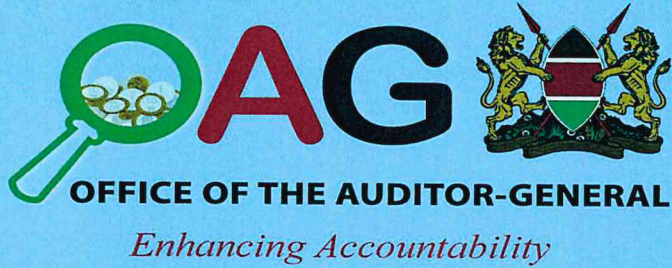


REPUBLIC OF KENYA



REPORT

OF

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 11 FEB 2021 DAY: Thursday

TABLED BY: Leader of Majority
CLERK: Hussna Ahmed

THE AUDITOR-GENERAL

ON

MECHANICAL AND TRANSPORT FUND

**FOR THE YEAR ENDED
30 JUNE, 2019**

**STATE DEPARTMENT FOR
INFRASTRUCTURE**



**MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING AND URBAN
DEVELOPMENT**

**STATE DEPARTMENT OF INFRASTRUCTURE
MECHANICAL AND TRANSPORT DIVISION
MECHANICAL AND TRANSPORT FUND**

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2019**

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

TABLE OF CONTENT

| <u>Particulars</u> | <u>Page</u> |
|--|-------------|
| i. KEY ENTITY INFORMATION AND MANAGEMENT | i-ii |
| ii. MANAGEMENT TEAM | iii |
| iii. CHAIRMAN'S STATEMENT | iv-v |
| iv. REPORT OF THE CHIEF ENGINEER (MECHANICAL) | vi-vii |
| v. MANAGEMENT DISCUSSION AND ANALYSIS | viii-ix |
| vi. STATEMENT OF THE ACCOUNTING OFFICER AND FUND CO-ORDINATOR | x |
| vii. REPORT OF THE AUDITOR GENERAL | xi |
| viii. STATEMENT OF FINANCIAL PERFORMANCE | 1 |
| ix. STATEMENT OF FINANCIAL POSITION | 2 |
| x. STATEMENT OF CHANGES IN NET ASSETS | 3 |
| xi. STATEMENT OF CASH FLOW | 4 |
| xii. STATEMENT OF COMPARISON BETWEEN BUDGET AND ACTUAL AMOUNTS | 5-7 |
| xiii. NOTES TO THE FINANCIAL STATEMENTS | 8-15 |
| xiv. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS | 16-18 |

I. KEY ENTITY INFORMATION AND MANAGEMENT**(a) Background information**

The Mechanical and Transport Fund (MTF) was established in 2003 through Legal Notice No. 140. The objective and purpose of the Fund is to provide enough Funds required for maintenance and renewal of vehicles, plant and equipment for the operations and maintenance for effective, economical and efficient Mechanical and Transport services in Kenya. The initial capital of the Fund of Kshs. 22 million was appropriated by Parliament in the 2003/2004 financial year. The Kenya Government entered into an EDCF loan agreement with the Republic of Korea culminating into the signing of the agreement on 15th April, 2005 between the two Governments for Kshs. 2 billion.

(b) Principal Activities

To provide Mechanical, Transport and plant services. These services include provision of equipment for development and maintenance of infrastructure, and a wide range of mechanical and Technical services to public and private sectors in Kenya.

(c) Key Management

The Mechanical and Transport Fund day-to-day management is under the following key organs:

- Principal Secretary, State Department of Infrastructure
- Chief Engineer (Mechanical)
- Fund Management Committee

(d) Fiduciary Management

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

| No | Designation | Name |
|----|---|----------------------|
| 1) | Principal Secretary: Prof.Arch Paul M.Muringa(Phd) CBS,Corp.Arch,Maak,Mkip) | |
| 2) | Chairman MTF Management Committee: Eng.Francis Gitau | |
| 3) | Chief Engineer (Mechanical): | Eng. Charles M.Nzuka |

(e) Entity Headquarters

Mechanical and Transport Division
P.O.30043-00100
Nairobi.

(f) Entity Contacts

Telephone: (254) 551960/1-5
E-mail: cmte@mechanical.go.ke
Website: www.transport.go.ke

(g) Entity Bankers

Kenya Commercial Bank
Industrial Area Branch
1102590339

(h) Independent Auditors

Auditor General
Kenya National Audit Office
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

II. MANAGEMENT COMMITTEE TEAM

| | | | |
|-------|--|-----------|----------------------|
| i. | Infrastructure Secretary | Chairman | Eng. Francis Gitau |
| ii. | Chief Engineer (Mechanical) | Secretary | Eng. Charles Nzuka |
| iii. | Chief Engineer (Roads). | Member | Eng. James .M. Kungu |
| iv. | Director - KIHBT | Member | Eng. Maurice Nabende |
| v. | Director Human Resource Management and Development | Member | Mr. John Gitu |
| vi. | Chief Finance Officer | Member | Mr. Philip Wachira |
| vii. | Chief Economist | Member | Mr. John Kimani |
| viii. | Principal Accounts Controller | Member | Mrs Sophie mwangashi |

SECRETARIAT

| | | | |
|------|--|-------------|-----------------------|
| i. | Senior Principal Superintending Engineer | Secretariat | Eng. Cyrus .E. Ambasi |
| ii. | Senior Superintending Engineer | Secretariat | Eng. Joseph Kimuchu |
| iii. | Principal Superintending Engineer | Secretariat | Eng. P.M. Wanjohi |
| iv. | Branch Accountant | Secretariat | Mr. David M. Mwaura |

III. CHAIRMAN'S STATEMENT

I am delighted to present the Mechanical and Transport Fund Annual report and financial statements for the year 2018-2019.

During the period, the Mechanical and Transport Fund performed exemplary well for the financial year under review as compared to previous financial year. The Fund improved its financial performance which is an indication that the Fund has great potential for growth. There were several challenges experienced in the year as emulated in the Chief Engineer's (Mechanical) report and despite the challenges the Fund realized its target during the year under review.

FINANCIAL PERFORMANCE

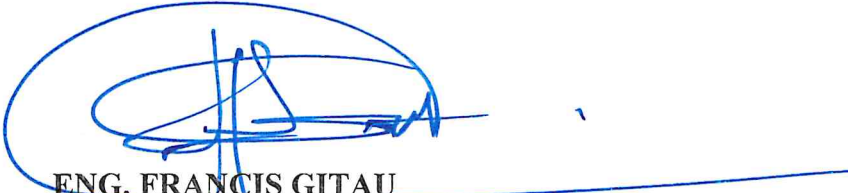
During the year, significant steps were taken to strengthen the business Fundamentals which ensured that the Fund continued posting growth as it has done since its inception. Major among these were; Strengthening of internal controls, improved service delivery; purchase of key new equipment and training of staff. These were the measures undertaken by the Mechanical and Transport Fund management in an endeavor to increase its revenue.

APPRECIATION

The success of Mechanical and Transport Fund is attributable to the tremendous support and guidance by the Accounting Officer, State Department of Infrastructure; the expertise and hard work of the management committee and staff of Mechanical and Transport Division. I am grateful to the members of the management committee for their continued insight and dedication to the business of the Fund.

I would like to take this opportunity to thank the Fund Administrator, Principal Secretary -State Department of Infrastructure being the Fund Administrator for the support the office has given to the management committee. I would also like to thank the management and staff for their wholehearted support and their provision of services with diligence that has greatly contributed to the success of the Fund.

Mechanical and Transport Fund Management looks forward to working closely with the rest of the Ministry of Transport, Infrastructure, Housing and Urban Development Departments, Roads Authorities' KeNHA, KURA, KERRA, and other GOK Ministries and Divisions, County Governments and the private sector to further ensure the continued success of the Fund and also the improvement of road infrastructure



ENG. FRANCIS GITAU
CHAIRMAN
MTF - MANAGEMENT COMMITTEE

IV. REPORT OF THE CHIEF ENGINEER (MECHANICAL)

The performance of the Mechanical and Transport Fund in the financial year 2018-2019 improved despite the challenges that faced the country. During the year under review, the management embraced operational efficiency through provision of services by ensuring availability and serviceability of Vehicles, Plant and Equipment; Procurement of new plant and equipment to replace those that were found to be uneconomical to repair.

The management also sought to improve and re-equip the Central and County workshops in order to provide quality services that would guarantee effective and efficient utilization of available resources.

ACHIEVEMENT: -

During the period under review, 2018/2019 Financial Year, the following was achieved through the Fund: -

- (i) Increased availability and serviceability of vehicles, plant and equipment.
- (ii) Identification and disposal of vehicles, plant and equipment that were uneconomical to repair.
- (iii) Procurement of additional key vehicles, plant and equipment.
- (iv) Improvements to the Central and County Mechanical workshops including re-equipping of the same in order to provide quality services for effective and efficient utilization of available resources.
- (v) Training of technical staff at KIHBT and other institutions on courses relevant to the Fund which included: -
 - i. Plant Operators' refresher course.
 - ii. Driver's First Aid and Advanced Driving course.
 - iii. Strategic leadership development program for senior staff.

The regions that performed extremely well were; Nakuru, Nairobi, Bungoma, Kisii Nyandarua and Nyamira. Most of these regions had projects within their areas of operation hence the equipment worked almost throughout the year. County Governments of Nyandarua, Nyamira, Nakuru, Bungoma Kisii and Baringo extensively utilized the MTF equipment.

CHALLENGES: -

The following challenges affected Mechanical and Transport Fund performance in the 2018/2019 financial year.

- (i) High prices of materials and spare parts.
- (ii) Many Technicians and Mechanics who form the bulk of maintenance staff for MTF equipment retired. The Division therefore needs to recruit new staff in all cadres to stop reliance on casual labour in key areas.
- (iii) Delay in release of Funds to Roads Authorities, County Governments and CDF for Road construction projects.

INTERNAL CONTROLS: -


It is worthwhile to point out that the Division has put up important internal controls with a view to closing any foreseeable loopholes in the Fund and improving management of the Fund.

Important among this is the introduction of Fuel Cards System in our fleet that has greatly reduced the expenditure on fuel consumption.

With the assistance of Kenya Commercial Bank, revenue collections country-wide and their subsequent banking on daily basis is electronically monitored and this has improved the checks and balances at all the levels. This has also made it possible for the bank reconciliation to be done daily.

ACKNOWLEDGEMENTS

Mechanical and Transport Fund success is as a result of support and guidance from the Accounting Officer, State Department of Infrastructure; MTF Management Committee; other Divisions in the Ministry; the Roads Authorities' KeNHA, KURA, KeRRA, other GOK Ministries and Divisions and the stake holders in the private sector. I would also wish to commend the team spirit and continued commitment of staff of Mechanical and Transport Division. I would wish to attribute to all these groups the tremendous achievements the Division realized during the period under review.



ENG. MAURICE S. NABENDE
Ag. CHIEF ENGINEER (MECHANICAL)

V. MANAGEMENT DISCUSSION AND ANALYSIS

SECTION A

Operational and financial performance

The performance of the Mechanical and Transport Fund in the financial year 2018-2019 improved despite the economic challenges that faced the Country and the Fund during the period under review. The management embraced operational efficiency through provision of services by ensuring availability and serviceability of vehicles, plant and equipment; procurement of new plant and equipment to replace those that were found to be uneconomical to repair.

The management also sought to improve and re-equip the Central and County workshops in order to provide quality services that would guarantee effective and efficient utilization of available resources. Formulation and standardization of the rental rates for both Public and Private Sectors ensured most of the plant and equipment of the Fund were engaged for most of the year.

SECTION B

Entity's compliance with statutory requirements

Mechanical and Transport Fund Management has continued to observe and adhere to the Gazette Notice No. 140 of 2003 and the Public Finance Management Act, 2012

SECTION C

Key projects

Mechanical and Transport Fund is undertaking roads maintenance projects in various Counties in the country. Some of the counties are Kisii, Bungoma, Nyandarua, Nyamira, Baringo and Nyeri.

VII. REPORT OF THE AUDITOR GENERAL (KENYA NATIONAL AUDIT OFFICE)

Auditor General

Date

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



Enhancing Accountability

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

REPORT OF THE AUDITOR-GENERAL ON MECHANICAL AND TRANSPORT FUND FOR THE YEAR ENDED 30 JUNE, 2019 - STATE DEPARTMENT FOR INFRASTRUCTURE

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Mechanical and Transport Fund set out on pages 1 to 18, which comprise of the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows, statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Mechanical and Transport 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 Qualified Opinion

1. Cash and Cash Equivalents

1.1. Unreconciled Cash and Cash Equivalents

The financial statements reflect cash and cash equivalents of Kshs.16,557,492 whereas the reconciled cash book has a balance of Kshs.2,859,194 resulting to an unexplained variance of Kshs.13,698,298.

1.2. Receipts in Bank not in Cash Book

Examination of the bank reconciliation statement for 30 June, 2019, reflects an amount of Kshs.13,698,297 as receipts in bank not in cash book. This amount comprised of receipts from various regional offices which were not posted through the cash book as

required. This amount was therefore not recognized as income in the Fund's books. The cash book is therefore understated by Kshs.13,698,297.

1.3. Payments in Cash Book not in Bank

The bank reconciliation statement for 30 June, 2019, reflects a balance of Kshs.152,602,701 as payments in cash book not in bank statements, most of which was unremitted tax deductions.

In the circumstances, it has not been possible to confirm the accuracy of cash and cash equivalents of Kshs.16,557,492 as at 30 June, 2019.

2. Variance Between the Financial Statements and Supporting Schedules

The financial statements reflect balances that were at variance with the supporting schedule balances as shown below:

| Item | Financial Statements Kshs. | Supporting Schedule Kshs. | Variance Kshs. |
|-------------------------|-------------------------------|------------------------------|-------------------|
| Revenue | 941,222,351 | 893,525,724 | 47,696,627 |
| Electricity | 4,021,846 | 4,079,732 | (57,886) |
| Water and Conservancies | 1,202,688 | 1,144,802 | 57,886 |
| Total | 946,446,885 | 898,750,258 | 47,696,627 |

In the circumstances, it has not been possible to confirm the accuracy of the financial statements for the year ended 30 June, 2019.

3. Property, Plant and Equipment

Excluded from the property, plant and equipment balance of Kshs.4,221,770,805 (2018-Kshs.3,962,679,929) are several parcels of land across the forty-seven Counties. A field visit to Kilifi County revealed that some of the parcels of land in that County had already been encroached on by squatters.

In the circumstance, it has not been possible to ascertain the completeness and accuracy of the property, plant and equipment balance of Kshs.4,221,770,805 as at 30 June, 2019.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Mechanical and Transport 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 qualified opinion.

Other Matters

Unresolved Prior Year Matters

In the audit report of the previous year, several paragraphs were raised based on various matters affecting the running of the Fund. The matters have remained unresolved and have not been deliberated on by the Public Accounts Committee.

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 to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, 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

Poor Assets Management - Deteriorating Bull Dozer

A crawler Bull Dozer (Komatsu), valued at Kshs.7,478,250, which was said to have been surrendered to the County Government of Kisumu was yet to be collected. It had been lying in the regional office for over four years. The machine is deteriorating without being used.

Management does not appear to have instituted proper safeguard and custody of its assets.

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 as to whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of 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 its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the 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

20 January, 2021

VIII. STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2019

| Revenue | | <u>2018-2019</u> | <u>2017-2018</u> |
|---|------|-----------------------------|---------------------------|
| | Note | Kshs | Kshs |
| Hire of Equipment and Miscellaneous Services | 3 | 1,001,701,067 | 905,808,912 |
| Sale of Boarded Items | 4 | <u>9,981,826</u> | <u>25,273,635</u> |
| Total Revenue | | <u>1,011,682,893</u> | <u>931,082,547</u> |
| Expenses | | | |
| Travel and subsistence allowance | 5 | 127,191,169 | 84,355,386 |
| Routine Maintenance of Vehicles, Equipment and other assets | 6 | 481,697,336 | 376,825,038 |
| Administrative expenses | 7 | 68,065,129 | 72,910,097 |
| Depreciation | 8 | 283,093,572 | 344,349,679 |
| Security services | 9 | <u>42,765,200</u> | <u>39,971,783</u> |
| Total Expenses | | <u>1,002,812,406</u> | <u>918,411,982</u> |
| Surplus for the Year | | <u>8,870,487</u> | <u>12,670,565</u> |

ACCOUNTING OFFICER

Prof .Arch PAUL M. MARINGA (PHD), (CBS, Corp. Arch., Maak, Mkip)

Sign Date

Ag. CHIEF ENGINEER (MECHANICAL)

ENG. MAURICE S. NABENDE

Sign  Date 21/05/2020

IX. STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE, 2019

| | | <u>2018-2019</u> | <u>2017-2018</u> |
|---|--------------|-----------------------------|-----------------------------|
| Assets | <u>Notes</u> | <u>(Kshs)</u> | <u>(Kshs)</u> |
| <u>Non- Current Assets</u> | | | |
| Intangible Assets | 10 | 5,906,199 | 5,906,199 |
| Property, Plants & Equipment | 11 | 4,221,770,805 | 3,962,679,929 |
| <u>Total Non- Current Assets</u> | | <u>4,227,677,004</u> | <u>3,968,586,128</u> |
| <u>Current Assets</u> | | | |
| Inventories | 12 | 135,404,233 | 241,725,944 |
| Receivables from non-exchange transactions | 13 | 8,804,788 | 33,932,646 |
| Outstanding imprest | 14 | 1,777,133 | 611,919 |
| Cash and cash equivalents | 15 | <u>16,557,492</u> | <u>140,041,294</u> |
| <u>Total Current Assets</u> | | <u>162,543,646</u> | <u>416,311,803</u> |
| <u>Total Assets</u> | | <u>4,390,220,650</u> | <u>4,384,897,931</u> |
| <u>Liabilities</u> | | | |
| <u>Current Liabilities</u> | | | |
| Trade & other payables from exchange transactions | 16 | <u>24,460,277</u> | <u>28,008,045</u> |
| <u>Total Current Liabilities</u> | | <u>24,460,277</u> | <u>28,008,045</u> |
| Government Grant | 18 | 2,373,678,347 | 2,373,678,347 |
| Reserves | | 1,983,211,539 | 1,970,540,974 |
| Accumulated Surplus | | <u>8,870,487</u> | <u>12,670,565</u> |
| <u>Total Liabilities and Reserves</u> | | <u>4,365,760,373</u> | <u>4,365,241,246</u> |
| <u>Net assets and Liabilities</u> | | <u>4,390,220,650</u> | <u>4,384,897,931</u> |

ACCOUNTING OFFICER

Prof. Arch PAUL M. MARINGA (PHD), (CBS, Corp. Arch., Maak, Mkip)

Sign  Date

Ag CHIEF ENGINEER (MECHANICAL)

ENG. MAURICE S. NABENDE

Sign  Date 21/5/2020

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

| | <u>Reserves</u> | <u>Government Grant</u> | <u>Total</u> |
|---|-----------------------------|-----------------------------|-----------------------------|
| | <u>Kshs</u> | <u>Kshs</u> | <u>Kshs</u> |
| Balance as at 30 June 2018 | <u>1,970,540,974</u> | <u>2,132,082,347</u> | <u>4,102,623,321</u> |
| Surplus for the period | <u>12,670,565</u> | <u>241,596,000</u> | <u>254,266,565</u> |
| As at 30th June 2018 | <u>1,983,211,539</u> | <u>2,373,678,347</u> | <u>4,356,889,886</u> |
| Balance As At 1st July 2018 | <u>1,983,211,539</u> | <u>2,373,678,347</u> | <u>4,356,889,886</u> |
| Surplus for the period | <u>8,870,487</u> | | <u>8,870,487</u> |
| Balance as at 30 June, 2019 | <u>1,992,082,026</u> | <u>2,373,678,347</u> | <u>4,365,760,373</u> |

XI. STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30 JUNE, 2019

| | <u>2018-2019</u> | <u>2017-2018</u> |
|--|---------------------------|---------------------------|
| | <u>Kshs</u> | <u>Kshs</u> |
| <u>OPERATING ACTIVITIES</u> | | |
| Surplus for the year | 9,870,487 | 12,670,555 |
| <i>Non-cash adjustments:-</i> | | |
| Interest received | (492,683) | (500,005) |
| Sale of asset disposal | (9,981,826) | (25,273,635) |
| Depreciation | 283,093,572 | 344,349,679 |
| Adjustments due to prior depreciation calculation errors | (219,523,208) | 73,837,881 |
| Operating income before working capital changes | 61,966,342 | 405,084,484 |
| Movement in Working Capital | | |
| Decrease Debtors/prepayments | 25,127,858 | (4,477,214) |
| Decrease in Inventories | 106,321,711 | (63,464,532) |
| Decrease in Trade & Other Payables | (3,547,768) | 11,028,868 |
| Increase in outstanding imprest | (1,165,214) | <u>29,595</u> |
| Net Change in working Capital | 126,736,587 | (76,883,283) |
| <i>Net cash used by/from operating activities</i> 17 | 188,702,929 | 328,201,201 |
| <u>INVESTING ACTIVITIES</u> | | |
| Purchase of plant, machinery and equipment | (309,713,100) | (575,349,356) |
| Purchase of furniture | (4,861,680) | (3,261,395) |
| Purchase of computers equipment and accessories | (8,086,460) | (4,906,000) |
| Purchase of Office equipment | - | - |
| Purchase of ICT Infrastructure & Telephony | - | - |
| Asset disposal | 9,981,826 | 25,273,635 |
| interest income | <u>492,683</u> | <u>500,005</u> |
| <i>Net cash used in Investing activities</i> | (312,186,731) | (557,743,111) |
| <u>FINANCING ACTIVITIES</u> | | |
| GoK Capital Grant | | 241,596,000 |
| Net Cash from Financing Activities | | <u>241,596,000</u> |
| <u>Net (decrease)/increase in cash and cash equivalents</u> | | |
| | (123,483,802) | 12,054,091 |
| cash and cash equivalents as at 1st July 15 | <u>140,041,294</u> | <u>127,987,203</u> |
| cash and cash equivalents as at 30th June 15 | <u>16,557,492</u> | <u>140,041,294</u> |

Mechanical and Transport Fund

Annual Report 2018-2019

XII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE, 2019

| Item | Particulars | Budget | | Actual | | Variance |
|--------------------|---|----------------------|-----|----------------------|-----|-------------------|
| | | Cumulative to date | Shs | Cumulative to date | Shs | |
| | Revenue | | | | | |
| 4-251-0000-3510701 | Receipts from hire of equipment | 921,500,000 | | 941,222,351 | | 19,722,351 |
| 4-251-0000-3520302 | Receipts from sale of Boarded items | 33,000,000 | | 9,981,826 | | (23,018,174) |
| 4-251-0000-3510803 | Miscellaneous Receipts | 45,000,000 | | 59,986,033 | | 14,986,033 |
| 4-251-0000-7310224 | Bank interest | 500,000 | | 492,683 | | (7,317) |
| | Total income | 1,000,000,000 | | 1,011,682,893 | | 11,682,893 |
| | Expenses | | | | | |
| 4-251-0000-2210301 | Domestic Travel Allowances and Expenses | 53,524,804 | | 125,167,125 | | (71,642,321) |
| | Monitoring & Evaluation | 4,000,000 | | - | | 4,000,000 |
| 4-251-0000-2210401 | Foreign Travel Allowances and Expenses | 3,000,000 | | 2,024,044 | | 975,956 |
| 4-251-0000-2220102 | Maintenance of Vehicles, Plant, Machinery and Equipment & Tyres and Tubes | 336,410,096 | | 312,784,758 | | 23,625,338 |
| 4-251-0000-2211201 | Fuel , Oils & Lubricants | 75,000,000 | | 164,842,632 | | (89,842,632) |
| 4-251-0000-2220201 | Maintenance of buildings and stations - Non Residential | 2,000,000 | | 1,992,039 | | 7,961 |
| 4-251-0000-2220202 | Maintenance of Internet Server, computers, Printers and software | 3,000,000 | | 2,077,910 | | 922,090 |
| 4-251-0000-2221106 | Upgrade and installation of closed circuit surveillance system | 3,000,000 | | - | | 3,000,000 |
| 4-251-0000-2221106 | Steel, Copper, and Timber for Spare parts | 1,000,000 | | - | | 1,000,000 |

Mechanical and Transport Fund

Annual Report 2018-2019

| | | | | |
|--------------------|--|----------------------|----------------------|---------------------|
| 4-251-0000-2210504 | Printing, Advertising and information supplies Services | 7,000,000 | 5,768,786 | 1,231,214 |
| 4-251-0000-2210201 | Telephone, telex, facsimile, m/phone services & others | 2,200,000 | 2,842,000 | (642,000) |
| 4-251-0000-2210202 | Internet connections | 5,500,000 | 6,028,660 | (528,660) |
| 4-251-0000-2210801 | Hospitality services & Catering | 6,000,000 | 5,987,589 | 12,411 |
| 4-251-0000-2211101 | Courier and postal services | 750,000 | 394,402 | 355,598 |
| 4-251-0000-2211102 | Trade Shows and Exhibitions | 300,000 | - | 300,000 |
| 4-251-0000-2211103 | Uniforms | 2,500,000 | 2,090,255 | 409,745 |
| 4-251-0000-2211104 | Supplies , Accessories , Computers and Printers and usable | 8,000,000 | 8,086,460 | (86,460) |
| 4-251-0000-2211106 | Detergents, Fungicides, Insecticides and Sprays | 1,000,000 | 870,350 | 129,650 |
| 4-251-0000-2211107 | Supply of furniture and office equipment's | 5,000,000 | 4,861,680 | 138,320 |
| 4-251-0000-2211108 | Stationery and general office supplies | 9,000,000 | 7,121,914 | 1,878,086 |
| 4-251-0000-2210101 | Electricity expenses | 3,000,000 | 4,079,712 | (1,079,712) |
| 4-251-0000-2210102 | Water and sewerage charges | 2,223,900 | 1,144,802 | 1,079,098 |
| 4-251-0000-2211301 | Bank Operating charges | 691,200 | 463,890 | 227,310 |
| 4-251-0000-2210705 | Training Expenses | 6,900,000 | 4,451,819 | 2,448,181 |
| 4-251-0000-2110101 | Payment for Temporary Employees | 19,000,000 | 18,734,469 | 265,531 |
| 4-251-0000-2211305 | Contracted guards and cleaning services | 40,000,000 | 42,765,200 | (2,765,200) |
| 4-251-0000-3110701 | Vehicles, plants and equipment and other machinery | 400,000,000 | 309,713,100 | 90,286,900 |
| | TOTAL | 1,000,000,000 | 1,034,293,596 | (34,293,596) |

Mechanical and Transport Fund

Annual Report 2018-2019

Note:

Particulars

4-251-0000-3510701 - Receipts from hire of equipment

Remarks

- i. Delay in release of funds by National Government to various Government Agencies, Authorities and County Government who are our main clients.
- ii. High competition especially from NYS, Private contractors and County Governments which have purchased their own Road construction Equipment

4-251-0000-3510803-Receipts from sales and fees for Services rendered

4-251-0000-2220102 -Maintenance of Vehicles, Plant, Machinery and Equipment & Tyres and Tubes

- i. High prices of tyres and spare parts.
- ii. High cost of maintaining aging equipment.
- iii. increase of fleet of equipment

* 4-251-0000-2211201 Fuel , Oils & Lubricants

The variance of Kshs. 89,842,632 in fuel oils & Lubricants is as a result of County roads projects where the clients paid for fuel into our account hence we were to pay for fuel which was not included in the budget.

* 4-251-0000-2210301 Domestic Travel Allowances and Expenses

The variance of kshs. 71,642,321 is a result of allowances to our staff working in the county roads projects whereby the clients paid for dry rates for hire of equipment, fuel and plant operators' allowances.

XIII. NOTES TO FINANCIAL STATEMENTS**1. Statement of compliance and basis of preparation – IPSAS 1**

The Mechanical and Transport Fund financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Mechanical and Transport Fund.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

2. Summary of significant accounting policies**a) Revenue recognition****Transfers from other government entities**

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

b) Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

c) Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

d) Basis of Depreciation

The diminishing balance method is applied whereby the book value of plants, machinery and vehicles goes on decreasing as its existence continues. A certain percentage of the current book value is taken as the depreciation.

Depreciation is in accordance with Mechanical Engineering of Plants, Machinery, Vehicles and Equipment valuation policy.

| | <u>2018-2019</u> | <u>2017-2018</u> |
|---|----------------------|--------------------|
| | <u>Kshs.</u> | <u>Kshs.</u> |
| 3. Hire Of Equipment and Services Rendered | | |
| Receipts during the year | 941,222,351 | 769,146,339 |
| Miscellaneous income | 59,986,033 | 136,162,568 |
| Bank interest income | 492,683 | 500,005 |
| | <u>1,001,701,067</u> | <u>905,808,912</u> |
| 4. Sale of boarded items | 9,981,826 | 25,273,635 |
| 5. Travel/Subsistence Allowance | | |
| Domestic travel/subsistence allowance | 125,167,125 | 84,286,686 |
| Foreign travel/subsistence allowance | 2,024,044 | 68,700 |
| | <u>127,191,169</u> | <u>84,355,386</u> |
| 6. Routine Maintenance | | |
| Routine Maintenance of vehicles & Tyres and tubes | 312,784,755 | 288,997,207 |
| Fuel , oils and lubricants | 164,842,632 | 85,899,282 |
| Routine Maintenance & Other assets | 1,992,039 | 929,079 |
| Routine Maintenance comps, printers | 2,077,910 | 79,019 |
| Purchase of specialised Materials | | 920,451 |
| | <u>481,697,336</u> | <u>376,825,038</u> |
| 7. Administrative expenses | | |
| Printing, advertising & information supplies services | 5,024,786 | 4,016,431 |
| Communication –T/Phone, M/Phones | 2,842,000 | 3,135,690 |
| Communication- internet | 6,028,660 | 3,704,252 |
| Hospitality supplies & services | 5,987,589 | 4,822,999 |
| Courier & Postal Services | 394,403 | 566,629 |
| Trade, Shows & Exhibitions | | 243,520 |
| Uniforms | 2,090,255 | 2,138,860 |
| Computer supplies and Accessories | 8,086,460 | 3,282,256 |
| Detergents, Fungicides, Insecticides | 870,350 | 2,389,370 |
| General Office Supplies | 7,121,914 | 9,696,431 |
| Utilities, - Electricity | 4,079,732 | 3,515,252 |
| Utilities, Water & Conservancies | 1,144,802 | 1,912,973 |
| Bank charges | 463,890 | 537,055 |
| Consultancy | 744,000 | 3,410,000 |
| Upgrade of CCTV | | 1,874,000 |
| Training | 4,451,819 | 6,138,458 |

17. Cash Generated From Operations

| | <u>2018-2019</u> | <u>2017-2018</u> |
|--|---------------------------|---------------------------|
| | <u>Kshs</u> | <u>Kshs</u> |
| Surplus/Loss for the year | 8,870,487 | 12,670,565 |
| <i>Non-cash adjustments:-</i> | | |
| Interest received | (492,683) | (500,005) |
| Sale of asset disposal | 4 (9,981,826) | (25,273,635) |
| Depreciation | 283,093,572 | 344,349,679 |
| Adjustments due to prior depreciation calculation errors | 219,523,208 | 73,837,881 |
| Operating income before working capital changes | 61,966,342 | 405,084,484 |
| Movement in Working Capital | | |
| Decrease Debtors/prepayments | 25,127,858 | (4,477,214) |
| Decrease in Inventories | 106,321,711 | (83,464,532) |
| Decrease in Trade & Other Payables | (3,547,768) | 11,028,868 |
| Increase in outstanding imprest | (1,165,214) | 29,595 |
| Net Change in working Capital | 126,736,587 | (76,883,283) |
| Net cash flow from operating activities | <u>188,702,929</u> | <u>328,201,201</u> |

18. GOVERNMENT GRANT

Particulars

| | |
|---|-----------------------------|
| <p>A loan agreement was entered into between the Governments of the Republic of Korea on 15th April, 2005 concerning EDCF (Economic Development Cooperation Fund) Loans to be extended to the Government of the Republic of Kenya or its designated agency for the implementation of projects to be agreed upon between those two Governments of KSHS. 1,963,016,499.15.</p> | |
| <p>The EDCF Loan arrangement dated 10th May, 2005 concerned the financing and the implementation of Road Maintenance Equipment Renewal Project.</p> | |
| <p>The loan Repayment was to be done by the National Government in forty (40) semi-annual consecutive instalments on date of 20th April and 20th October at an interest rate of 1% from the 11th year after the signing of the Loan agreement.</p> | |
| | 1,963,016,500 |
| <p>The National Government advanced the Mechanical and Transport Fund Kshs. 1,500,000,000.00 in the Financial year 2013-2014 to purchase Road Maintenance Equipment following an agreement to transfer 80% of MTF fleet to County Government.</p> | |
| | 1,500,000,000 |
| Transfer 80% of MTF fleet to County Government. | <u>(1,330,934,153)</u> |
| Grant from Government of Japan | 241,596,000 |
| Total Government Grant | <u>2,373,678,347</u> |

XIV. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATION

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown Below with the associated time frame within which we expect the issues to be resolved.

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Focal Point person to resolve the issue | Status: (Resolved / Not Resolved) | Timeframe: |
|--|---|--|---|-----------------------------------|------------|
| 1 | As previously reported Kenya National Highways Authority paid Kshs. 25,564,350 vide payment voucher no. 17690 dated 23 July 2014 to M/S Intermass Technologies (E.A) Ltd for a pending bill relating to 2013-2014 financial year. The supplier was competitively awarded the contract for the supply of 3 No. Rack-Mount type computer servers; 94 No. Standard Desktop Computers; 12 No. Touch Smart Desktop Computers; 8 No. Laptop Computers and 46 No. Integrated Service Routers on 13 June 2013 at their tender sum of Kshs. 25,564,350 which were purchased for Mechanical and Transport Fund under Northern Corridor Transport Improvement Project, IDA Credit Nos. 2930- | <p>It is true that the goods were delivered to the Division on 19th November, 2013 vide delivery note No. 1063. The inspection and acceptance committee inspected and accepted only 8No. Laptop Computers and 19No. Integrated service routers all valued at Kshs. 2,975,150 The rest of the goods were stolen before they could be inspected by the inspection and acceptance committee.</p> <p>I wish to state that the goods were received in the morning of 19th November, 2013 in our warehouse stores vide the signed delivery note No. 1063. The goods were kept in the stores awaiting inspection by KeHNA vide letter Ref: KeNHA /SP/NCTIP/Goods/Vol. I/75687 Dated 13th January 2014.</p> <p>However on the weekend of 24th November, 2013, between 10.20 a.m. and 11.30 a.m. there was a break-in in the stores where the Computers, Computer</p> | | Not Resolved | |

| | | | | | |
|--|--|---|--|--|--|
| | <p>KE and 4571-KE. The supplier is said to have delivered the goods to Mechanical and Transport Fund of Ministry of Transport and Infrastructure on 19 November 2013 vide delivery note No. 1063. The Inspection and Acceptance committee inspected and accepted only 8 No. laptop computers and 19 No. Integrated service routers all valued at Kshs. 2,975,150 It is further reported that the rest of the goods though delivered were stolen before they could be inspected by the inspection and acceptance committee. Despite the forgoing and although the goods received notes were not issued, Kenya National Highways Authority paid for all the goods vide Payment Voucher No. 17690 dated 23.07.2014 for Kshs. 22,589,200 in this circumstances no value for money was obtained from the expenditure of Kshs. 22,589,200</p> | <p>accessories and other stores were stolen. The same was reported to the Industrial Area Police Station, by the security officer. From the CCTV footage it was apparent the guards from the contracted security firm (M/s Secure Homes Ltd) facilitated the whole theft by opening the gates for the criminals to enter with a station wagon vehicle and latter a lorry. The C.I.D used this information and managed to arrest and charge one of the guards in Makadara Law Courts. According to the CID they have not been able to apprehend the others.</p> <p>The CID was also able to trace and impound the vehicle involved in the theft and subsequently charge the owner.</p> <p>The ministry has also written to the Solicitor General vide letter ref MOTI/1/A.42.01 VOL. 6 dated 30th October 2014, requesting his office to institute legal proceedings against Secure Homes Ltd to recover the sum of Kshs. 21,370,867 (being the value of the equipment stolen) since their guards were clearly part of the theft.</p> <p>The Ministry took the least expensive option of settling the overdue amount in full as the vendor had in his possession an acknowledged delivery note. Failure to honour our contractual obligation would have exposed the Ministry to</p> | | | |
|--|--|---|--|--|--|

| | | | | | |
|--|--|--|--|--|--|
| | | <p>claim and eventual payment of interest on delayed payment, legal fees and likely punitive court awards.</p> | | | |
|--|--|--|--|--|--|

Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the “Issue/Observation” and “management comments”, required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report to National Treasury.