financial management objectives and policies are as outlined below:

a) Liquidity Risk

Liquidity risk is the risk that the Trust Fund will not have sufficient financial resources to meet its obligations when they fall due or will have to do so at excessive costs. This risk can arise from mismatches in the timing of cash flows from revenue and capital/ operational outflows, assets and liabilities according to their maturity profiles and can occur where cash flow streams have been discontinued, etc. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be met at expected terms and when required.

The objective of the liquidity and funding management is to ensure that all foreseeable operational and capital commitment expenditure can be met under both normal and stressed conditions and the mismatch is controlled in line with allowable risk levels.

The Trust Fund has adopted an overall balance sheet approach which consolidates all sources and uses of liquidity, while aiming to maintain a balance between liquidity, cash flows and interest rate considerations. The Trust Fund's liquidity and funding management process includes:

i) Projecting cash flows and considering the cash required and optimizing the short term requirements as well as the long term funding, maintaining balance sheet liquidity ratios,
ii) Maintaining/soliciting for a diverse range of funding sources with adequate back up facilities,

The Trust Fund has an established corporate governance structure and process of managing risks regarding guarantees and contingent liabilities.

The primary sources of revenue for the Trust Fund are mainly Grants from the central Government.

The table below summarizes the maturity analysis for financial liabilities to their remaining contractual maturities

Year Ended 30 June 2019

	Less Than 1 Month Ksh	Between 1-3 months Ksh	Between 3-12 Months Ksh	Over One Year Ksh
Trade Payables	-	-	-	89,152,457
Contract retention		-	-	74,244,088
Life insurance payable	-	1,157,090	-	-
Total	**-**	**1,157,090**	**-**	**163,396,545**

Year Ended 30 June 2018

	Less Than 1 Month Ksh	Between 1-3 months Ksh	Between 3-12 Months Ksh	Over One Year Ksh
Trade Payables	-	-		258,886,886
Civil Servants Housing Scheme	-	-	18,183,400	-
Ther payables			3,141,325	-
Life insurance payable	-	-	1,157,090	-
Contract retention	-	-	-	73,431,361
Total	**-**	**-**	**22,481,815**	**332,318,246**

b) Market Risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates, prices and interest rates. The objective of market risk management policy is to protect and enhance the Statements of Financial Position and performance by managing and controlling market risk exposures within acceptable parameters, and to optimize the funding of business operations and facilitate capital expansion. The Trust Fund is exposed to the following market risks:

(i) Currency Risk

The currency risk is minimal as most of cash and cash equivalents held with banks are dominated in Kenya Shillings.

(ii) Price Risk

The Trust Fund is not exposed price risk.

(iii) Interest Rate Risk

The Trust Fund's financial condition may be adversely affected as a result of changes in interest rate levels. The interest rate risk is minimal as the Trust Fund does not have any borrowings.

c) Credit Risk

The maximum exposure of the Trust Fund to credit risk as at the balance sheet date is as follows:

Year Ended 30 June 2019

	Fully Performing	Past Due But Not impaired	Past due and Impaired	Total
	Ksh	Ksh	Ksh	Ksh
Contractor retention	74,244,088			74,244,088
Imprest receivable	7,673,747	-	-	7,673,747
Grants receivable	2,377,000,000			2,377,000,000
Mortgage loans	645,844,367	-	-	645,844,367
Cash at Bank	40,306,428	-	-	40,306,428
Gross Financial Assets	**3,145,068,630**	-	-	**3,145,068,630**

Year Ended 30 June 2018

	Fully Performing	Past Due But Not impaired	Past due and Impaired	Total
	Ksh	Ksh	Ksh	Ksh
Contractor retention	73,431,361	-	-	73,431,361
Imprest receivable	1,454,310	-	-	1,454,310
Mortgage loans	673,554,370	-	-	673,554,370
Cash at Bank	7,888,182	-	-	7,888,182
Other receivables	-	-	-	0
Gross Financial Assets	756,328,223	-	-	756,328,223

c) Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Trust Fund's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as legal and regulatory requirements and generally acceptable standards of corporate behavior.

The Trust Fund seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor and report such risks.

The Trust Fund's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Trust Fund's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. The responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

(i) Requirements for appropriate segregation of duties, including the independent authorization of transactions;
(ii) Requirements for the reconciliation and monitoring of financial transactions;
(iii) Compliance with regulatory and legal requirements;
(iv) Documentation of controls and procedures;
(v) Requirements for the yearly assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified;
(vi) Requirement for the reporting of operational losses and proposed remedial action;
(vii) Training and professional development;
(viii) Ethical and business standards; and
(ix) Risk mitigation, including insurance where it is effective.

Operational risks are managed by the Internal Audit function established at the parent ministry to spearhead and coordinate risk management activities. The measures taken include proactively identifying, analyzing and mitigating risks in all facets of the business.

d) Compliance and Regulatory Risk

Compliance and regulatory risk includes the risk of non-compliance with regulatory requirements. The Trust Fund has complied with all externally imposed requirements throughout the year.

e) Legal Risk

Legal risks is the risk of unexpected loss, including reputational loss, arising from defective transactions or contracts, claims being made or some other event resulting in a liability or the loss for the Trust Fund, failure to protect the title to and inability to control the rights to assets of the Trust Fund (including intellectual property right), changes in law, or jurisdictional risk.

The Trust Fund manages legal risk through the legal function, legal risk policies and procedures and the effective use of internal controls and external lawyers.

17. Explanation for budget variances

The original budget for FY 2017-2019 was approved by the National Assembly on 8th June 2019. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. Significant budget variances exhibited is due to underfunding during the year.

18. Related Parties Balances and Transactions

The Trust Fund regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Trust Fund, or vice versa. Members of key management are regarded as related parties and comprise the Principal Secretary and senior managers in the Slum Upgrading department.

(a) Related party transactions

The following transactions were carried out with related parties during the year.

	2018-2019 Kshs	2017-2018 Kshs
Receipts and transfers		
Government of Kenya	2,754,000,000	32,526,031
Civil Servant Housing Scheme	-	18,183,400
	2,754,000,000	50,709,431

(b) Outstanding balances arising from non-exchange transactions

The following were outstanding balances with related parties as at 30th June 2019

Government of Kenya	2,754,000,000	-

19. Fair value

The trustees consider that there is no material difference between the fair value and carrying value of the Trust Fund's financial assets and liabilities, where fair value details have not been presented.

20. Events after the balance sheet date

There were no material adjusting and non- adjusting events after the reporting period

21. Capital Commitments

All capital commitments contracted for/authorized at the reporting period end have been recognized in the financial statements.

22. Ultimate holding entity

TheTrust Fund is a Semi- Autonomous Government Agency under the Ministry of Transport, Infrastructure, Housing and Urban Development and Public Works. Its ultimate parent is the Government of Kenya.

23. Currency

The financial statements are presented in Kenya Shillings (Ksh)

APPENDIX 1: PROGRESS ON THE FOLLOW UP OF AUDITOR GENERAL RECOMMENDATIONS

The Trust Fund received unqualified audit report for the Financial Year 2017-2018 with all the audit matters having been resolved and closed.

APPENDIX 2: PROJECTS IMPLEMENTED BY THE TRUST FUND

S/No	Project Name	No. of units	Contract sum (KShs)	Status
1.	Re-development of Kibera Soweto Zone 'A'	822	2,908,440,769	99% Complete - Occupation status is 100%
2.	Completion of 463 No. housing units at Mavoko SNP, Athi River	462	1,102,264,208	- 90% Complete
3	Construction of a market at Kibung'a Informal Settlement – TharakaNithi County		45,356,470	Complete
4	Construction of 2 KM in Kusyombunguo – Kunda Kindu road in Wote Makueni County		98,632,748	Complete

APPENDIX 3: INTER ENTITY TRANSFERS-STATE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Name	Bank statement Date	Amount (Kshs)	Financial Year
MOTIHUD&PW	22/10/2018	377,000,000.00	2018-2019
MOTIHUD&PW	02/07/2019	25,500,000.00	2018-2019
MOTIHUD&PW	02/07/2019	68,750,000.00	2018-2019
MOTIHUD&PW	02/07/2019	150,000,000.00	2018-2019
MOTIHUD&PW	02/07/2019	150,000,000.00	2018-2019
MOTIHUD&PW	02/07/2019	200,000,000.00	2018-2019
MOTIHUD&PW	02/07/2019	282,750,000.00	2018-2019
MOTIHUD&PW	02/07/2019	375,000,000.00	2018-2019
MOTIHUD&PW	02/07/2019	375,000,000.00	2018-2019
MOTIHUD&PW	02/07/2019	375,000,000.00	2018-2019
MOTIHUD&PW	02/07/2019	375,000,000.00	2018-2019
Total		**2,754,000,000.00**	

The above amounts have been communicated to and reconciled with the parent Ministry

Head of Finance
KENSUF

Head of Accounting Unit
State Department of Housing